The 2008 Finance Bill

I. The 2008 Finance Bill: Reference Framework and Context

The 2008 Finance Bill aims at implementing the broad lines of the government declaration. Such a declaration was inspired by orientations outlined in speeches made by His Majesty the King, notably the two speeches given to mark the occasion of the Accession to the throne and to inaugurate the eighth parliamentary session on October 12th, 2007.

The 2008 Finance Bill was devised in an economic and financial context internationally characterized by a prospective growth rate of 2.1% in the Euro zone, and 1.9% in the United States, by an international trade exchange expected to grow by 7.4%, as well as a sustained rise of oil prices and certain foodstuff products.

At the national level, the 2008 Finance Bill was elaborated in an economic and financial context characterized by the following factors:

- Proceeding with growth despite drought and a less favourable international context. In fact, GDP is expected to increase by 2.5% in 2007 thanks to the good results achieved in non-agricultural sectors whose added value is expected to increase by 5.6%. This increase was achieved in a non-inflationary context with an anticipated inflation rate of 2.3% in 2007.

- A worsening of the trade deficit by 26.6% due to the increase in importation of producer goods compounded by drought and the increase in prices of commodity products on the international market. This situation was alleviated by the increase in tourism revenues and currency transfer made by Moroccan Nationals in Residence Abroad. Besides, an increase in the volume of Foreign Direct Investment is expected to reach MDH 31.1 billion in 2007 against MDH 28.8 billion in 2006. This resulted in a significant increase in external assets that reached MDH 210 billion at the end September 2007, a figure equivalent to 10 months of imports.

- A budget deficit decrease, exclusive of privatisation, is estimated at 2.4% of the GDP against a projected 3.4% for the current year. This is largely due to the updating of the projected increase in receipts estimated at over MDH12.3 billion, with an expected rise in expenditure of MDH7.5 billion.

II. The 2008 Finance Bill: General Directions

In addition to consolidating territorial integrity and citizens' safety and well-being, the 2008 Finance Bill aims at addressing two major issues:

1. **Providing the adequate conditions for successful integration of the national economy in its environment, consolidating growth and creating the necessary conditions to promote the country as a platform for investment and exportation**. This is achieved through adapting the structure of the national economy to the imperatives of productivity and competitiveness imposed by globalisation through the following:

   a. Developing private and public investment by:

   - Intensifying public investment expected to reach MDH 106 billion by 2008, 36.07 billion of which allotted to the State General Budget, thus registering an increase of 39% compared to 2007. The state investment effort necessary for economic activity will be characterized by proceeding with large scale programmes initiated in the domain of ports, airports, terrestrial and rail transport networks, as well as investment facilities for industrial and tourist investment.

- Promoting private investment with the help of the state to create the appropriate environment by;

    - Institutionalising contract relations between the state and the private sector;
    - Consolidating investment facilities, especially those related to technology- based activities with a high added value.
    - Liberalising and de-monopolising certain public sectors, whose competitiveness and standard can be better developed by private enterprises.
    - Setting up an appropriate fiscal and customs excise code to reinforce competitiveness in the private sector and support its development: proceeding with Value Added Tax reform, bringing Income Tax from 35 down to 30%. It must be noted that the rate applicable to the financial sector will be reviewed from 39.6% to 37% in 2008 and later brought down to 35% in 2009, and that the maximum rate of import duties applicable to industrial products will be cut down from 45 to 40% to enhance the competitiveness of Moroccan enterprises.
    - Promoting Small and Medium-size Enterprises by adopting fiscal and institutional measures to help with upgrading, mergers as well as developing a contract programme with CGEM[1] to implement support schemes.

b. Setting up strategies for growth markets: "Plan Emergence" designed for some industries, "Vision 2015" for the handicraft sector, "Vision 2010" for the tourism sector, the "Rawaj 2020" plan for commerce, as well as the elaboration of new sector-based visions for the agriculture and energy sectors.

c. Promoting regional development to ensure a balanced development in all parts of the country by speeding up the process of rural development, setting up regional development poles driven by the implementation of large scale projects across the country, as well as protecting the environment through rational water management, sewage and household waste treatment, the fight against desertification and the preservation of biological diversity.

d. Stabilising the macroeconomic framework through:

- Greater budget autonomy in relation to privatisation receipts;
- Attaining a new surplus in the balance of payment current account, as well as containing inflation at 2% and budgetary deficit at 3%, despite the inflationary pressures within the international environment.
- The expected increase of the growth rate from 2.5% in 2007 to 6.8% in 2008, based on an average yield in the agriculture sector.

2. Reinforcing Morocco's Social Cohesion and Improving Standard of Living

Along with the government efforts to accelerate economic development, diversify sources of growth, create regional development poles and promote employment, the 2008 Finance Bill gives particular attention to social sectors, in keeping with the new government vision that prioritises human development, poverty eradication and preservation of spending power. To this effect, nearly half of the budget is allocated to department providing social services to ensure:

a- Upgrading Human Resources through:

[1] Confédération Général des Entreprises Marocaine (The General Confederation of Moroccan Enterprises)

§ A stronger commitment to the process of fighting poverty, marginalisation and exclusion, an area in which the INDH (National Initiative for Human Development) has made noticeable progress, bringing the rate of poverty from 19% in 1998 to 11% in 2006.

