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POLICY PAPER

MOROCCO AS A CONNECTOR STATE: A Winning Strategy in a Fragmented World



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LISTE OF ABBREVIATIONS

AMD: Moroccan Motorway Company

CDS: Credit Default Swap

CI: Confidence Intervals

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

GDP per capita: Gross Domestic Product per capita

GFCF: Gross Fixed Capital Formation

ICOR: Incremental Capital-Output Ratio

ICT: Information and Communication Technologies

MRE: Moroccans Residing Abroad

ONCF: Moroccan National Railways Office

PEE: Public Establishments and Enterprises

PEEs: Public Establishments and Enterprises

RAM: Royal Air Maroc

S&P Global: Standard & Poor's Global Ratings

SMEs: Small and Medium-sized Enterprises

SVAR: Structural Vector Autoregression

TFP: Total Factor Productivity

Morocco offers a compelling example of how a middle-income economy can navigate a more fragmented global environment, characterized by weak growth and slower convergence. Since 2022, economic activity has remained relatively strong, with growth exceeding that of many comparable economies. Non-agricultural growth has averaged 4.4% since 2022, around 1.3 percentage points above its historical average, and has accelerated to 4.8% since 2024. This performance has allowed Morocco to gradually recover from output losses incurred during the pandemic.

The recovery has been mainly driven by capital accumulation, supported by a strong public investment effort and an investment rate expected to remain close to 30% of GDP. Yet this pattern also raises a familiar issue: investment-led growth can generate limited domestic spillovers when it relies heavily on imports. This weakens its impact on local production and puts pressure on the external balance. Consequently, net exports have continued to weigh on growth despite the solid performance of export-oriented sectors. At the same time, the external environment has also opened new opportunities. The reconfiguration of global value chains has increased Morocco's attractiveness for foreign direct investment, particularly from China. In parallel, resilient remittances from Moroccans living abroad and more favorable terms of trade have supported income and domestic demand.

The key concern now lies in the sustainability of this trajectory. Maintaining the current pace will require Morocco to convert the public investment impulse into stronger private investment and productivity gains, to support a structural transformation that remains incomplete. This transformation will also need to be reconsidered considering the demonstrated potential of certain tradable service activities, whose role could complement traditional manufacturing drivers. Otherwise, the current recovery may remain a phase of sustained growth, but without a sufficiently durable anchor.

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1. INTRODUCTION

Global growth trajectories have become more differentiated across regions and income groups. Although the world economy avoided a lasting collapse in activity after the pandemic shock, the recovery that followed quickly revealed a more uneven picture. Economies did not return to their pre-crisis paths with the same strength, nor did they have the same policy space to support the recovery. Growth remains weak compared to historical standards, and convergence by middle- and low-income countries toward advanced-economy living standards has slowed, widening development gaps across countries (International Monetary Fund, 2024).

The post-Covid period therefore points to greater divergence across economies, shaped by deep changes in the global environment. One major change is the fragmentation of production, together with a more gradual form of financial fragmentation that also constrains developing economies. On the production side, geopolitical tensions and the reorganization of global value chains have brought the trade-off between efficiency and resilience back to the forefront, with growing signs of geo-fragmentation and productive reallocation (Canuto et al., 2023). On the financial side, fragmentation is reflected in the gradual weakening of some established features of the international monetary system, including the declining share of the US dollar in global foreign exchange reserves. In this less favorable environment, traditional growth drivers appear weaker and more uncertain. The challenge is therefore not only to support economic activity, but to do so in a context where convergence has become more difficult.

This issue is particularly important for middle-income economies, which need to maintain sufficiently strong growth to avoid being trapped at intermediate income levels. Morocco's trajectory deserves particular attention in this context. The country combines several distinctive features: it is a middle-income economy located at the crossroads of Europe and Africa, not dependent on natural resources, relatively diversified, deeply integrated into the global economy, and still marked by a significant public-sector role in economic activity. Over the past two decades, Morocco has faced not only global crises, but also major regional and domestic shocks, including the repercussions of the Arab Spring, the Al Haouz earthquake, and the growing impact of climate constraints on growth. Despite this sequence of shocks, the economy has remained broadly resilient, supported by moderate but steady growth, prudent macroeconomic management, and significant integration into global value chains.

The post-Covid period therefore represents both a new test and an opportunity to reassess Morocco's economic trajectory. This paper examines Morocco's recent performance by looking at its domestic drivers and external sources of support. It also sheds light on the nature of the economic dynamics observed since the pandemic: whether they reflect a temporary cyclical rebound or the beginning of a more durable consolidation. This question is directly linked to the sustainability of Morocco's recent trajectory. The Moroccan experience can therefore help inform a broader discussion on the policy space and growth prospects of middle-income economies in the post-pandemic environment.

2. ECONOMIC PERFORMANCE: A STRONG AND RELATIVELY ROBUST RECOVERY, CONTRIBUTING TO THE GRADUAL CLOSING OF PANDEMIC-RELATED OUTPUT LOSSES

Morocco's post-Covid recovery has been strong, with growth exceeding its pre-pandemic performance. After the recessionary shock of 2020, concerns emerged about the economy's ability to return to its previous growth path, given the depth of the crisis and the risk of lasting effects. Yet, following the contraction in 2020 and the rebound in 2021, growth, especially in non-agricultural sectors, has averaged around 4.4% since 2022 and is expected to remain close to this level through 2027¹ (Figure 1). This pace is about 1.3 percentage points higher than the pre-pandemic average and broadly comparable to the stronger growth episodes observed in the 2000s (Box 1).

Figure 1:
Non-agricultural GDP growth, in %

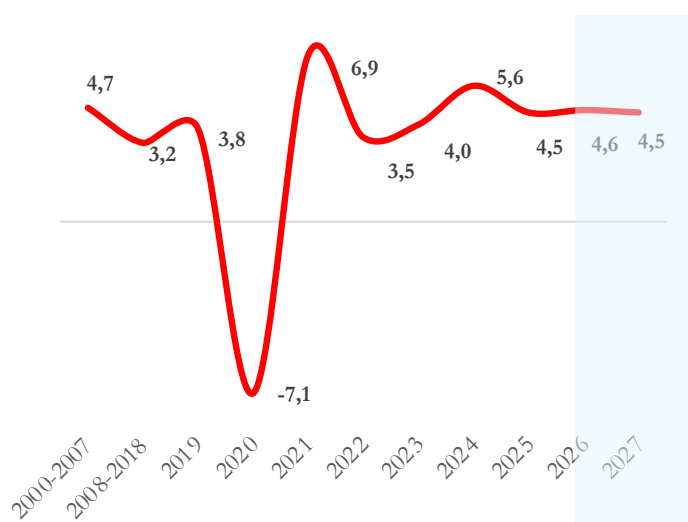
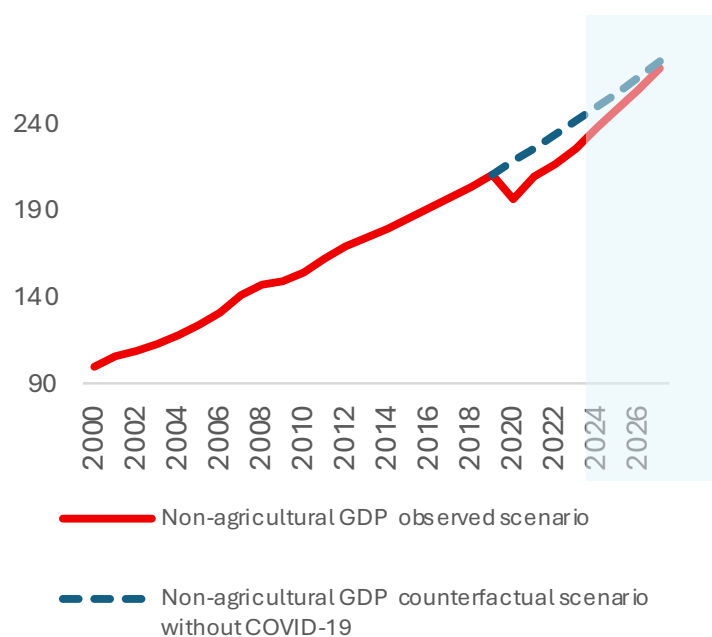


