Royaume du Maroc
Ministère de l'Economie et des Finances
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المملكة المغربية
وزارة الاقتصاد والمالية
مديرية الدراسات والتوقعات المالية

Summary of the 2017 Economic and Financial Report

The drafting of the Finance Act 2017 takes place in a national context marked by the end of the first legislature in the wake of the great institutional and political breakthrough, and the ambitious reforms introduced by the new constitution. As part of the Royal High Guidelines, this legislature was committed to consolidating and renewing the economic development model in order to establish a strong, inclusive, and diverse development path at the sectoral and territorial levels, and to make it more competitive to create wealth and decent jobs, based on a logic of equitable redistribution of the fruits of growth.

At the international level, the draft Finance Act 2017 intervenes in a troubled context, marked by several challenges and uncertainties, and a weak and fragile recovery. The global economic outlook is thus exposed to urgent matters, particularly including, commodity price declines, the outcome of the exceptional monetary policy of the United States, and the expected effects of the Brexit in an international context characterized by rising geopolitical tensions.

In this respect, the 2017 edition of the Economic and Financial Report has tried to develop an analyze the changes in the international and regional environment that the Moroccan economy is confronted with in order to understand their logics and most salient features, and to take advantage of the opportunities they hold.

At the national level, the report has focused on analyzing the foundations of the economic development model, examining the dynamics of the initiated reforms at the sectoral and territorial level, while highlighting the progress made, and the difficulties that should be overcome. In this regard, there is a need to identify the necessary adaptations to be implemented to surmount the obstacles and to recognize the structural fragilities and, above all, to grasp the importance of accelerating reforms, stimulating the creation of decent jobs, and to firmly tackle social, territorial and gender inequalities.

The third part of the 2017 edition of the Economic and Financial Report analyzed the trends in public finances by addressing the question of their sustainability and the logic of their reforms based on integrity, transparency and performance. It also describes the macro-economic context of the 2017 Finance Act and presents its priorities and balances as proposed by the Government.

1. Morocco in its global and regional environment

The global economy is undergoing structural changes through a redistribution of economic powers in a new multipolar world faced with major challenges such as weak global growth, sluggish world trade, international financial imbalances, Sovereign debt crisis, volatility in commodity prices, rising geopolitical tensions and an increase in migration flows.

Indeed, the IMF's projected growth[1] in world GDP is expected to reach 3.4% in 2017, after it reached 3.1% in 2016 and 2015. Growth in advanced economies is expected to continue at a moderate rate of 1.8% in 2016 and 2017 after 1.9% in 2015.

Growth in the United States is expected to reach 2.5% in 2017 after 2.2% in 2016 and 2.4% in 2015 attributable to household consumption, which is supported by the dynamism of job market and real estate.

In the euro zone, growth would slow to 1.4% in 2017 after 1.6% in 2016 and 1.7% in 2015, with an economic slowdown in Germany (1.2% in 2017 after 1, 6% in 2016 and 1.5% in 2015), France (1.2% in 2017 after 1.5% in 2016 and 1.3% in 2015) and Spain (2.1% in 2017 after 2.6% in 2016 and 3.2% in 2015). However, growth in the Euro zone remains underpinned by low oil prices and interest rates, improved export competitiveness due to past depreciation of the euro, a less restrictive budget policy and an expansionary monetary policy.

For emerging and developing countries, growth is expected to rise sharply, reaching 4.6% in 2017 after 4.1% in 2016 and 4% in 2015. This economic growth is due to gradual dissipation of the factors that have contributed to the slowdown in recent years, namely supply constraints, tighter financial conditions, rising pressures in stock and exchange markets, and lower commodity prices.

In the MENA region, economic growth is expected to strengthen in 2016 to reach 3.4% after 2.3% in 2015, before rising to 3.3% in 2017. This growth is due to the rebound of oil prices which is benefiting oil-exporting countries, combined with the positive effects of the gradual recovery of the European economy on the economies of oil-importing countries.

Under the assumption of a gradual recovery in the world economy and an increase of commodity prices, Africa is expected to grow by 3.7% in 2016 and 4.5% in 2017. However, this growth will remain uneven across African countries and regions due to the disparities in income levels, political and social stability, and to the macroeconomic and structural policies pursued, and dependence on exports of commodities...