§ A more focused employment policy that translates through acts such as the following: proceeding with current investment programmes and adopting specific approaches ("Taehil," "Idmaj," and "Moukawalati,") consolidating vocational training programmes to meet needs arising from sector-based strategies, and following on programmes that aim to train 15.000 engineers by 2012, and 3.300 medical doctors by 2020, as well as 10.000 social workers by 2012.

§ Proceeding with the Reform of education and training together with launching an aggressive campaign to fight illiteracy, and increasing the budget allocation for this sector by 9.7% compared to 2007.

§ Improving the sector of health by upgrading medical care services and gradually extending health coverage. The budget allocated for this sector will be increased by 10.4% in 2008 compared to the current year.

b. Improving the general standard of living by enhancing proximity-based programmes, and ensuring a broader access to basic social services, speeding up the pace of low-cost housing programmes and eradicating shanty towns. To promote low-cost housing programmes, the 2008 Finance bill has provided for:

§ Reducing corporate tax by 50% in favour of real estate companies operating in the area of low-cost housing. This was provided for in agreements signed with the state. These agreements relate to the completion of programmes the scale of which will be brought from 2500 units down to 1500 units at the regular rate starting from 2009. This measure will also apply to income tax.

§ Promoting a new type of low-cost housing in rural and urban areas, at a transfer price of not more than MDH 140.000, and a surface area of no less than 50 square metres. This type of housing is destined for families whose monthly income does not exceed the minimum wage by one time and a half. In order to further develop this type of housing, the 2008 Finance Bill provides for total tax exemption in favour of housing projects built on public estate at cost value, and giving priority to construction programmes aimed at this type of housing. At least 500 units in urban areas and 100 units in rural areas are expected to be completed within 5 years.

c. Maintaining the cost of living by keeping inflation at 2% for 2008 and continuing subsidy of food and oil commodities. Subsidy charges for 2008 have been set at MDH 20 billion, based on an oil price of $75 a barrel.

III. Major Figures in the 2008 Finance Bill

1-Revenues of the State General Budget

Revenues of the State General Budget amount to MDH 195.68 billion, which is a 9.27% improvement compared to the 2007 forecasts. This is thanks to the following factors:

a- A 17.55% increase in tax revenues compared to the 2007 forecasts, to reach MDH 132.81 billion that can be broken down as follows:
- Direct and allied taxes: MDH 57.78 billion against MDH 48.17 billion, which is a 19.95% increase compared to the 2007 forecasts.
- Indirect taxes: MDH 52.09 billion against MDH 44.19 billion, which is a 17.87% improvement compared to the 2007 forecasts.
- Customs duties: MDH 12.79 billion against MDH 12.68 billion in 2007, which is a slight 1% increase compared to the 2007 forecasts.
- Registration and stamp duties: MDH 10.15 billion against MDH 7.92 billion, which is a 28.07% increase.

b- The 4.9% projected decrease in non tax revenues, which represents MDH 62.85 billion against MDH 66.09 billion in 2007) is largely due to the following factors:

- A 13.65% decrease in monopoly and exploitation products as well as in state participations (brought down to MDH 6.9 billion from MDH 7.9 billion in 2007).

- A drop in privatization revenues to MDH 3 billion from MDH 4.5 billion forecast for 2007. The receipts from privatization for the year 2008 would account for only 2% of forecast revenues (off loan) against 13% in 2001, underscoring the consolidation trend of the general budget autonomy in relation to privatization receipts.

2. Provisional Expenses of the State General Budget

The total amount of the State General Budget expenses, including debt repayment, for the year 2008, stands at MDH 208.29 million, which shows an increase of 7.05% compared to 2007, divided as follows:

The amount of open credit for operating costs stands at MDH 124.29 billion, against MDH 109.55 billion in 2007, which is an increase of 13.45% resulting mainly from:

Payroll expenses: MDH 66.96 billion against MDH 62.78 billion in 2007, representing an increase of 6.7%, taking account of the creation of 16.000 job positions mainly in education, health, and the security forces;

Equipment and other expenditure: MDH 20.16 billion against MDH 17.17 billion in 2007, an increase of 17.36%;

Subsidy spending: MDH 20 billion against MDH 13.42 billion, which represents an increase of 49% compared to 2007;

The amount of payment credit forecast for investment expenditure reaches MDH 36.07 billion against MDH 25.95 billion for the previous year, which is an increase of approximately 39% compared to 2007.

Listed loans relating to public debt servicing stand at MDH 47.92 billion, with MDH 11.65 billion allocated to external debt servicing and MDH 36.27 billion allocated to domestic debt servicing, which represents a 26.81% drop compared to the 2007 forecasts.