Figure 2:
Non-agricultural GDP index, 2000–2027, 2000 = 100



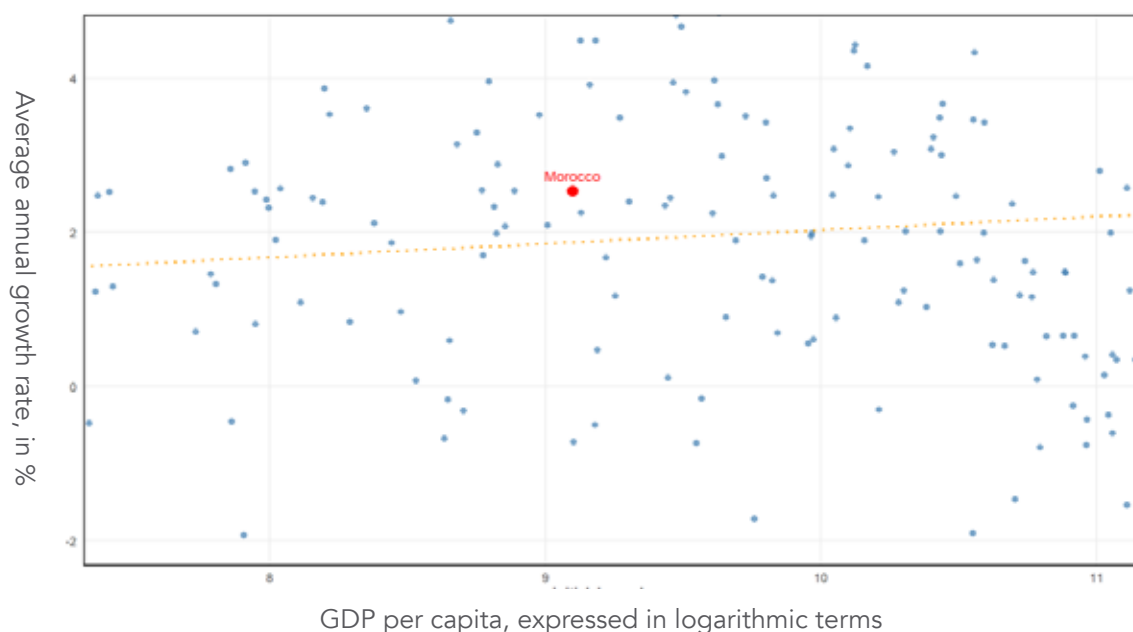
Source : High Commission for Planning, Bank Al-Maghrib, and authors' calculations

1. The estimates and projections used in this analysis are drawn from Bank Al-Maghrib's March 2026 Monetary Policy Report. Other forecasts are also available. The High Commission for Planning's January 2026 provisional economic budget projects growth of 5% in 2026, including 4.3% for non-agricultural activities and 10.4% for agriculture. The IMF, in its Article IV report published in March 2026, projects growth of 4.4% in 2026. More recently, on 12 May 2026, the Minister Delegate to the Minister of Economy and Finance in charge of the Budget referred to a growth rate of 5.2%.

This recovery suggests that the Moroccan economy is progressively closing the gap created by the Covid-19 shock and converging back toward its pre-pandemic trajectory. In 2020, the pandemic reduced growth from an initially projected 3.5% to -7.1%, leading to an estimated loss in value added of around 10.3%. Since then, the strong rebound in non-agricultural activity has helped narrow this gap and move the economy progressively closer to its pre-crisis trajectory² (Figure 2). By 2027, the remaining gap relative to that trend is expected to fall to around 1%.

Morocco's performance also stands out in international comparison. Between 2022 and 2025, GDP per capita grew by an average of 2.7% per year, around 0.8 percentage points above the average for economies at a similar level of development (as indicated by the fitted line in Figure 3). During this period, the global convergence process appears to have slowed, or even temporarily reversed. High-income economies generally recorded stronger growth than other country groups, pointing to a widening of cross-country income gaps, at least over these years (World Bank, 2026a; International Monetary Fund, 2024).

Figure 3:
Beta convergence in GDP per capita – average annual growth, 2022–2025, in %



Source: World Development Indicators, authors' calculations

2. The counterfactual trend projection excluding COVID-19 is based on an assumed average annual growth rate of 3.3%, consistent with the annual average observed over 2008–2019.

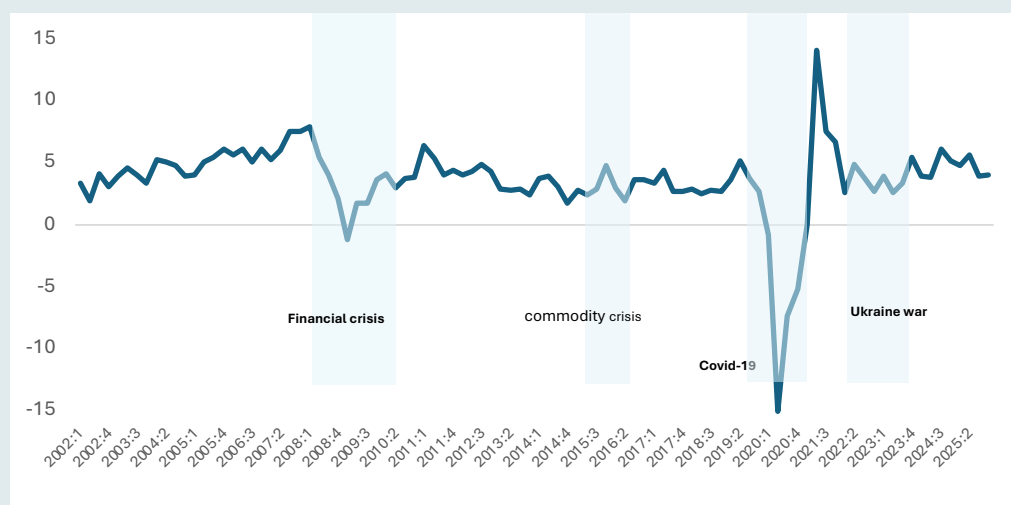
Box 1: Performance of the Moroccan economy between 2000 and 2019

The Moroccan economy recorded its highest growth rates during the period 2000–2008, before the growth model began to show signs of exhaustion (Figure B1.1).

Following a morose economic performance during the 1990s, the economy entered a more favorable trajectory, with growth rates averaging around 4.5%, and 4.9% for non-agricultural activities. This dynamic reflects a combination of favorable domestic and external factors. It was supported by sustained investment efforts, especially by public authorities, which raised the gross fixed capital formation (GFCF)-to-GDP ratio from 24.6% to 31% over the period. Private consumption also made a significant contribution to this expansion, supported by increases in the minimum wage in a context of moderate inflation. At the same time, the credit market accompanied the expansion of domestic demand components, with credit growing at an average annual rate of 7.5%. Favorable international economic conditions also supported this dynamic, through the increase in remittances from Moroccans living abroad and the significant rise in foreign direct investment (El Aynaoui and Agénor, 2015). However, following the 2008 financial crisis, economic growth not only slowed but also shifted into a persistently lower regime.