In view of these developments, the prospects for global economic growth are nevertheless threatened by several risks, particularly those linked to the slowdown in the Chinese economy, the difficulties faced by some big emerging countries, the rise in interest rates in the United States, Brexit, the new turmoil in the financial markets, the sustained decline in commodity prices and the rising geopolitical tensions.

In terms of world trade, in 2015, exports of goods increased by 2.8%, according to the WTO, a growth similar to that seen in 2014. In terms of Goods imports, developed countries have

[1] IMF, World Economy Forecast, July 2016

recorded an increase of + 4.5% in 2015, after a significant recovery in 2014. On the other hand, the developing countries have recorded a stagnated increase of + 0.2% as a result of the slowdown in the growth of their economies.

In view of these developments, foreign demand on Moroccan products is expected to increase by 4.3% in 2016 and 2017, after 4.4% in 2015. Demand from the European Union is expected to increase by 4.5% in 2016 and 4.3% in 2017 after 6.2% in 2015. This decline in foreign demand in Morocco is attributed to the slowdown in imports from Spain and France, our main trading partners in the European Union. Demand from non-EU countries is expected to grow by 3.8% and 4.5% respectively in 2016 and 2017 after 0.2% 2015, following the economic growth in India, the main customer of Morocco for phosphate derivatives.

In order to consolidate this demand, our country should continue its efforts to diversify its exports geographically and reposition itself in emerging markets. In this context, it should be noted that Moroccan foreign trade with Sub-Saharan African countries showed a remarkable increase over the last decade, reflecting the relevance of efforts deployed by Morocco to diversify its trade markets and strengthen its trade relations with the countries of the South. Morocco's trade with the African continent thus grew by an average of 11% annually over the period 2005-2015, to nearly MAD 40 billion in 2015, which represents about7% of Morocco's foreign trade compared with 5% in 2005.

In terms of Morocco's attractiveness for Foreign Direct Investment (FDI), FDI inflows to Morocco have grown significantly over the past 15 years, from an annual average of MAD 20.9 billion between 2000 And 2007 to MAD 32.6 billion over the period 2008-2015. Morocco's share now accounts for 0.4% of FDI entering developing countries and 5% of FDI in Africa.

The geographical distribution of the origins of FDI in Morocco shows a downward trend in the share of EU investment (whose share of total FDI has decreased from 85% on average over the period 2000- 2007 to 60% between 2008 and 2015), in favor of Arab countries, whose average share of total FDI in Morocco reached 41% between 2008 and 2015, compared with only 10% in the period 2000-2007. France remains the leading investor in Morocco with 38% of total foreign investment over the 2008-2015 period, compared to 49% in the period 2000-2007, while Spain moved from the second to the third position, as its average share decreased from 21.1% over the period 2000-2007 to 5.4% between 2008 and 2015.

The sectoral distribution of FDI in Morocco indicates that the attractiveness of certain sectors such as telecoms, real estate, banking and energy & mining for foreign investors has undergone a profound change during the Fifteen years. Indeed, the share of telecommunications decreased from 28.6% on average during the period2000-2007 to 6.9% between 2008 and 2015. On the other hand, the real estate, banking, and energy &mining sectors increased their share of total

FDI from 12.6% to 25.4%, from 3.5% to 8.3%, and from 2.4% to 6% respectively. However, the share of tourism has decreased from 15.5% to 9.9% between the two periods.

In order to strengthen the attractiveness of our country to foreign investments, the efforts deployed to improve and facilitate doing business in Morocco have enabled Morocco to consolidate its position in 2015, according to the main international reports. This improved position is a result of several reforms, mainly the adoption of the common business identifier, the implementation of the decree on the General Construction Regulations, and the enforcement of the ministerial decree on the modalities of dematerialization of import and export titles...

2. Reinforcing the national development model: towards an inclusive growth that creates jobs and reduces disparities

Between 2008 and 2015, the Moroccan economy was able to maintain an average annual growth of 4.2%. This growth resulted from an annual average increase of 8.4% in agricultural added value during this period, as its share represents an average of 13% of the total added value. The performance of the national economy observed in recent years is also attributable to the consolidation of non-agricultural added value. This latter has grown by an annual average of 3.4% thanks to the emergence of new specializations with high added value, particularly in the industrial sector, which has promoted the modernization of the national productive base. The emergence of the industrial sector is evidenced by the sustained contribution of manufacturing activities into national exports.

