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 Economic and Financial Report 2015

The preparation of the Finance Bill 2015 (PLF2015) comes in a regional and international context marked by the recovery of the world economic activity, although it remains fragile, given the persistent risks in the financial sectors and those related to the real economy of the euro region, the uncertainties in fiscal balances, the debt ceiling of the United States, high unemployment rates in many countries, and geopolitical risks that are particularly affecting our region... In this context, the Economic and Financial Report 2015 (REF 2015) examined in its first part the main developments of the world economy in order to detect the likely failures, challenges and opportunities that may call on the Moroccan economy to renovate and reposition itself within its Mediterranean, regional, continental, African, and world environment, particularly vis-à-vis emerging powers.

Nationally, the REF 2015 in its second part deeply examined the Moroccan development model through an analytical assessment of the viability and sustainability of growth, highlighting the rationales behind sectoral diversification of growth, its regional redeployment, its impact on the indicators of human development, as well as the initiated institutional, legal and financial reforms, particularly those that address the necessity to improve good governance mechanisms and broaden the scope of progress in democratic and accountability efficiency.

The third part of the Report has put the 2015 Finance Bill in context, addressing its priorities, substance, balances and measures.

Morocco in its global and regional environments: challenges and opportunities

The global crisis has led to a fundamental change bringing in new modes of regulation and economy organization, involving new leading industries, new forms of work organization, new consumption patterns and new centers of the global economy. While that crisis's first wave of impacts began to ease, the global economy continues to face pressing risks straining the balance of international relations.

In fact, the global economic activity has generally strengthened and should continue to grow in 2014 and 2015 to 3.3% and 3.8% respectively, driven by developed economies, especially the American economy that still benefits from favorable financial conditions. This trend is also supported by the acceleration of growth in the advanced economies, with expected rates of 1.8% in 2014 and 2.3% in 2015, following the growth rate of 1.4% in 2013.

As for the euro zone, the economic activity has also displayed gradual recovery with expected growth rates of 0.4% in 2014 and 1.3% in 2015. However, recovery remains slow and deemed insufficient to significantly redress the job market and reduce debt.

As for emerging and developing countries, they should record a more moderate but still solid growth of 4.4% in 2014 after 4.7% in 2013, before growing stronger to reach 5.0% in 2015. Growth rates still vary between countries and regions. Growth is expected to remain relatively robust in the countries of emerging Asia (6.5% in 2014 and 6.6% in 2015), particularly China (7.4% and 7.1% respectively) and India (5.6% and 6.4% in 2014 and 2015 respectively).

At the level of the MENA region, growth is expected to accelerate in 2014 and 2015 by 2.6% and 3.8% respectively, against 2.3% in 2013, supported by a climate of renewed economic stability in some countries, the increase of capital flow, and the recovering foreign demand towards those countries. Growth is expected in both oil-exporting (2.5% in 2014 and 3.9% in 2015) and importing countries (2.6% and 3.7% respectively).

On the other hand, the economies of sub-Saharan Africa should witness sustained growth to reach 5.1% in 2014 and 5.8% in 2015, due to the positive evolution of the domestic supply and the consolidation of global recovery. Investment will continue to support domestic demand and is expected to represent around 23.2% of GDP in 2014 and 2015. It will be more significant in low-income countries and fragile States, where it should be carried by the FDI in mining and infrastructure.

In parallel, the world merchandise trade volume is expected to grow by 4% in 2015, after 3.1% in 2014, according to the WTO, because of increasing demand for imports from developed countries in connection with the expected acceleration of the US economy and improving economic conditions in Europe. Given these developments, the volume of foreign demand for goods addressed to Morocco is expected to show a growth rate of 3.5% in 2014 and 4.1% in 2015, after an increase limited to 0.8% in 2013. This evolution is due, in part, to the expected improvement in demand from the European Union that would increase from 0.4% in 2013 to 3.3% in 2014 and 3.5% in 2015.

Moreover, the dynamism of Moroccan exports in recent years falls short of the increase in Moroccan import needs. Despite the efforts made in favor of liberalization, and the development of the productive system and the promotion of foreign trade, particularly through the implementation of ambitious sectoral strategies and improving the business environment, the trade deficit reached 22.4% of GDP in 2013, with a coverage rate standing at 48.6%.