Figure B1.1:

Evolution of non-agricultural growth, 2000–2026, in %



Source: High Commission for Planning

Between 2008 and 2019, economic growth slowed by 1.5 percentage points, averaging around 3.3% (Figure B1.1). This slowdown reflected an adjustment in Morocco's growth model. The global financial crisis exposed the limits of a model largely driven by domestic demand, while internal and external imbalances widened significantly. In 2012, the budget deficit reached 6.6% of GDP and the current account deficit stood at 9.9% of GDP. Restoring a more sustainable economic path required moderating domestic demand, including a reduction in public investment. As a result, slower capital accumulation, particularly in non-ICT capital, became a key factor behind weaker growth (El Aynaoui, Karim, and Hinh T. Dinh, 2026). At the same time, Europe, Morocco's main trading partner, was also affected by the crisis, leading to weaker demand for Moroccan exports and further weighing on economic activity. Against this backdrop, growth settled at a lower but more stable rate of around 3.3%.

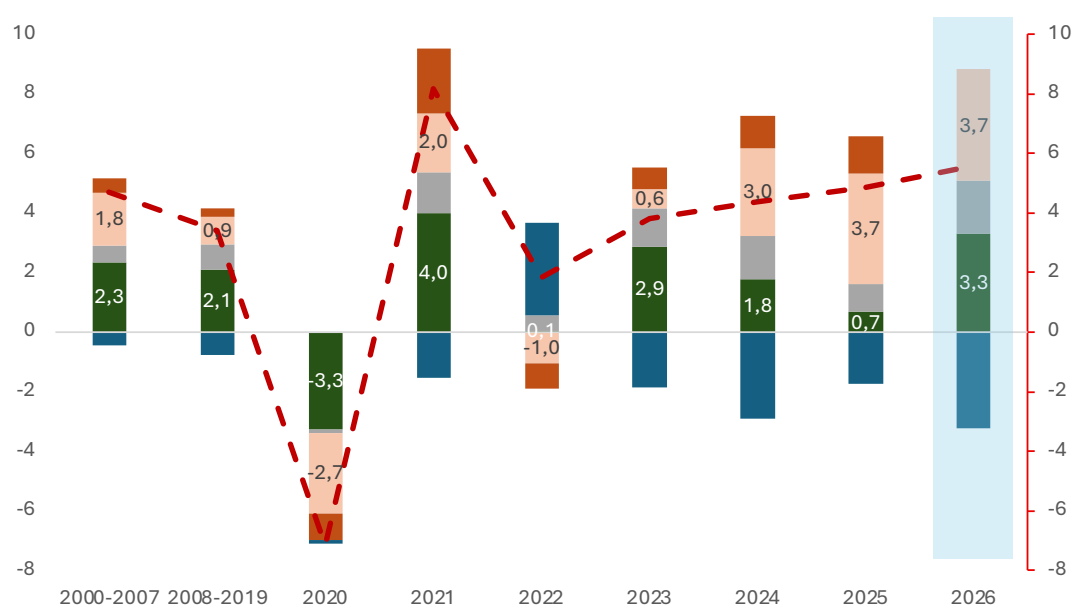
3. SOURCES OF GROWTH:

3.1 Demand Contribution: A Recovery Driven by Public Investment, Amid Widening External Imbalances

Gross fixed capital formation (GFCF) played a pivotal role in the post-Covid recovery, contributing on average close to 2 percentage points of growth per year between 2022 and 2026, accounting for approximately 50% of average growth over the period.

Investment has once again emerged as a key relay of the post-Covid rebound. Indeed, the contribution of GFCF to growth strengthened markedly, particularly from 2023 onwards (Figure 4), reaching its highest level in 2025 at 3.7 percentage points of growth, up from 3 points in 2024. These historically elevated levels are expected to bring the investment rate to nearly 30% of GDP in 2025 and 2026 (HCP, 2026) — a level that remains comparatively high relative to countries of similar income.

Figure 4:
Contribution of demand components to growth, in percentage points, 2000–2026³



Source: High Commission for Planning, Bank Al-Maghrib, and authors' calculations

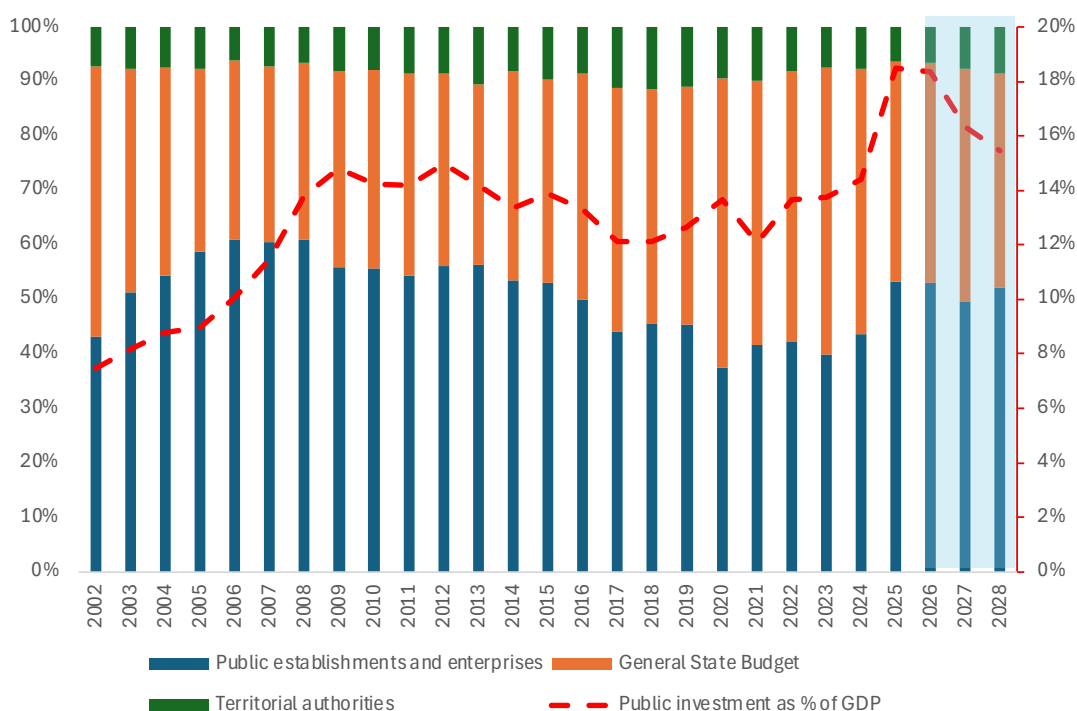
The dynamics of GFCF have been driven largely by public investment, notably that of Public Establishments and Enterprises (PEEs)⁴. This effort accelerated markedly from 2023 onwards, following a logic that is both countercyclical and post-crisis catch-up in nature. Public investment — in the public finance sense — is expected to stabilize

3. Growth contributions for 2026 are based on the High Commission for Planning's *Provisional Economic Budget 2026. They are then adjusted using Bank Al-Maghrib's latest overall GDP growth projection from the March 2026 Monetary Policy Report, while keeping unchanged the relative contribution structure provided by the High Commission for Planning.