In this regard, it should be noted that since 2000, the Moroccan economy has witnessed a structural transformation, which resulted in the reduction of the share of the primary sector by 3.3 points in the total added value compared to the 1990s to reach 14.5% in 2015, and the improvement in the tertiary sector share that reached an average of 57.1% of the total added value over the period 2000-2015 compared with 52.7% in the 90s, which represents a gain of 4.4 points.

It is also important to highlight the positive contribution of domestic demand to GDP growth, through investment and final consumption. Indeed, over the period 2008-2015, household final consumption expenditure, which accounts for 58.8% of GDP, has grown by 4.3% on average, thus contributing to economic growth by 2.5 points. On the other hand, Gross Fixed Capital Formation (GFCF), which represents 31.2% of GDP on average, has grown by an annual average of 2.5%, and thus contributed by 0.8 points to GDP growth. It should also be noted that the continuous improvement of the behavior of foreign trade has contributed positively to economic growth by 1.6 points on average between 2013 and 2015 compared to a negative contribution of 1.4 points between 2008 and 2012.

These developments were the result of the ambitious sectoral strategies adopted by the country, and the major reforms undertaken mainly in the information and communication technologies, banking, and services sector. Moreover, the emergence of new high -added-value specializations, particularly in industry, has contributed to the modernization of the national productive base. This emergence is evidenced by the sustained contribution of manufacturing activities to exports, the creation of jobs, and strengthening the position of Morocco in global trade.

As far as agriculture is concerned, the Green Morocco Plan has given a new impetus to the national agricultural sector, and reinforced its vital role as a driver of economic, social and territorial development by strengthening its productivity and its resilience to the vagaries of climate through several structuring projects. Consequently, investments in the sector have increased by 80% from nearly MAD 7 billion in 2008 to nearly MAD 13 billion in 2015, with a 32% share of private investment.

However, despite the palpable progress made within the framework of Green Morocco Plan, particularly in terms of production performance, sustaining the development model of Moroccan agriculture, and the way it sustains social and human development requires to work on its social component characterized by several shortcomings which are likely to hinder the sector's development. In this regard, it is important to adopt a comprehensive vision to develop the sector that includes mechanisms capable of ensuring decent working conditions, by monitoring the compliance with the procedures and regulations relating to the Remuneration system, job security and safety standards.

At the same time, the fisheries sector has benefited from the implementation of the "Halieutis" development plan initiated in2009, which is an ambitious and comprehensive plan to develop the sector. One of the most important credits of this plan is the achievement of 93% of its management and sustainability objectives. In order to structure the fisheries activity and provide the sector with modern landing sites, Morocco has developed 22 fishing ports along its coastline and40 artisanal fishing landings (including 18 fishing villages and 22 landing facilities). On the other hand, the marketing infrastructure has been upgraded thanks to the establishment of 22 fish halls, 8 industrial fish processing control facilities and 5 wholesale markets.

In order to accelerate the structural transformation of the Moroccan industry and its integration into global value chains, Morocco has launched the Emergence Plan in 2005, which was amended later in 2009, for the development of new innovative industrial specializations that have the potential to generate greater added value and create jobs.

Flagship measures were also adopted as part of the Industrial Acceleration Plan 2014-2020. These efforts are beginning to bear fruit, as evidenced by the results of the analysis of the structural evolution of a set of factual indicators which indicates the beginning of promising changes in the structural transformation of the national industrial fabric. In this context, higher added-value industries, such as automotive, aeronautics and electronics, experienced sustained growth of their exports by an annual average of 15.6% over the period 2008-2015, an additional MAD 40 billion worth of exports. Similarly, this industrial modernization has resulted in an annual average growth of skilled and highly skilled employment by 13% and 11% respectively for the automotive and aeronautics industries over the period 2008-2015.

However, the ambition to accelerate the industrial emergence and transformation process in Morocco inevitably requires the elimination of a set of issues, including local integration, providing more adequate training for the new requirements of productivity and competitiveness, and the integration of national enterprises into these industrial dynamics.

For its part, the phosphate and derivatives sector has maintained a fundamental role in modernizing the national productive fabric and strengthening Morocco's leadership on the regional and international scene. Indeed, thanks to its strategy characterized by industrial and commercial flexibility and optimization of costs, Morocco has become, over the years, an important stakeholder in the world market of phosphate and derivatives. Thus, the OCP Group has managed to increase its turnover by 13% in 2015 to reach MAD 55.3 billion, with a share of the African market representing nearly 24%.