The analysis of the structure of Moroccan exports by destination shows a strong focus on the European Union, with a share of 60% in 2013. In addition, Morocco is not taking full advantage of the various free trade agreements. The trade deficit in the context of these agreements has widened from MAD 58 billion in 2008 to MAD 67 billion in 2013, representing 34% of the overall trade deficit. Moreover, it should be noted that the deficit produced as part of the agreement with the EU, Morocco's main trading partner, represented in 2013 almost 82.6% of the overall trade deficit made as part of free trade agreements signed by our country.

As for trade with sub-Saharan Africa, it has recorded a significant increase during the last decade, reaching MAD 14.4 billion in 2013 against 4.7 billion in 2003, which represents an annual average growth rate of 12%. The trade balance, largely positive for Morocco since 2008, has significantly improved in recent years and reached MAD 8.9 in 2013. Given the pace of growth over the last decade that has averaged 5% a year for the entire African continent, Morocco is called to get involved in this dynamic through the establishment of a more adapted South-South cooperation strategy. More particularly, Morocco should strengthen the legal and regulatory framework governing trade and investment relations between Morocco and African countries and to establish a framework of private partnership between Moroccan and African companies, allowing synergy between the economies.

In terms of attractiveness for FDI, according to the latest UNCTAD "World Investment Report 2014", Morocco received 3.4 billion dollars of foreign investment in 2013, with an increase of 23% compared to 2012. The FDI structure has undergone significant changes both on geographical and sectoral levels. France remains the first investor in Morocco, with 37% of the total foreign investment in 2013, reaching MAD 14.6 billion, an increase of 19% compared to 2012. France is followed by the United Arab Emirates with a share in total FDI of around 8.6%. At the sectoral level, manufacturing (39% of total FDI) has been the most attractive sector in 2013, with nearly MAD 15.3 billion in FDI, an increase of 88% compared to 2012.

Overall, the attraction prospects of new FDI remain promising, in conjunction with the acceleration of reforms, the improvement of the business climate and increased investment opportunities in both traditional and innovative sectors.

Consolidation of the national development model: towards an inclusive, job-generating growth that reduces social and spatial disparities

After two decades marked by low and erratic growth, Morocco's development model has engaged in a sustained and balanced growth trend. The Moroccan economy grew by 4.5% per year since the early 2000s, against 2.8% during the 1990s, despite the disruptions of the international environment. The productive base diversification and the increasing tertiary sector of the national economy have favored a significant reduction in the volatility of economic growth.

During the 2008-2013 period, the country's GDP showed an average annual growth rate in constant prices of 4.3%, against 4.6% between 2000 and 2007. The tertiary sector contributed significantly to this development by 2.3 percentage points of growth, after 2.9 points in the first period, supported by the good performance of the agricultural and secondary activities and the consolidation of the performance of telecommunications, trade and transport.

For its part, the contribution of the secondary sector to the GDP growth was 0.5 points during 2008-2013, after 1.3 point during the period of 2000-2007. The production of this sector became increasingly diversified, gearing towards the sectors with higher added value, namely the automotive and aerospace industries that experienced between 2008 and 2013 an annual average increase in exports of 18% and 17.5% respectively, and 16% and 14% in terms of highly qualified employment, promoting an increasingly competitive exportable supply.

As for the contribution of the primary sector to the GDP growth, it represented 0.9 points, after 0.4 points between 2000 and 2007, and 1.3 points in 2008-2013. This was achieved thanks to the increase in its added value by an annual average of 9.2%, against 2.1% between 2000 and 2007.

In 2013, the national economy achieved a growth rate close to its potential, settling in constant prices at 4.4%, against 2.7% in 2012. It was mainly driven by the strong performance of the agricultural activity that increased by 19% after a decrease of 8.9% in 2012. As for the non-agricultural activities, they showed an improvement of 2%, despite the lingering effects of the sluggishness of the economic outlook, especially in the main partner countries.

This upward trend in growth was supported by strong domestic demand. Indeed, the contribution of domestic final consumption was consolidated during the 2008-2013 period to 3.6 points, after 2.9 points between 2000 and 2007. This growth was helped by the consolidation of household purchasing power, particularly thanks to wage increases, the reduction of income taxes and the control over the level of consumer prices. For its part, Cross Fixed Capital Formation recorded an increase in its average share in GDP over the period 2008-2013, reaching 31.1% against less than 27% in 2000-2007, benefiting from improved financing conditions of the national economy.