4. Public Establishments and Enterprises (Établissements et Entreprises Publics, EEPs) are legal entities distinct from the central administration and endowed with financial autonomy. The state entrusts them with two clearly differentiated types of mandates: either a non-profit mission of public interest or a profit-oriented economic activity in sectors considered strategic. These entities include, among others, Royal Air Maroc (RAM), the National Railway Office (ONCF), and the Moroccan Motorway Company (ADM).

at around 19% of GDP⁵ over the 2025–2026 period (Figure 5). While post-Covid public investment was initially dominated by the General State Budget, a shift has been underway since 2024 in favor of PEEs, in line with the structural trend that prevailed prior to the health crisis. This recomposing aims to reduce direct recourse to Treasury resources for financing major projects (Ministry of Economy and Finance, 2025), and to more fully leverage the operational expertise of PEEs in the effective implementation of investments falling directly within their remit.

Figure 5:
Structure and evolution of public investment, 2002-2028



Source: Ministry of Economy and Finance, and authors' calculations

Household final consumption constitutes the second largest contributor to the recovery, averaging 2 percentage points per year, or approximately 42% of growth over the period. The contribution of private consumption to growth consolidated progressively, following the inflationary shock of 2021 and 2022. It proved vulnerable to this inflationary episode, during which the consumer price index rose by an average of 6.3% over the period, weighing on household purchasing power and dampening demand. With the easing of price pressures from 2023 onwards, household demand regained momentum, allowing household final consumption to contribute an average of nearly 1.7 percentage points to annual growth between 2022 and 2026, accounting for approximately 42% of average growth over the period (Figure 4).

The corollary of an expansion in domestic demand — notably investment — is a negative contribution of net exports to growth, driven by imports of capital goods. The acceleration in investment has been mechanically accompanied by a rise in imports of capital goods and construction materials, widening the current account deficit. The

5. Although national accounts data do not allow for a clear distinction between public and private investment, comparison with public finance data, despite differences in classification, suggests that the recent evolution of investment as measured in the national accounts largely reflects the dynamics of public investment.

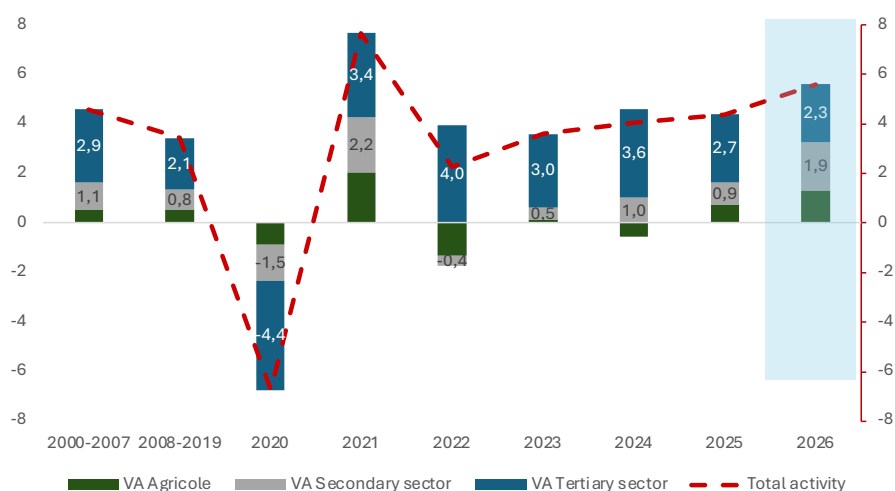
latter stood at approximately -3.5% of GDP in 2024 (International Monetary Fund, 2025), following a notable improvement in 2021–2022 attributable to the contraction in imports and the recovery of remittances from Moroccans residing abroad (MREs). Phases of investment acceleration are generally accompanied by a negative contribution of net exports to growth, which averaged -1.7 percentage points over the 2022–2026 period. This dynamic unfolds even as export-oriented sectors have recorded favorable performances in recent years. This pattern raises questions about the effectiveness of the fiscal multiplier of public expenditure, in the context of significant external leakages (Box 2).

3.2. Supply-Side Contribution: Tourism as the Main Driver of the Recovery, with Construction Emerging as an Additional Growth Engine from 2024

The tertiary sector has been the main driver of growth over the period 2022–2026, contributing an average of nearly 3.1 percentage points to annual growth, equivalent to around 80% of average growth over the period (Figure 6). While investment remains the main driver of the recovery on the demand side, its supply-side counterpart is reflected primarily in the dynamism of tertiary activities. This configuration suggests that investment projects, particularly in infrastructure, generate spillover effects that also operate through supporting services, including wholesale trade, transport, logistics, engineering, finance, and certain non-market activities.

The good performance of tertiary activities has also reinforced this dynamic. The tourism sector, which approached 20 million arrivals, raised its share in GDP to 7.3% in 2024, compared with 6.8% in 2019 (High Commission for Planning, 2024). Beyond a simple post-Covid catch-up effect, this performance points to a relative gain in attractiveness, in a context where global tourism has struggled to return to its pre-pandemic levels. Compared with regional peers, Morocco’s tourism performance exceeds that observed in the Middle East, where annual growth averaged 5.7%, and in North Africa, where it averaged 4.1%.

Figure 6:
Contribution of sectoral value added to growth, in percentage points, 2000–2026



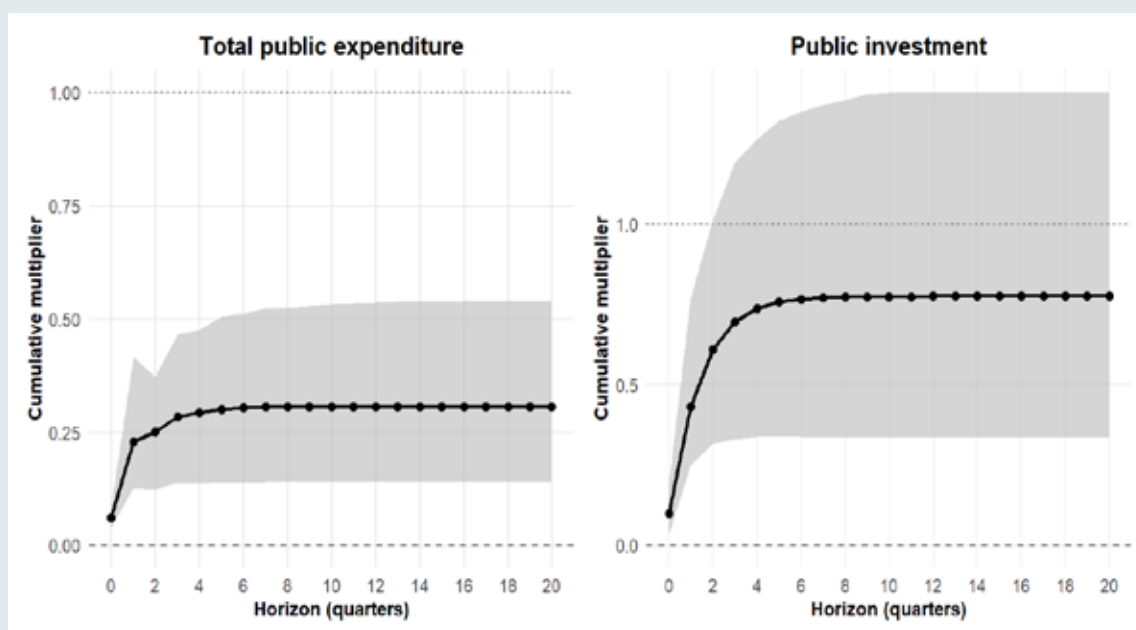
Source: High Commission for Planning, Bank Al-Maghrib, and authors’ calculations

Box 2: Fiscal multipliers: what lessons for Morocco?

The Moroccan economy remains marked by a strong public-sector footprint. Ordinary Treasury expenditure stood at 23% of GDP in 2025, while public investment, as defined in public finance statistics, reached 19% of GDP. It is therefore important to assess the extent to which fiscal effort translates into economic activity. The issue is also to measure the size of this effect in both the short and the longer run, in order to distinguish a temporary stimulus from a more persistent impact on growth.

