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Royaume du Maroc
Ministère de l'Economie et des Finances
Direction des Etudes et des Prévisions Financières

المملكة المغربية
وزارة الاقتصاد والمالية
مديرية الدراسات والتوقعات المالية

Summary of the 2018 Economic and Financial Report

Morocco's openness to its international and regional environment has been translated into a deepening of competitive modernization reforms, a consolidation of partnerships with key players of the globalized system, and the progressive diversification of partnerships with emerging and developing countries within the framework of the South-South dimension of Morocco's foreign policy.

As the foundation stone of its system of alliances and partnerships, the Kingdom's regional foothold had a turning point with the return of Morocco to its African institutional family, which would enable it to play a more structuring role in favor of the development of our continent, based on win-win cooperation schemes.

At the domestic level, Morocco has made of human development a national priority and has undertaken major reforms aimed at accelerating the structural transformation of its productive system, as evidenced by ambitious sectoral strategies covering key sectors of the national economy. The objective is to reinforce the coherence of its development model and make it more inclusive, especially at the territorial level by empowering the regions of the Kingdom to turn into development actors, a space for wealth creation and emergence of competitive specialization profiles.

The promising progress made by Morocco should not lose sight of the existence of some challenges that need to be tackled, in order to secure the economic and social development trajectory of the country, and enable it to better benefit from its integration in the world economy. In addition to raising factors global productivity and improving the content of jobs growth, optimizing public investment and strengthening the coherence of sectoral strategies would be essential ingredients for Morocco to enter the era of emergence.

It was on the basis of such considerations that the 2018 Economic and Financial Report (2018 EFR) was drawn up. This report also attempts to explore the choices and trade-offs to be made in terms of budget and tax to support the action of public authorities in implementing the Government's economic and social policy.

Thus, the first part of the 2018 EFR deals with recent developments in the international economic situation and analyzes their direct and indirect repercussions on Morocco in terms of risks to be anticipated and opportunities to be seized.

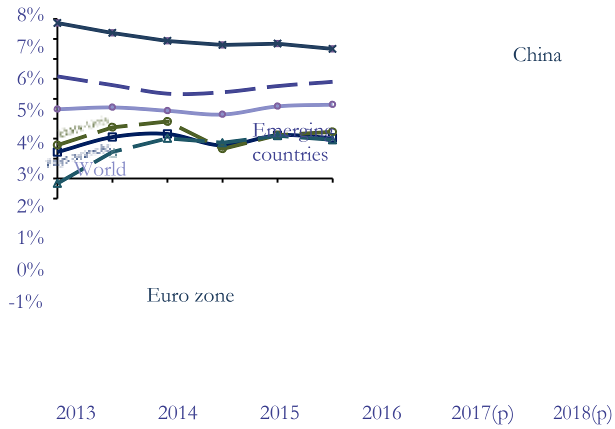
The second part of the Report is devoted to examining the process of structural transformation of the national economy, in the light of the effects of the sectoral policies in force and the imperatives of a more inclusive human development.

The third part of the Report outlines the recent trends in public finances and the main measure adopted in the context of the 2018 Finance Bill, and highlights the priorities, substance and balance as they were proposed by the Government.