In terms of foreign trade, its contribution has been negative over the period 2007-2013. However, a significant improvement was noted over the last three years. Thus, the contribution of trade to economic growth turned positive to+0.9 points between 2010 and 2013 against - 0.8 points between 2000 and 2009. Similarly, the current account balance registered an average deficit of 5.8% of GDP between 2007 and 2013, reflecting a structural trade balance deficit, influenced in particular by the weight of the energy bill and imports of finished products and consumer equipment.

Given these elements, Morocco faces the major challenge of accelerating its process of structural transformation, and its integration into value chains that are reshaping the face of international trade and global sector specializations. In this sense, it is true that the various strategies launched in recent years have helped create a new dynamic in strategic sectors like agriculture and industry, but major challenges remain there, especially in terms of moving up the value chain, valorization / marketing, training and logistics, in order to take advantage of the opportunities available at the national, regional and international levels, and obviate the risks inherent in the increase of competition on both the internal and external markets.

In this regard and in the context of the *Plan Maroc Vert*, the consolidation of agricultural investment between 2008 and 2013 contributed to the improvement of the agricultural GDP growth, averaging 8.8% per year, particularly within the Agricultural Development Fund that mobilized a total amount of around MAD 15 billion over the period 2008-2014.

Regarding industrial activities, the gradual modernization of the national industrial base and its integration in the global value chains observed in recent years is the result of the emergence of new specializations that have a larger contribution to value added, qualified employment, and exports. Indeed, the new businesses of Morocco (automotive, aerospace, electronics and offshoring) have contributed by 86% to additional exports made by all of Morocco's global businesses between 2008 and 2013 (MAD 30 billion of additional exports, which makes MAD 105.8 billion of total exports in 2013 against MAD 75.43 billion in 2008), confirming thus their leading role in export. Similarly, the contribution to the qualified and highly qualified employment marks this modernization with annual growth rates of employment of 16%, 14% and 9% for the automotive, aerospace and electronics respectively.

Building on these achievements and the achievements of the Emergence Pact, the Government launched in April 2014 the 2014-2020 industrial acceleration program. The program aims to give new impetus to the entire industrial sector by maintaining the path of the new Global Businesses of Morocco, and to integrate the other traditional sectors of our industrial fabric. This plan has been given a public industrial investment fund of MAD 20 billion by 2020.

As for the sector of phosphates and derived products, the OCP Group has begun an accelerated deployment phase of its proactive strategy 2010-2020, with an investment budget of MAD 188 billion by 2025. In fact, this strategy aims to consolidate the Group's leadership with the goal of achieving a 40s% share in the global fertilizers market against 21% currently. It is also part of the strategic choice of enhancing the value of rock phosphates. This strategic repositioning also aims to benefit from strong global demand (+ 3% per year by 2020), driven mainly by emerging powers with a development perspective on the African continent.

Regarding the strategies launched over recent years covering support areas, it is important to emphasize the continued implementation of the tourism development strategy, confirming its resilience to external shocks. This was achieved by strengthening tourism investment (The Wessal Fund...), continued efforts in the aviation sector, and the development of domestic tourism.

Similarly, the logistics strategy has reached a new stage of development with the signing in 2014 of seven contracts concerning the optimization, massive merchandize flows, the establishment of an integrated network of logistics areas, promoting training, as well as the organization and operation of the Moroccan Observatory of Logistic Competitiveness.

In the same vein, the telecommunications sector has gone through two profound changes in Morocco. The first is institutional, opening up the sector to competition; the second is technological, and is an outcome of the proliferation of new communication systems. This technological affluence has been supported since 2004 by general guidelines, the latest of which covers the period 2014-2018. It is based on three axes, namely the expansion of universal service to broadband Internet based on mobile technology, fiber optics and satellite technologies; the introduction of 4G in 2015; and the development of a monetized content by telecommunications players.

On the other hand, it is important to note the continued deployment of strategic actions for the development of the water sector. Those actions include further optimization of demand, the diversification of water supply, the dam construction policy, and development of drinking water and sanitation.

Add to that the acceleration in implementing the actions aimed to make the Moroccan energy transition successful and that by accelerating the implementation of major projects of clean energy sources (solar and wind), combined with a better energy efficiency and exploring the potential of creating new sources of green growth.