The fiscal multiplier measures the increase in GDP generated by one additional unit of public expenditure. The estimation of fiscal multipliers is based on quarterly data covering the period 2004Q1–2024Q4 for non-agricultural activity. It relies on a structural VAR model (SVAR), identified following the Blanchard and Perotti approach. Data on total public expenditure, investment expenditure, and ordinary revenue are drawn from the Ministry of Economy and Finance, while non-agricultural GDP data come from the High Commission for Planning. The estimates point to a short-term multiplier of 0.3 for total public expenditure and 0.7 for public investment (Figure B2.1)⁶.

Figure B2. 1:
Cumulative fiscal multipliers by component at the 12-semester horizon in Morocco



These results are broadly consistent with international literature. In emerging economies, multipliers for total public expenditure are generally low and heterogeneous, often ranging between 0 and 0.5 in the short run. They may nevertheless be higher depending on macroeconomic conditions, the exchange rate regime, and institutional quality. In advanced economies, estimates tend to be higher, usually close to or slightly below one. These orders of magnitude should, however, be interpreted with caution, as they depend on the estimation methodology, the time horizon considered, and the type of shock identified (Ilzetzki, Mendoza and Végh, 2013; World Bank, 2025d).

6. Confidence intervals set at 90%.

This difference can be explained by several factors, including greater trade openness in emerging economies, shallower financial markets, higher risk premium, and, in some cases, more limited fiscal implementation capacity (Batini et al., 2014).

Recent studies also suggest that, in emerging economies, the effects of fiscal stimulus tend to fade after around one year, reflecting the gradual exhaustion of the initial impulse when private-sector demand does not provide sufficient follow-up momentum (Honda, Miyamoto and Taniguchi, 2020; Abdel-Latif et al., 2026).

The literature also emphasizes that the multiplier associated with public investment is generally higher than the overall fiscal multiplier. Beyond its short-term demand-support effect, public investment can improve infrastructure, raise productivity, and stimulate private investment when financing constraints remain contained (Abiad et al., 2016; Espinoza, Gamboa-Arbelaez and Sy, 2020; World Bank, 2025d).

Secondary activity made a moderate contribution to growth between 2022 and 2026, averaging nearly 0.8 percentage point per year, or around 19% of average growth over the period. This contribution nevertheless began to strengthen significantly from the third quarter of 2023, reaching an average of 1.1 percentage points through the fourth quarter of 2025. This rebound was mainly driven by construction activity, supported by major infrastructure projects, and by mining and extraction activities (High Commission for Planning, 2025).

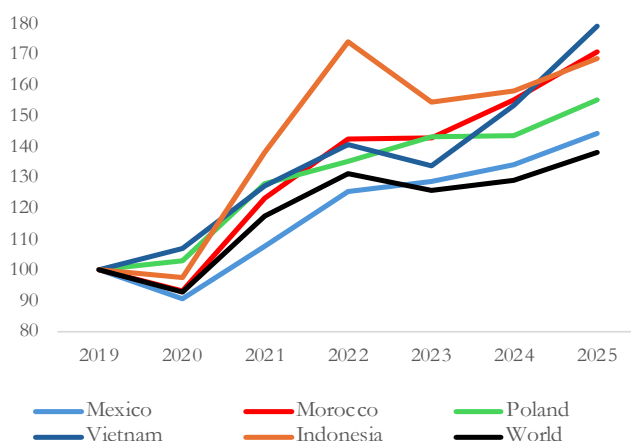
The primary sector made a negative contribution to growth, averaging nearly -0.8 percentage point per year over the period 2022–2026. Agricultural value added has in fact fluctuated around a broad stationery level since 2016, with average growth estimated at only 0.6%. This stagnation reflects the sector's limited capacity to generate sustained productivity gains in an environment marked by recurrent droughts and increasing pressure on water resources. Rainfall variability, combined with the gradual depletion of groundwater reserves in several regions, reduces the scope for productive intensification and weighs on agricultural investment decisions (Food and Agriculture Organization of the United Nations, 2016). Fluctuations in agricultural activity are not limited to their direct impact on primary value added. They also spread through the wider economy through rural incomes, employment, and domestic demand, thereby increasing the volatility of overall growth (Brückner, 2011).

4. THE ROLE OF EXTERNAL FACTORS IN THE RECOVERY: A RELATIVELY FAVORABLE CONTEXT FOR THE MOROCCAN ECONOMY

The reconfiguration of global value chains has strengthened Morocco's strategic position in the eyes of international investors, particularly Chinese investors, in new high-potential sectors. The pandemic, trade tensions between the United States and China, and the search for supply security have led multinational companies to diversify their production bases, and Morocco is among the countries best positioned to benefit from this shift (Gourinchas, 2025). The recovery in FDI, particularly from China, illustrates this trend. Net FDI inflows accounted for around 1% of GDP in 2024 and 1.8% in 2025, compared with 0.7% in 2023 (Figure 8). These investments include the Gotion Gigafactory in Kenitra

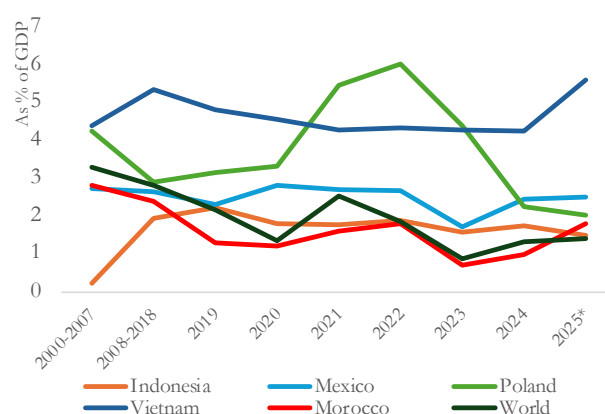
to produce electric batteries, with a total investment that could eventually reach USD 6.5 billion, as well as the CNGR Advanced Material battery materials plant in Jorf Lasfar, representing an investment of USD 2 billion. This increase suggests that the international environment, although uncertain, has proved relatively favorable to Morocco's positioning as an industrial and export platform. It also reflects a positive perception of the country as a destination able to offer macroeconomic stability, preferential market access, and a competitive manufacturing base. The sectoral distribution of FDI thus reveals a significant structural transformation. In terms of net inflows, manufacturing accounted for 44.7% of total inflows received in 2024, compared with 21.4% in 2020. More specifically, the automotive sector's share rose from 7.3% in 2020 to 13.7% in 2024, while the share of electrical equipment increased from 0.6% to 13.3%. Although traditional partners have maintained their structuring role, Chinese capital in battery-related segments, electrical components, activities linked to electric mobility, and green hydrogen (Organisation for Economic Co-operation and Development, 2024) has gained in importance.