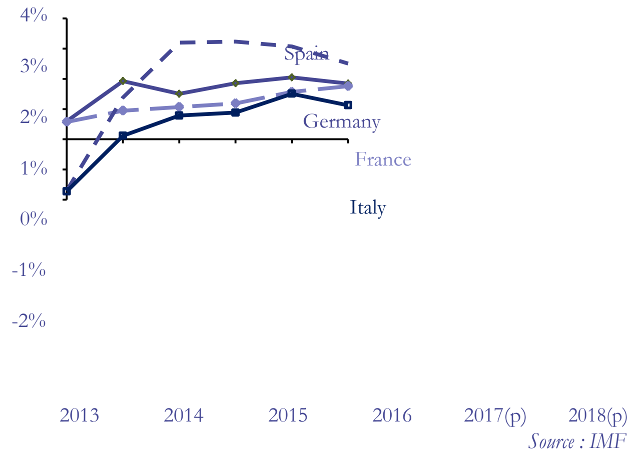
I. DEVELOPMENT OF THE EXTERNAL ECONOMIC CONTEXT OF MOROCCO

The global economic growth is expected to reach 3.7% in 2018, after 3.6% in 2017 and 3.2% in 2016, boosted by improved economic prospects in both advanced economies (around 2% in 2017-2018 after 1, 7% in 2016) and emerging economies (4.9% in 2018 after 4.6% in 2017 and 4.3% in 2016).

As a result, the GDP of the Euro zone is expected to grow by 2.1% in 2017 and 1.9% in 2018 after 1.8% in 2016, according to IMF forecasts. In the United States, growth should gradually increase to 2.2% in 2017 and 2.3% in 2018 after 1.5% in 2016. For emerging and developing countries, their economic growth would continue its steady trend to reach 4.9% in 2018 after 4.6% in 2017 and 4.3% in 2016.



Source : FMI



Source : IMF

Growth of Real GDP

In emerging Asia, economic growth would remain strong (6.5% in 2017 and 2018 after 6.4% in 2016), particularly in India, at a time when growth in the Chinese economy is showing signs of slowdown.

For MENA countries, their economic growth is expected to recover in 2018 and reach 3.5 % after it had slowed down to 2.6 % in 2017. However, the region's economic outlook remains uncertain due to geopolitical tensions and the persistence of a high level of unemployment.

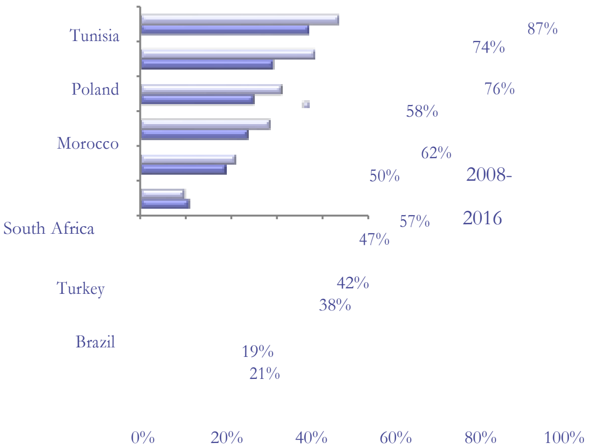
In sub-Saharan Africa, economic growth should gradually increase to 3.4% in 2018 after 2.6% in 2017 and 1.4% in 2016. This economic rebound is concomitant with the gradual recovery of commodity prices, among other reasons. The economic growth of the Economic Community of West African States (ECOWAS) is expected to grow by 2.3 % in 2017 and by 3.4 % and 2018.

At the same time, world trade is expected to grow in volume by between 1.4% and 4.4% in 2018. The extent of this range reflects the magnitude of uncertainties surrounding the recovery of the world economy, particularly with regard to the expected reorientation of monetary policy in developed countries and the outlooks of the fiscal policy in China. No less important, the renegotiation of NAFTA and the negotiation of post-Brexit trade agreements could also alter the strength of world trade.

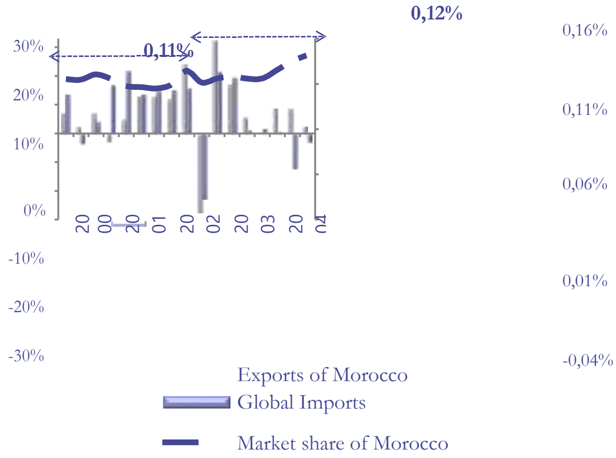
Taking these developments into account, the volume of foreign demand addressed to Morocco should benefit from this economic upturn, and grow by 4.5% in 2017 and 4.1% in 2018 after 3.1% in 2016, according to the latest data on import forecasts of Morocco's main partners.