As for the real estate sector, after a phase of stagnation, it must take part in a new recovery phase, which is better thought out, and above all, based on a better match between supply and demand, better governance, and on a rationalization of public support. In this context, the public authorities continue to support the different programs that allow low-income workers to have access to affordable housing[2]. These measures are likely to bring a new dynamic to the housing sector and to consolidate the beginnings of the exit from its slowness. This new phase will also be the era of a new mode of governance, the first steps of which have already been laid, through setting and updating real estate price benchmarks in 18 cities of the Kingdom.

In order to monitor the reinforcement of these different sectoral strategies, particular attention has been given to the logistic services sector in recent years. This was reflected in the implementation in 2010 of the national logistics competitiveness strategy by2030, which consolidates the efforts deployed in this sector.

Establish an inclusive, sustainable, and equitable model of growth depends on a more appropriate distribution of structural and sectoral reforms at the territorial level. In this respect, the analysis of the sectoral configuration of regional added values shows that Casablanca-Settat Region has achieved the highest average share of GDP in the period 2001-2014, thus contributing by 26.8%.This region is followed by the regions of Rabat-Salé-Kenitra (14.8%), Marrakesh-Safi (11.9%), and Fez-Meknes (10.2%). These four regions account for 63.7% of GDP.

[2] These include social housing programs at MAD 250,000, one housing project at MAD 140,000, and middle class housing.

According to the analysis of the sector-based added value structure, the region of Fes-Meknes has achieved the highest share of average added value in the primary sector during the period 2001-2014, thus contributing by 15.3% to the national primary added value. The region of Casablanca-Settat had the highest share of average added value in the secondary sector during the period 2001-2014, thus contributing by 44.4% to the national secondary added value, and also had the highest share of average added value in the tertiary sector with a national contribution of up to 21.7%.

However, the concentration of national wealth in 4 regions and their sectoral specialization is expected to change according to the dynamics in progress through the reinforcement of territory-based sectoral strategies (Green Morocco Plan, Tourism vision up to 2020, etc.) and functional strategies in favor of territorial inclusion (Logistics, university hubs, etc.), or through other strategies that the new regional governance could promote.

In order to reconcile our country's dynamic development with the imperatives of natural resources sustainability and the reduction of environmental risks, Morocco has embarked, since the Rio Conference in 1992, on an environmental upgrading process.

In this context, several provisions have been drawn up with the aim of promoting measures to safeguard the environment, in particular by setting up a normative, legal, institutional and strategic framework (the National Sustainable Development Strategy for the period 2015-2020, the Renewable, Solar and Wind Energy Development Program, and the National Strategy for Energy Efficiency). In addition, Morocco's successful organization of COP22 in November 2016 demonstrates its firm and irrevocable commitment to contribute to the global efforts to combat climate change and accelerate the transition to a green global economy.

At the same time, Morocco has set an important momentum for human development, and economic and social inclusion. This has resulted in the mobilization of 54% of the state budget for the social sectors, through the implementation of targeting policies aimed at improving the living conditions of the disadvantaged populations. This dynamic has led to a positive improvement of the main social indicators, notably in the areas of employment, education, health care, and the fight against poverty.

In terms of access to employment, the Government is committed to promoting employment through support for economic growth and public investment. In this regard, it should be noted that despite the active employment programs already initiated (Idmaj, Ta'ahil and Self-employment), new measures were introduced in 2015 (Tahfiz program). Yet, the imbalances still persist in the labor market and pose some challenges to overcome, in particular, those related to governance and unemployment of young graduates. In response to these constraints, a National Employment Strategy has been put in place to develop the creation of adequate and high quality jobs, especially for young people, and to tackle gender and territorial inequalities. This strategy marks a break with the traditional approach of current employment policies centered on the first integration of young graduates and based on active employment policies and labor legislation.

At the same time, education has made a remarkable progress, notably the generalization of primary education and the reduction of enrollment disparities between urban and rural areas and between boys and girls. Thus, the enrollment rate at the primary level increased significantly between the school year 2007-2008 and 2014-2015, as it moved from 91.4% to 99.1% at the national level and from 89.1% to 98.5% for girls. In rural areas, this rate rose from 89.4% to 98.3% over the same period. At the college and high school levels, the enrollment rate of children aged between 12 and 14 years and those aged between 15 and 17 years reached 90.4% and 70.1% respectively in the school year 2014-2015 compared to 71.3% and 48,1% respectively in 2007-2008. In order to support the generalization of education and to combat school wastage, the number of beneficiaries from the direct financial support, baptized "Tayssir" program, increased by 9.4% in the school year 2015-2016. However, and despite these important quantitative advances, the Moroccan education system continues to face considerable issues in terms of qualitative performance. To remedy these issues, the quality and effectiveness of the education system and vocational training are at the heart of the objectives of the new strategic vision for education reform for the period 2015-2030.