Figure 7:
Goods exports (base 100 = 2019)



Source: United Nations Conference on Trade and Development, authors' calculations

Figure 8:
Net FDI, % of GDP

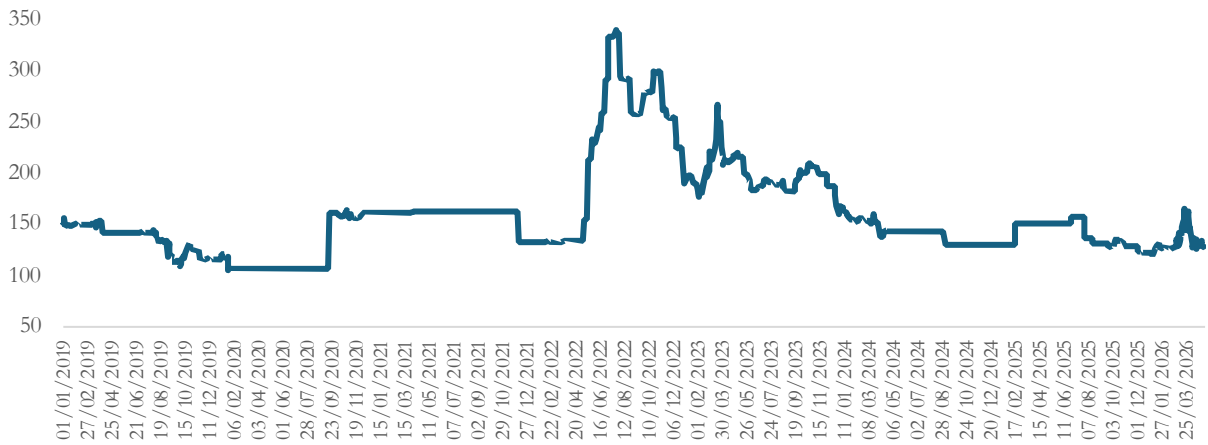


Source: Office des changes, International Monetary Fund and authors' calculations

Morocco's macroeconomic credibility has strengthened investor confidence and has been reflected in a gradual easing of the sovereign risk perceived by markets. The decline in Morocco's 10-year sovereign credit default swap (CDS) spread reflected an improvement in country-risk perceptions, while the strength of foreign exchange reserves provided an important anchor for external stability (Figure 9). At the same time, the gradual reform of the exchange-rate regime and the progressive improvement in the fiscal position have strengthened the Moroccan economy's capacity to absorb external shocks (Bank Al-Maghrib, 2020; World Bank, 2024). These developments have helped reassure investors in an environment in which macroeconomic stability has become a central criterion in industrial location decisions.

Figure 9:

Morocco's 10-year Credit Default Swap (CDS), basis points

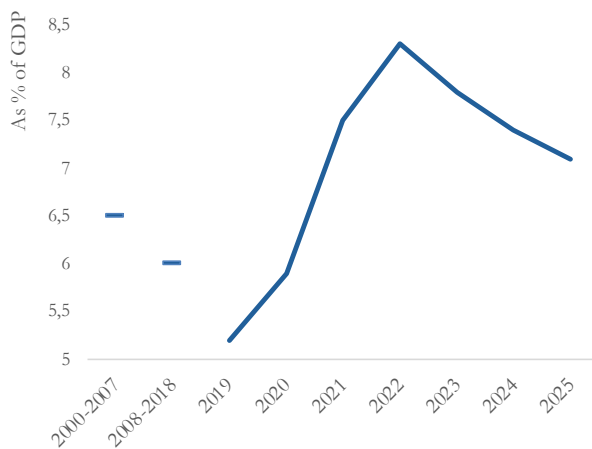


Source: S&P Global

Remittances from Moroccans living abroad and the improvement in the terms of trade have strengthened external balances and supported domestic demand. In addition to FDI, remittances from Moroccans living abroad have been an important source of foreign currency and a support for domestic demand. Their resilience during and after the pandemic (Figure 10) helped stabilize household incomes and cushion external shocks, mainly through the consumption channel, which absorbs around 75% of transferred amounts, compared with 15% directed toward savings and only 10% toward investment, essentially in real estate⁶. At the same time, the improvement in the terms of trade from 2023 supported the recovery by easing the external bill and moderating imported inflationary pressures (Figure 11). It also generated a positive income effect, insofar as an increase in the terms of trade raises the real income of an open economy by strengthening its external purchasing power (Kohli, 2004; Reinsdorf, 2010).

Figure 10:

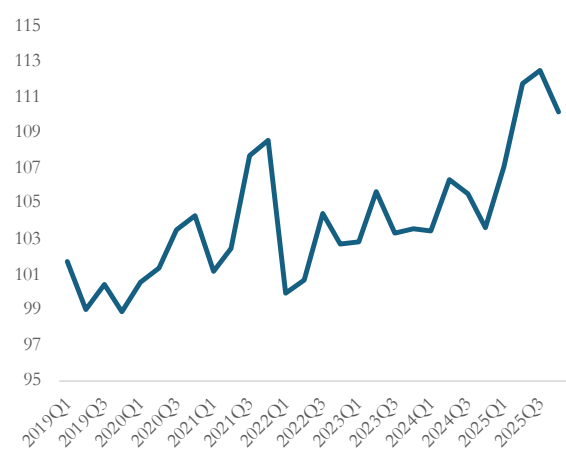
Remittances from Moroccans living abroad, % of GDP



Source : Office des changes

Figure 11:

Evolution of the terms of trade, 2019 = 100



Source: High Commission for Planning

6. According to statements by former Minister of Economy and Finance Mr. Mohamed Benchaaboun during a working session organized by CGEM in February 2021.

This broadly favourable external environment is now being moderated by geopolitical tensions in the Middle East, with spillover effects to the Moroccan economy operating mainly through terms-of-trade effects and financing conditions. Since the outbreak of the war in late February, international energy prices had increased by around 50% to 60% by end-April, raising the import bill and increasing the risk of renewed domestic inflationary pressures. At the same time, higher international prices for phosphates and fertilizers, which account for a significant share of Morocco's exports, have provided a partial offset through export receipts.

Financial market conditions have also responded to the shock. Ten-year sovereign credit default swap spreads widened immediately after the shock, before returning close to their pre-crisis levels, pointing to a stabilization of the external risk premium. Pressures appear more persistent in the domestic debt market, where Treasury yields remain above their pre-war levels, especially for longer maturities, reflecting expectations of higher government borrowing needs (Bank Al-Maghrib, 2026).

Overall, the government's decision to open additional budget appropriations of around MAD 20 billion, an amount broadly aligned with the resources required to cushion the pass-through of higher hydrocarbon prices to domestic prices, points to additional fiscal pressure of around 1% of GDP in 2026.

5. CAN THE MOROCCAN ECONOMY SUSTAIN ITS CURRENT PACE OF GROWTH?

Maintaining such a high growth rate requires a durably sustained investment effort, whose sustainability faces three main limits: debt constraints, declining marginal returns to capital, and the structural weaknesses of the domestic private sector. For a middle-income country such as Morocco, the issue is therefore not only to preserve a favorable growth performance relative to comparable economies, but to transform this dynamic into a more intensive trajectory, increasingly driven by private investment, innovation, and productivity gains.

The main challenge for the Moroccan economy now lies in its ability to maintain this pace of growth beyond the current investment cycle. Such a dynamic faces a dual constraint: on the one hand, the existence of an implicit debt ceiling, which limits the capacity to extend the current pace of capital accumulation; and, on the other hand, the question of the return on these investments, whose marginal efficiency tends to decline. Indeed, a significant share of the recent investment dynamic, driven by the various components of the public sector, relies on debt financing, mainly bank financing, which accounts for more than half of total financing. This is complemented by domestic bond issuances and, more marginally, by concessional external financing (International Monetary Fund, 2026).