It should be pointed out that the development of Moroccan foreign trade over the last two decades has been marked by the launch of significant changes in the geographical and sectoral structure of exports, as well as by an improvement in their quality and technological content, which has led to positive, albeit moderate, effects on the competitiveness of Morocco's exportable offer. Morocco has thus witnessed an increase in the rate of openness of its economy from 49% in 2000 to 62.2% in 2016. Compared to other emerging countries, our country has achieved an average opening rate of 62% over the period 2008 -2016, which is higher than South

Africa (57%), Turkey (42%) and Brazil (19%). However, it remains lower than Malaysia (135%), Tunisia (87%) and Poland (76%).



Source: Calculated by DEPF, data of WTO



Evolution of the openness rate of Morocco, worldwide and of a sample of emerging countries

Evolution of Morocco's share of the market

The analysis of the evolution of Moroccan exports by destination reveals a greater diversification of our export destinations, as evidenced by the decline of the EU's share, which went from 75.5% of Morocco's total exports in 2000 to 64.8% in 2016. Despite this trend, France and Spain remain Morocco's main customers, with respectively 21.1% and 23.3% of Moroccan exports in 2016.

In terms of the sectoral structures of Moroccan exports, a notable change has been recorded in recent years. In fact, the diversification-product index averaged 0.869 over the 2000-2016 period. Thus, the number of exported products has increased by 1.5% on average between 2000 and 2016, from 2,580 products to 3,272 products. Besides, the average value per exported product has more than doubled, from 30 million dirhams in 2000 to more than 68 million in 2016.

On the other hand, Moroccan imports increased remarkably, rising from 165 billion dirhams on average over the period 2000-2007 to 354 billion between 2008 and 2016, which is very significant for the national consumption. Indeed, the import penetration rate, which measures the share of total imports in the domestic market, increased from 35% over the period 2000-2007 to 40% between 2008 and 2016. The analysis of this rise shows that it resulted mainly from the increase in the price of some products such as energy and lubricants, raw materials and food products, as well as from the rapid rise in the imported volume of finished equipment goods, semi-products and finished consumables.

Morocco's attractiveness for FDI has been continuously improving over the past two decades. The distribution by geographical origin of FDI received by Morocco shows a predominance of EU countries' investments, even though their share declined considerably, from 84% in 2000 to 51% in 2016, in favor of Arab countries whose share significantly increased to 27% in 2016 against only 6% in 2000.

The different reports, assessing and classifying the strengths and weaknesses of different economies in terms of attractiveness of investments (Global Competitiveness Report, Doing Business Report, Report on the Economic Freedom Index), acknowledge the efforts made by Morocco in terms of political stability, macroeconomic framework, openness of the economy, and foreign trade. Nevertheless, these reports point out that considerable efforts need to be deployed in some areas to significantly increase the attractiveness of Morocco, namely justice, labor market, corruption, research and development, as well as the quality of the education system and vocational training.

In this respect, important reforms are in place to handle the aforementioned issues. These reforms, coordinated by the National Committee for the Business Environment (Le Comité National de l'Environnement des Affaires CNEA) include the revitalization of institutional dialogue mechanisms between the public and private sectors, the facilitation of administrative procedures for companies, the implementation of an organizational framework to facilitate and digitize measures to enhance doing business, as well as the consolidation of the legal arsenal of business, in compliance with international best practices.