Recognizing the role of research and development (R&D) as a key booster of competitiveness both at the levels of businesses and nations, and its role as a catalyst helping to reshape the world's economic growth models, Morocco has undertaken several actions for the development of R&D, both as part of the Morocco Innovation strategy and the various sectoral plans. The budget allocated to R&D in Morocco increased from MAD 3 billion in 2006 to MAD 5 billion in 2010, representing 0.34% of GDP in 2006 and 0.73% in 2010. In 2013, this share reached 0.8% of GDP, and the government is aiming for 1% in 2016.

Concerning the financial sector, our country has made significant progress in reforming and modernizing the sector. The legal and institutional framework governing the financial environment in Morocco has significantly evolved towards greater liberalization of the sector, generating very positive performance indicators. Nevertheless, some reverse trends were recorded during the last two years when Morocco launched several projects with structuring effects on national economy. Thus, in terms of overall liquidity available in the economy, its growth rate has diminished by 11 points between 2006 and 2013 from 15.7% to 4.6%. As for outstanding loans granted by banks, they stood around MAD 747 billion in 2013 after 719.2 billion in 2012, with a growth rate of 3.9% against 4.6% in 2012 and 10.6% in 2011. Linked to GDP, total deposits represented 85.6% in 2013 against 86.9% in 2012.

In terms of outstanding financing, outstanding loans to SMEs went up 6% in 2013 against 1% a year earlier, a rate higher than that recorded by the outstanding loans to all non-financial corporations, which declined by 3.5% in 2013 after rising by 2.7% in 2012. This improvement was supported in part by the increase of the system guarantee interventions that allowed the mobilization of MAD 4.7 billion in new loans in 2013, i.e. an increase of almost 30% over the past year, guaranteed up to MAD 2.5 billion.

On the social level, the implementation of sectoral policies and programs to improve the living conditions of the population has resulted in positive changes in key social indicators, particularly those related to employment, education, and health.... This improvement was further consolidated by the implementation of different programs against poverty and exclusion and the volume of the State budget allocated to social sectors (54.4% in 2014). Furthermore, Morocco's commitment to achieving the Millennium Development Goals and the consolidation of the achievements of the Narional Initiative for Human Development (INDH) have contributed to significant advances in human development.

To this end, the citizens' standard of living has improved as evidenced by the increase in the gross national income per capita that reached MAD 27,980 in 2013 against MAD 15,798 in 2001, with an average annual increase of around 5%. Overall, the improvement of living standards has led to a remarkable reduction of poverty and vulnerability that went from 15.3% to 6.2% and from 22.8% to 13.3% respectively between 2001 and 2011.

The performance in terms of economic growth has also allowed the creation of nearly 2 million net jobs between 2001 and 2013, contributing to the significant decline of the unemployment rate by 4.2 points to stand at 9.2% in 2013. However, young people remain the most vulnerable group to unemployment that affected 19.3% of young people aged 15-24 in 2013. This rate is particularly high in cities where it reaches 36%, almost four times the national unemployment rate, against only 8.4% in rural areas.

Given the need for decent employment, the Ministry of Employment and Social Affairs has triggered a consultation process with partners, with the support of the International Labor Office and, with the aim of designing a National Employment Strategy (NES) that would be innovative and collaborative. The strategy would aim to take better account of employment while designing national cross-cutting and sectoral policies, enhancing job creation through the private sector, human capital development, monitoring of targeted measures of active employment policy and the establishment of a monitoring and evaluation system.

In the same vein, the government, as part of the acceleration of the education and training system reform, the government developed a Strategic Development Plan for 2013-2016. This plan focuses on five key areas namely schooling supply, quality of education, schools, governance and human resources. The aim is to rehabilitate the system of education and training by adopting a new logic based on the reactivity of learners and focused on building their own skills.

In terms of access to healthcare and health services, a number of important actions were taken in 2014 as part of the implementation of the health sector strategy for 2012-2016. This came as a continuation of the widespread efforts on Basic Health Coverage (the number of beneficiaries of RAMED reached 7.28 million people in late August 2014, representing a coverage rate of 86%), effective implementation of drug price decreases (the decrease in the prices of 1,570 drugs according to the new terms and conditions for pricing of drugs) and the adoption of the draft law on medical practice.