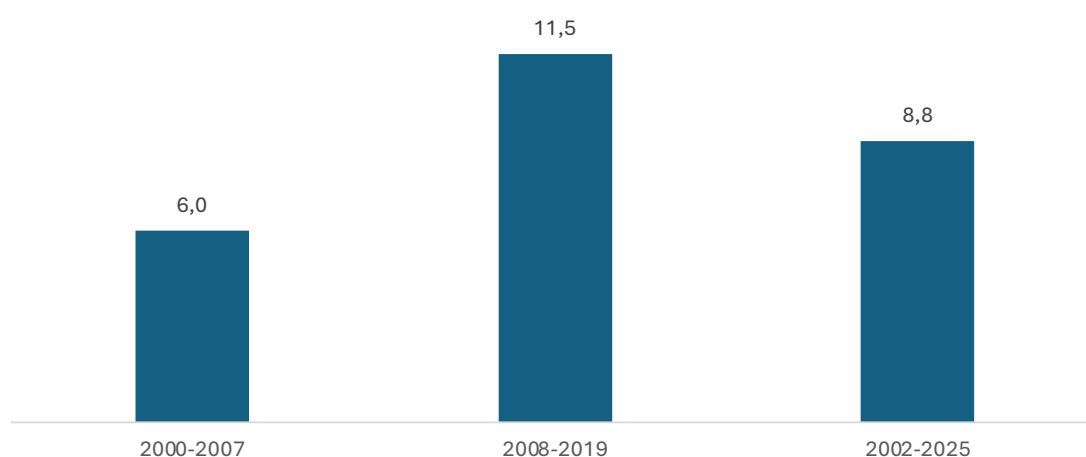
At the same time, investment efficiency in Morocco remains an issue, despite the catch-up achieved in physical infrastructure, both in quantitative and qualitative terms. The incremental capital-output ratio (ICOR)⁷ has shown signs of deterioration over time: it increased from around 6.0 on average during 2000–2007 to 11.5 during 2008–2019, before standing at 8.8 on average between 2022 and 2025 (Figure 12). This pattern of capital intensification with declining returns is also documented empirically. Abbad (2017) shows that an annual accumulation of the capital stock of 5.9% was sufficient, between 2001 and 2007, to generate average GDP growth of 5.1%, whereas between 2008 and 2014, this pace had to rise to 6.4% to generate growth of only 4.2%.

7. The ICOR, or incremental capital-output ratio, measures the amount of capital required to generate one additional unit of GDP. Commonly used as a proxy for investment efficiency, a lower ICOR indicates higher capital productivity, while a higher ICOR points to lower investment efficiency.

Morocco's growth regime can therefore be characterized as predominantly extensive, relying largely on the accumulation of production factors rather than on intensive growth generated by improvements in total factor productivity (TFP). The decline in investment efficiency is closely linked to the structural weaknesses of the domestic private sector, which represent a key underlying determinant. Restricted access to finance, further exacerbated by the crowding-out effects of public borrowing, disproportionately affects small and medium-sized enterprises (SMEs). These firms also contend with unfair competition from the informal sector and with fiscal distortions that undermine their competitiveness.

Investment efficiency remains weak due to specialization in low value-added sectors, stagnant productivity despite firm growth, and an underdeveloped innovation ecosystem that limits the absorption of foreign technologies (Ait Ali and El Jai, 2026). In addition, the recent concentration of investment spending by public establishments and enterprises in the wealthiest regions since 2021 may also be a factor affecting the efficiency of public investment in Morocco.

Figure 12:
Evolution of the ICOR



SOURCE: World Development indicators et authors' calculations

The main challenge for the Moroccan economy lies in the ability of public investment to generate spillover effects on private investment and, ultimately, on productivity.

The experience of the 2000s showed that reliance on public investment reaches its limits in the absence of stronger private-sector participation. In the current context, this issue is particularly important, as the sustainability of the present growth rate depends on whether public investment can catalyze private investment and generate productivity gains. In other words, whether it acts as a complement to, rather than a substitute for, private initiative.

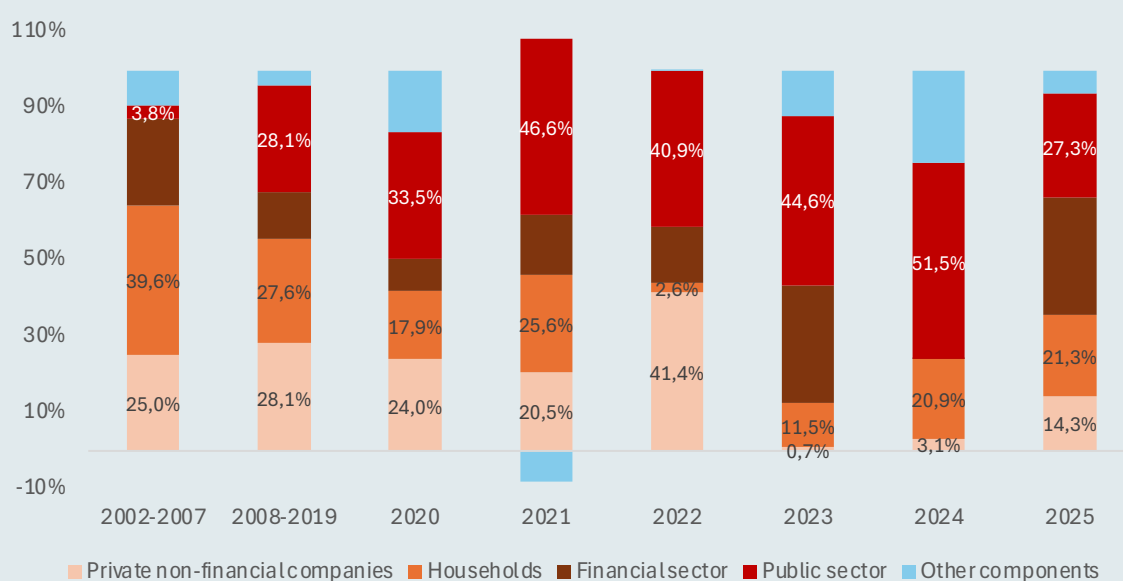
In the absence of such transmission mechanisms, growth would likely adjust toward a lower level, more closely aligned with the rates observed during the pre-Covid period. Although official statistics do not provide a precise breakdown, available estimates suggest that the public sector accounts for around half, and possibly up to two-thirds, of total investment. This composition may weigh on productivity through three distinct channels: weak selectivity in public investment projects, crowding-out effects on credit to the private sector, and a state presence that may distort market functioning and discourage the emergence of more productive private actors (World Bank, 2026b).

Box 3: Public sector financing and crowding-out effects

The evolution of bank credit in Morocco points to two main phases: a period of strong expansion between 2000 and 2007, followed by a slowdown and gradual normalization from 2008 onward. This pattern differs across institutional sectors and raises the question of how financial resources are allocated to the private sector, particularly in a context of increased pressure on public finances and a possible shift in bank financing toward the public sector (Figure B3.1).

Figure B3.1:

Relative contribution to the growth of total bank financing, by institutional sector, 2002–2025, in %



*Financing refers to all loans and bank subscriptions to bond securities.

Source : Bank Al-Maghrib.

Between 2000 and 2007, credit growth was mainly driven by households and non-financial corporations, while the contribution of the public sector remained marginal. From 2008 onward, this structure began to change. The contribution of non-financial corporations gradually declined from 2011, while that of the public sector increased steadily. Over the period 2020–2025, this new configuration became more entrenched. The public sector maintained a high contribution throughout the period and became a key driver of credit dynamics. Non-financial corporations recorded a temporary strengthening of their contribution between 2020 and 2023, while households’ contribution recovered toward the end of the period.

The crowding-out effect refers to the mechanism through which an expansion of public financing absorbs domestic financial resources at the expense of the private sector, affecting investment and, more broadly, the financing conditions of the economy.