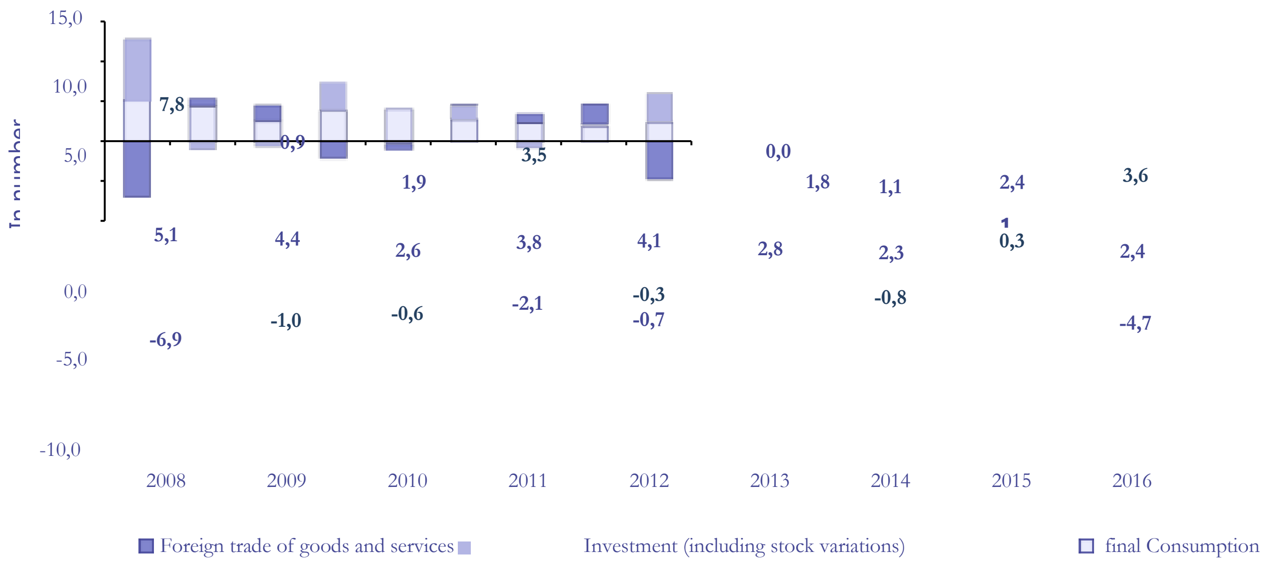
Overall, the outlooks of Morocco's international positioning remain positive, thanks to its proactive reform drive, its strategic choices based on building dynamic specialization profiles and its promising regional roots, which should consolidate the status of Morocco as a hub at the crossroads of major intercontinental markets.

II. NATIONAL DEVELOPMENT MODEL: A CONTINUOUS QUEST TO ESTABLISH INCLUSIVE AND SUSTAINABLE GROWTH

Structural analysis of national economic growth confirms Morocco's resolute commitment to modernizing and diversifying its productive base. Thus, between 2008 and 2016, the national economy was able to achieve an average annual growth rate of 3.9% in terms of volume.

This performance is thanks, in part, to the agricultural sector, whose performance became steadier since the launch of the Green Morocco Plan. The added value of agriculture that represents 13% on average of the total added value increased by 5.7% per year on average between 2008 and 2016. The added value of the secondary sector increased by 2.5 % per year on average, which represents 28.9% on average of the total added value (TAV). The tertiary sector, which accounts for 57.1% on average of the TAV between 2008 and 2016, increased by 3.6% on average annually.

The analysis in terms of the contributions of demand components to GDP growth highlights the decisive effect of final consumption, and to a lesser extent, of investment. Between 2008 and 2016, household final consumption expenditure, which accounts for 58.9% of GDP on average, grew in volume at a rate of 4.1% per year, thus contributing to economic growth by 2.4 points. Gross Fixed Capital Formation (GFCF), which accounts for 31.1% of GDP, increased by 3.2% on average per year and contributed by 1 point on average to economic growth. Public investment, consisting mainly of public enterprise investment followed by investment expenditure included in the State's General Budget, was an important lever for the growth of the national economy.