To sustain and consolidate the aforementioned gains, all the forces of our country are expected to contribute in facing the challenge of persisting vulnerability and social spatial and gender inequality. This has been mentioned in the Royal speech addressed to the Nation on July 30, 2014 on the occasion of the Throne Day, clearly pointing out that "If Morocco has seen tangible progress, reality confirms that this wealth does not benefit all citizens."

With regard to the progress made and the remaining challenges linked to the establishment of the foundations for sustainable inclusive and equitable growth, it is essential to strengthen the mechanisms of good governance. It is in this sense that Morocco made a commitment to accelerate the pace of structural reforms, particularly those relating to justice, regionalization, organic budget law, subsidy, the pension system and taxation.

Also, it should be stressed that the improvement of the business environment is one of the priority areas of the government. Actions in this context are aimed to encourage the establishment of the bases deemed necessary for the success and endurance of entrepreneurship. Several projects were thus initiated in connection with the simplification of administrative procedures, improving the legal framework for business, improving the efficiency of the Customs Administration, facilitating access to land and planning and facilitating access to funding.

Public Finance

Fiscal policy over the past two years went in line with the will of the government to create the necessary conditions for a gradual restoration of the macroeconomic balances. This policy aims to preserve the sustainability of public finances without jeopardizing the funding of economic and social development. To do so, priority was given to opening room for budgetary maneuvers, both at the levels of revenue and spending.

The quantitative overview of the evolution of public finances reflects continued fiscal consolidation, as evidenced by the revenue dynamic and expenditure control. Government spending has been controlled by reducing the burden of subsidy and the implementation of a partial indexation system on the prices of some energy products in September 2013. Thus, ordinary expenses reached MAD 209.5 billion in 2013, achieving an implementation rate of 99.5% compared to initial forecasts. They recorded a decline of 2.8% compared to 2012, reflecting an effort of control compared to the 9.9% average increase recorded over the 2005-2012 period.

In terms of revenue, many measures were taken to improve recovery and mobilize donations under agreements with the countries of the Gulf Cooperation Council. Thus, tax revenues stood at MAD 174.9 billion in 2013, with an implementation rate of 97.5% compared to initial forecasts. As for non-tax revenues excluding privatization, they reached the level of 3.3% of GDP in 2013, thanks to the amount of MAD 5.2 billion donated under cooperation with the GCC, the increase of support funds by MAD 2.2 billion (+ 96.5%) and the payments made by public institutions and companies that reached MAD 1.8 billion (+ 15.9%).

In response to these developments, the government managed to reduce the budget deficit of 7% of GDP in 2012 to 5.2% of GDP in 2013, despite the persistence of a troubled international economic situation.

The fiscal effort of the State is expected to continue in 2014. The process of budget deficit control is dictated by the significant budgetary and fiscal choices that are supported by the process of largescale structural reforms engaged by the State, mainly targeting tax reform, the reform of the subsidy system, the overhaul of the Organic Law on the Finance Act and the reform of the pension system.

These efforts to control budget deficit have strengthened the confidence of international institutions in the national economy as evidenced by the maintenance of the country's eligibility to the Precautionary and Liquidity Line of the IMF. Additionally, the success of the international market entry in June 2014 reflects the confidence of international investors in Morocco's ability to rebalance its public finances and its external account with respect in particular to its commitment to the acceleration of the various reforms initiated.

In view of continuing efforts to support the economic development model of the country, the actions laid down in the 2015 Finance Bill aim at strengthening the climate of confidence in the national economy, improving competitiveness and support for investment and business; the acceleration of the implementation of the Constitution, key structural reforms and the implementation of advanced regionalization; the support of social and spatial cohesion, employment promotion, and continuing efforts towards the gradual restoration of macroeconomic balances.

In quantitative terms, the 2015 Finance Bill sets a GDP growth rate in volume of 4.4% after 3.5% in 2014. This growth would be driven by the rise of agricultural value added by 3.9% after falling by 1.4% in 2014, and the sustained growth of non-agricultural GDP that should grow by 4.4% after 4.2% in 2014. This forecast of economic growth is based on an estimated oil price of 103 dollars a barrel in 2015 after 105 dollars a barrel in 2014, and an estimated butane gas price of 804 dollars per ton in 2015. The 2015 PLF also expects a budget deficit of 4.3% of GDP.