To empirically test the presence of such an effect in Morocco, we estimate a model linking public-sector financing needs to private-sector financing conditions. Data on bank credit, interest rates, and Treasury bill rates are drawn from Bank Al-Maghrib. Inflation data come

from the International Monetary Fund, while output gap is estimated by the team using data from the High Commission for Planning. The results indicate the presence of a financial crowding-out effect. Over a four-quarter horizon, a public financing shock reduces private credit growth by 1.24 percentage points, equivalent to -0.66 monetary unit in cumulative terms. This effect increases over the medium term, reaching 2.31 percentage points over a 12-quarter horizon, equivalent to -1.23 monetary unit (Table B3.1).

Table B3. 1:

Estimation of the effect of a public financing shock on credit to the private sector

Sample A : 2007Q1–2024Q4, 72 obs | Samples B–C: 2004Q1–2024Q4, 84 obs

		● A: Lending rate		● B: Interbank rate		● C: 5-year secondary market rate	
h	Model A with control LP (1)			Model B with control LP (2)		Model C with control LP (2)	
	β	Confidence interval (IC)		β	IC	β	IC
4	-1.24**	[-2.19; -0.29]		-1.05**	[-1.89; -0.21]	-1.10**	[-1.92; -0.29]
8	-1.91**	[-3.45; -0.38]		-1.82*	[-3.56; -0.07]	-1.86*	[-3.48; -0.24]
12	-2.31**	[-4.13; -0.50]		-2.36*	[-4.56; -0.16]	-2.34*	[-4.38; -0.31]

Notes: IC at 90 % (HAC Newey–West standard errors): *** $p < 0,01$; ** $p < 0,05$; * $p < 0,10$.

β denotes the local projection coefficient, expressed in percentage points of cumulative private sector credit growth.

These results are consistent with empirical literature, which documents a negative crowding-out effect whose magnitude varies depending on the institutional and financial context.

Empirically, measuring the size of the crowding-out effect remains difficult, given the complexity of transmission mechanisms and, in some cases, the lack of relevant data. Existing studies therefore often rely on approximations linking public-sector financing needs, captured through debt, the fiscal deficit, or banking-system claims on the government, to private-sector financing conditions. These conditions are generally measured through private investment, proxied by gross fixed capital formation, and bank credit to the private sector, which represents a central source of external financing in bank-based economies (Baldacci and Kumar, 2010; Djankov et al., 2007).

In this context, the crowding-out effect may operate through banks' balance sheets. An increase in domestic public financing can lead banks to reallocate their portfolios toward public securities, which are perceived as safe and liquid assets, at the expense of credit to the private sector (Emran and Farazi, 2009; Acharya et al., 2014). A higher exposure of banks to public debt is associated with a reduction in private credit growth of around 0.5 to 3 percentage points (Bouis, 2019; Islam and Nguyen, 2022). In emerging economies, one additional monetary unit of domestic public financing can reduce private credit by between 1.00 and 1.50 monetary units (Emran and Farazi, 2009; Agarwal et al., 2024).

These limits to public–private investment complementarity point to a deeper constraint: the incomplete structural transformation of the Moroccan economy. Over the period 2001–2023, total factor productivity made a negative average contribution to growth, at -0.3%, compared with +0.2% for the average of emerging and developing economies. This gap reflects fundamental inefficiencies in the allocation of capital (El Aynaoui and Dinh, 2026).

More revealingly, the labor released from agriculture has been only weakly absorbed by manufacturing. Instead, it has moved mainly into low value-added activities, such as retail trade, repair services, and other miscellaneous services, where productivity is below that of industry and only slightly above that of agriculture. This shift toward services also reflects a more concerning pattern: the share of non-tradable sectors in total value-added increased from 63.9% in 2000 to 67.1% in 2023, while the share of tradable sectors declined from 36.1% to 32.9%.

Most of these service activities are characterized by low value added and limited job creation⁸. In addition, non-tradable services have weak backward and forward linkages, which limits their multiplier effects on the rest of the economy. In other words, structural transformation may have occurred, but it remains incomplete.

Tourism and information and communication technology (ICT) activities stand out within a tertiary sector that remains relatively low in productivity, suggesting the need to rethink structural transformation beyond manufacturing alone. Tourism appears to be one of the main growth drivers within tradable services: its share in total employment increased from 1.7% in 2000 to 4.0% in 2023, with average annual employment growth of 4.6% over the period, the highest among tradable sectors. ICT activities, meanwhile, have emerged as a complementary channel for productive upgrading. Programming, IT consulting, and telecommunications services contributed, on average, 2.4% and 1.6% to the domestic value added embodied in gross exports over 2010–2020, exceeding the corresponding OECD averages by 1.6 and 0.7 percentage points, respectively.

These dynamics suggest that tourism and digital services can serve as credible channels of structural transformation as long as they are not viewed merely as substitutes for industry, but as exportable, employment-intensive activities capable of supporting productivity gains. They also point to the need to broaden structural transformation strategies beyond manufacturing alone, whose capacity to absorb labour and diffuse productivity gains appears increasingly limited in developing economies. Exportable and employment-intensive services should therefore be integrated as productive drivers in their own right (Rodrik and Sandhu, 2024).

8. For instance, trade and repair activities, despite being the largest employer within the tertiary sector, accounting for 17% of total employment in 2023, recorded annual value added growth of only 2.3% over 2000–2023, and employment growth of just 1% (El Aynaoui and Dinh, 2026).

CONCLUSION

Geopolitical and geoeconomic fragmentation is creating new challenges for developing countries. Yet it can also generate opportunities for economies that are able to attract, absorb and make effective use of the flows associated with the reorganization of global value chains. In a context marked by partial investment relocation, diversification of productive bases, and search for stable platforms offering access to multiple markets, countries positioned as connectors between different economic spaces may be well placed to benefit from the ongoing reconfiguration. The experiences of Mexico, Poland and Vietnam illustrate this potential. They also suggest that such a position is not determined by geography alone, but by a broader set of conditions, including infrastructure quality, institutional credibility, macroeconomic stability and the capacity to embed investment within the domestic productive base.

Morocco's recent trajectory fits within this perspective. The performance observed since 2022, in particular the maintenance of non-agricultural growth above its pre-pandemic average, rests on important assets: proximity to European markets, logistics infrastructure, macroeconomic stability, the consolidation of selected industrial sectors and improved attractiveness for FDIs. These elements strengthen Morocco's connector role and may improve the external conditions of its growth. Yet they do not, on their own, constitute a growth strategy. They should instead be understood as a lever, whose effects will depend on the Moroccan economy's ability to translate this position into productivity gains, private investment and productive upgrading.

This is precisely where the central challenge lies. The structural constraints that hold back Morocco's economic acceleration are well identified: the functioning of the labor market, the quality of the education and training system, innovation policy and the broader framework for private sector development. These issues must remain at the core of public action, not only because they condition the unlocking of domestic growth potential, but also because they determine Morocco's ability to fully benefit from its new positioning within global value chains. External connectivity and domestic reforms are therefore complementary: the former opens opportunities, while the latter make it possible to convert them into sustainable growth.

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ABOUT THE POLICY CENTER FOR THE NEW SOUTH

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable, and enterprising "new South" that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

As such, the PCNS brings together researchers, publishes their work and capitalizes on a network of renowned partners, representative of different regions of the world. The PCNS hosts a series of gatherings of different formats and scales throughout the year, the most important being the annual international conferences the "Atlantic Dialogues", the "African Peace and Security Annual Conference" (APSACO), and the "Africa Economic Symposium" (AES).

Finally, the think tank is developing a community of young leaders through the Atlantic Dialogues Emerging Leaders program (ADEL) a space for cooperation and networking between a new generation of decision-makers from the government, business, and civil society sectors. Through this initiative, which already counts more than 490 members, the Policy Center for the New South contributes to intergenerational dialogue and the emergence of tomorrow's leaders.

All opinions expressed in this publication are those of the author.

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