Source : DEPF

Contribution of demand components to GDP growth (in points)

The transformation initiated by Morocco since 2000, and which is beginning to bear fruit, as evidenced by the evolution of sectoral added values, emanates from our country's proven commitment to implementing sectoral strategies aimed at modernizing its productive system and consolidating its performance and resilience.

The agricultural sector has experienced significant momentum since the implementation of the Green Morocco Plan associated with a structural transformation of its production offer. In fact, investment in the agricultural sector has almost doubled since 2008, rising from 7.1 billion dirhams to more than 13.3 billion dirhams in 2016.

For its part, the maritime fishing sector has recorded a positive development, driven by the Halieutis strategy. In addition to the positive social impact of this strategy, in terms of income and employment creation, the associated dynamics of infrastructure and equipment modernization is expected to broaden the development prospects of the maritime fishing sector and reinforce its contribution to the national added value. For this purpose, investments targeting sea products processing units amounted 2.1 billion dirhams over the 2010-2016 period.

As for the industrial sector, although its contribution to economic growth and job creation remains broadly stable, profound changes are taking place, particularly with the development of new jobs that should strengthen the technological content of industrial exports. As a result, the share of exports with average or high technological content increased from 29% in 2006 to 51% in 2015. Consequently, Morocco ranked 37th out of 144 countries in terms of the quality of exported products in 2015. At the same time, the dynamics initiated at the level of automotive and aeronautical industries have had a positive impact on job creation, which experienced an average annual growth of 11% and 10% respectively between 2008 and 2016, to reach 92,500 jobs in the automotive industry and 12,000 jobs in the aeronautical industry in 2016.

However, the competitiveness of the Moroccan industrial sector still faces several entrepreneurial and technological constraints, particularly in the case of SMEs-SMIs which represent 94% of the Moroccan industrial fabric. The successful implementation of the measures outlined in the framework of the Industrial Acceleration Plan should, nevertheless, release the potential of the Moroccan industrial sector and turn it into a lever for structural transformation of the Moroccan economy. In addition, the development of the attractiveness of Morocco's twelve regions for industrial investments should contribute to a more equitable and sustainable distribution of wealth at the national level.

As per the strategic repositioning of the phosphate and its derivatives, the OCP Group is continuing the implementation of its investment program, which amounts MAD 200 billion and extends over the 2008-2025 period. This strategy emphasizes on strengthening partnerships with regional and global operators for a better integration of the value chain. Thus, many partnerships have been established with different countries, especially those of the African continent (Nigeria, Angola, Ethiopia, Kenya, Ivory Coast, Ghana, Tanzania, DRC, Zambia, Zimbabwe, Cameroon, Senegal, Benin and Mozambique), that offer significant opportunities in terms of business prospects and industrial integration.

As for support sectors, the analysis of the results of the tourism sector confirms its importance for the national economy which contributes by 6.5% to the national GDP in 2015 and by 42% to service exports, and accounts for 4.7% of employed labor force. However, this analysis spots the existence of some shortcomings that need to be overcome in order to strengthen the resilience of this sector to external competitive pressures and adapt its offer to different changes in demand.

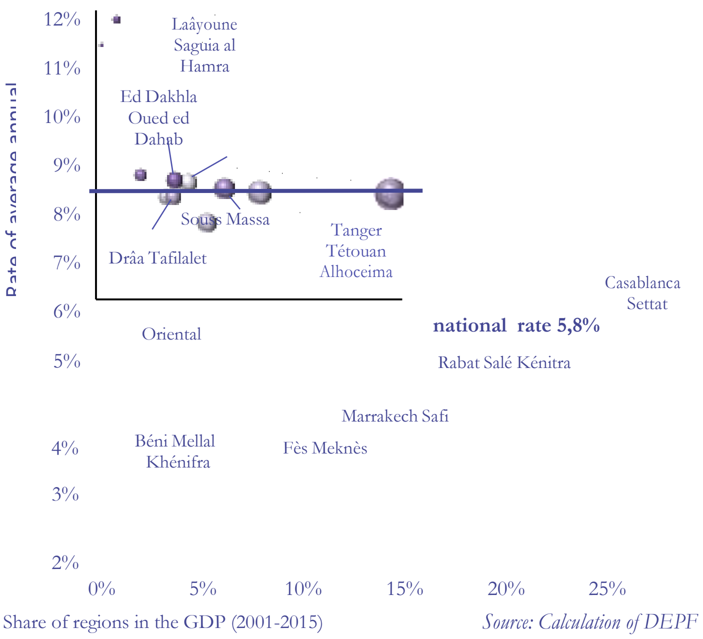
In addition, and in order for Morocco to take advantage of global opportunities in the offshoring sector and position itself among the dynamic emerging countries in this sector and attract more foreign companies, a 2016-2020 performance plan was signed in 2016. This plan aims to attract an investment of 1.5 billion dirhams, create 60,000 additional direct jobs, and generate an additional turnover of 18 billion dirhams by 2020.

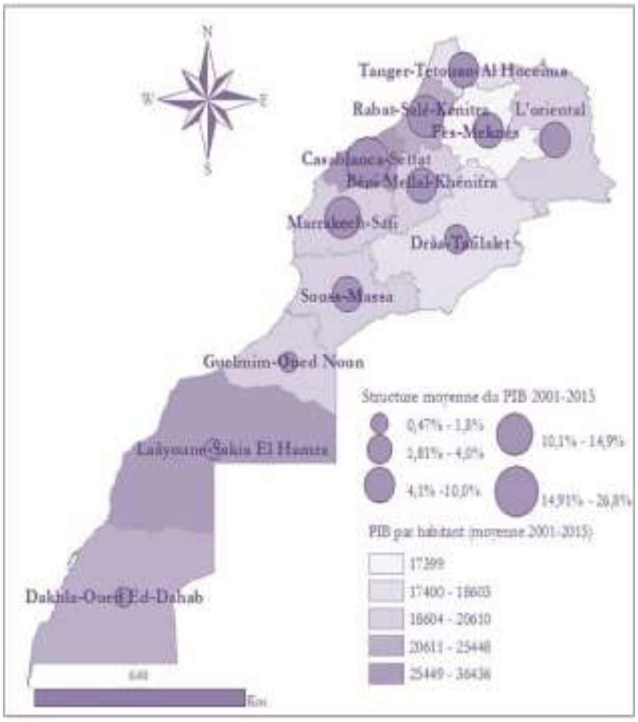
In terms of logistics connectivity, as a pillar for the attractiveness and competitiveness of the national economy, Morocco continues to make efforts to improve its logistical performance which enabled it to leap from the 94th rank in 2007 to the 86th in 2016 in the logistics performance index.

The integration of the Moroccan economy into the digital age is only possible today thanks to the boom in the telecommunications sector which has experienced strong dynamics since its liberalization in 1999. To support the ambitions to develop the sector, Morocco has set a new strategy baptized Digital Morocco2020, which was launched in July 2016 to accelerate the digital transformation of the country with the objectives of putting 50% of administrative procedures online, reducing the digital divide by 50% and connecting 20% of SMEs. This strategy also aims to position Morocco as a regional digital hub with a strong strategic revival of the BPO on Europe and a planned positioning in Francophone Africa. To ensure the efficient implementation of this strategy, Morocco has established an agency dedicated to the digital economy and e-government.

No less important, the financial sector holds a vital importance in the dynamism of the Moroccan economy, particularly in the process of capital accumulation, the increase of productivity, and the contribution to national added value. The added value of the financial and insurance activities sector grew at an average annual rate of 4.3% between 2009 and 2016, well above the total added value (3.2%). Nonetheless, the financial system needs to accelerate this pace even more by playing a decisive role in financing productive investment; and promoting a better placement of savings and their allocation to finance the competitiveness of the industrial sector, create and develop SMEs, and finance innovation in order to support sectors with high productivity.

This sector-based analysis also requires the examination of the dynamics of regional growth and the implications of sectoral strategies at the territorial level. In terms of regional growth, the Casablanca-Settat region achieved the highest average share of GDP, at current prices, during the period 2001-2015, thus contributing by 26.9%, followed by the regions of Rabat-Salé-Kenitra (14.9%), Marrakech-Safi (11.7%) and Fez-Meknes (10.1%). These four regions account for 63.6% of the national GDP. As for the dynamics of differed growth across regions, the rate of this growth rises as we go from the central to the peripheral regions in a catch-up momentum. In fact, four regions accounting for 56% of the national GDP have evolved at a pace below the national average over the period 2001-2015 (Fez-Meknes (+ 3.5%), Beni Mellal-Khénifra (+ 3.9%), Casablanca-Settat (+ 4.1%) and Marrakech-Safi (+ 4.4%)).





Contribution and regional dynamics over the period 2001 -2015

GDP and GDP/capita structure over the period 2001-2015

With regard to the social impact of the reforms and public programs implemented by Morocco, the structural analysis of the growth pattern of the Moroccan economy between 2002 and 2016 shows a clear regression of growth/employment elasticity. This regression explains the increase of the unemployment rate which reached 9.4% in 2016 against 8.9% in 2011. This situation is a major challenge that Morocco must raise, through renewed policies, in order to create more decent jobs for a population mostly young and educated.

At the same time, the improvement of the indicators of access to education proves the major progress made in favor of the generalization of primary education and the reduction of disparities between urban and rural areas. Thus, the specific rate of primary education improved significantly, from 97.4% in 2015-2016 to 99.1% in 2016-2017 at the national level. Regionally, this rate rose from 99.4% to 101.1% in rural areas and from 95.8% to 97.4% in urban areas over the same period. On the other hand, the specific rate of secondary education and vocational qualification for children aged 12-14 and 15-17 reached 87.6% and 66.6% in 2016-2017 compared to 85.2% and 65.3% in 2015-2016 respectively. As for the illiteracy rate of the population aged 10 and more, it reached 32% in 2014 against 43% in 2004. By gender, the illiteracy rate for women is 42.1% against 22.2% for men.

Conscious of the major challenges facing the national education system, the public authorities have implemented the new strategic vision (2015-2030) which aims at setting up a new education system based on equity and equality of opportunities, quality for all, and the advancement of individuals and society. This vision is structured around three focus areas of priority and 16 projects labeled as boosters of change.

In terms of access to health care services, significant progress has been made, particularly with regard to access to public health care services, with an increase in the hospitalization rate of 61% and a drop in maternal mortality of more than 68% during the period 2004-2016 to reach 72.6 per 100,000 live births. Infant mortality also dropped sharply, reaching 28.8 per 1,000 live births for children under one year of age in 2011. However, this progress is still insufficient to meet the current challenges regarding accessibility to care and availability of human resources, particularly in rural and remote areas.

As for access to social security, medical coverage and pension remain two important issues. To tackle them, the Government has undertaken major measures to ensure better social security of the population, particularly through the continued implementation of the basic health coverage, a process that was launched in 2005 with the entry into force of the Mandatory Medical Insurance *(Assurance Médicale Obligatoire AMO)* and the implementation of the first phase of the reform of the pension system. In the same scope, and in order to improve the social security of independent professionals, the parliament has approved the draft bills aiming to benefit these professionals from both medical care and pension benefits. The enactment of these bills should pave the way for the generalization of basic medical coverage and a significant improvement in the retirement coverage rate of the labor force.

III. FISCAL STANCE IN FAVOUR OF THE SUSTAINABILITY OF PUBLIC FINANCES

In addition to undertaken and ongoing efforts to promote an economically sound and socially inclusive growth pace, we should also highlight government efforts to consolidate public finances, namely the reform of the Compensation Fund, the rationalization of current expenditure, and the optimization of fiscal resources. The entry into force of the Organic Law on Finance Bill in 2016 gave additional impetus to the budget reform, as it stipulates a new budget management, focused on performance and results.

The actions undertaken have resulted in the improvement of budgetary leeway, and thus allowing the government to maintain the momentum of public investment and support the implementation of sectoral strategies and major social programs.

The review of the evolution of public finances, since 2013, shows moderate improvement in tax revenue of 4.1% in 2016. Company Tax revenue dropped by -1.6% on average per year over the period 2013-2015, before registering a significant improvement of 5.2% in 2016. This recovery is mainly attributable to the good performance of the results of some big companies in 2015 (OCP, BCP, CIH, SODEP, and cement works).

Income revenue rose by 6.7 % on average between 2015 and 2016, mainly as a result of the good performance of income revenue withheld at source. Domestic VAT revenue recorded a deferred evolution over the period 2013-2016 as it recorded a positive trend of 2.5% in 2015 and an increase of 0.7% in 2016 after it dropped by 2.4% in 2014. Meanwhile, revenue from stamps and registration fees maintained their steady growth pace between 2013 and 2016, as it increased by 3.8% in 2013, 14.9% in 2014, 3,3% in 2015 and 3.1% and 2016.

At the level of expenditure, its structure remains marked by the predominance of ordinary expenditure to the detriment of investment expenditure. Over the last five years, the share of ordinary expenditure in total expenditure was almost 80% on average. This is attributable, in particular, to wage bill and cost of subsidies, and also to the low rate of execution of investment expenditure which has resulted in a significant accumulation of carryovers. It should be noted that controlling the evolution of the wage bill reduced its ratio in relation to GDP to 10.3% in 2016. The introduction of the limiting nature of staff loans by the 2017 Finance Act, as part of the enactment of the new Organic Law on Finance Act should allow for a better control of this ratio.

Compensation expenditure, for its part, decreased in 2016 by 3.2 points compared to 2013 and thus represented 1.4% of GDP. As for investment expenditure, the government's willingness to continue its efforts to support economic activity resulted in an increase in investment expenditure, which rose to reach 6% of GDP on average over the period 2008-2016 compared to 3.9% over the period 2001-2007. As a result of this rise, the budget deficit gradually decreased from 6.8% of GDP in 2012 to 4% in 2016. Consequently, the Treasury debt ratio was relatively controlled. The change in the outstanding debt ratio was brought down to 1.2% of GDP between 2013 and 2015 before it was limited to 0.6% of GDP in 2016.

Evolution of the fiscal balance

The priorities of the 2018 Finance Bill, which are in line with the High Royal Guidelines and the Government program, aim to develop industrialization, stimulate private investment, and support SMEs, as well as to consolidate the advanced regionalization, put the last touches on administration reforms, and enhance the governance of public policies.

The configuration of public finances, as reflected in the 2018 Finance Bill, is part of the ongoing rebalancing of the public finances profile in terms of their medium-term sustainability. Indeed, the 2018 Finance Bill forecasts an economic growth of 3.2% compared to 4.6% in 2017, mainly due to the expected decrease of agricultural added value by 0.8% and an increase in non-agricultural GDP by 3.7%. This forecast is based on the following assumptions: a cereal production of 70 million quintals in 2018, an oil price of 60 dollars per barrel in 2018, a Euro-Dollar exchange rate of 1.18, and an increase in foreign demand to Morocco by 3.7% (excluding phosphate products and their derivatives).

Consequently, revenue and expenditure forecasts should lead to a budget deficit of around 3% of GDP in 2018.

The 2018 Finance Bill also forecasts a gross national saving rate of 29.6% of GDP and a gross investment rate of 33.4% of GDP. As a result, the financing needs of the national economy are expected to account for 3.8% of GDP.