In terms of access to health services, continuous improvement of health indicators has been recorded. Similarly, life expectancy is continuously improving to 75.5 years in 2014, a gain of almost 5.2 years in a decade. Likewise, infant mortality declined significantly to 28.8 per 1,000 live births for children under the age of one year in 2011 (40 per 1,000 in 2003-2004) and to 30.5 per 1,000 for children under the age of 5 years (47 per 1,000 in 2003-2004). With regard to access to medicines, the Ministry of Health signed, on the 13th of March 2016, a new national convention between the institutions managing the Basic Compulsory Health Insurance *(AMO)*and the pharmacists to bear the costs of medicines in third party pay mode. In addition, medical coverage has also expanded with the entry into force of *AMO* for students, self-employed, and independent professionals. As for *RAMED*, the Medical Assistance Scheme, its effective generalization made it possible to account for more than 9.9 million beneficiaries up to the 16th of August 2016, which means nearly 3.8 million households. Despite these efforts, the health sector is faced with the persistence of significant gaps in access to health care, particularly between urban and rural areas and in landlocked areas.

Efforts to improve the lives of citizens in recent years have had a positive impact on the decline of levels of poverty and vulnerability. For example, a remarkable decline in poverty and vulnerability occurred between 2001 and 2014, from 15.3% to 4.2% and from 22.8% to 11.5%, respectively. Yet, although the vulnerability rate declined by 49.6% between 2001 and 2014 at the national level, it remains high in rural areas with 18.4% compared with 6.9% in urban areas, despite the considerable support from the different programs of the *INDH*, the National Initiative for Human Development.

3. Sustainability of public finances in favor of growth

A wide range of tax and budgetary reforms have been undertaken in recent years by the public authorities to strengthen budgetary room for maneuver, and ensure the medium-term sustainability of public finances. The government's actions have mainly focused on rationalizing expenditure and improving public management, as well as optimizing fiscal resources and enhancing control.

As per budgetary management, measures have been introduced to rationalize State expenditure. These measures targeted in particular the control of carry-overs of investment credits, and the prohibition of operating expenses and wage costs from being scheduled respectively in the investment budget and in the budgets of State facilities which are run autonomously.

To carry on its tax reforms and to establish a fair tax policy, several measures have been implemented following the recommendations of the 2013 Forum. These measures include further reforms of VAT through the revision of tax rates on certain products, the reimbursement of the cumulative VAT credit and granting a specific tax regime for the food industry. They also involve the introduction of a proportional corporate tax scale, the modernization of tax administration, and the improvement of the quality of services provided to taxpayer.

An analysis of the evolution of tax revenues over the period 2013-2015 shows that these revenues increased by 4% in 2015 after a moderate performance in 2013. Corporate tax revenues have increased by 2.6% in 2014 after they declined by 6.4% in 2013. In 2015, they decreased by 0.4% as exceptional revenues resulting from the sale of the State's share of Centrale Laitière in 2014 have been collected.

As per income tax, it showed an increase of 8.4% in 2015 after a decline of 0.3% in 2014, resulting mainly from income tax deducted at source. Similarly, income tax revenues on real estate profits improved by 2.8% in 2015 compared to 2014.On the other hand, VAT revenues had ups and downs over the period 2013-2015. They show a decline of 2.4% in 2014 followed by an increase of 2.5% in 2015, due to the combined effect of an increase in domestic VAT revenues (+ 9.3%) and a 1.4% drop in VAT on imports.

Revenues of the Internal Consumption Tax (ICT), they continued their upward trend in 2015. Revenues from registration and stamp duties maintained a steady pace of growth, as they increased by an annual average of 10.9% between 2013 and 2015.

In terms of public expenditure, the government has continued its efforts to contain their development w continued in 2015, a year marked by the realization of 94% of ordinary expenses compared to the forecasts of the Budget Law, which represent a decrease of 4% compared to 2014.

Overall, the analysis of the expenditure structure of the State General Budget for 2015 shows a shrinkage in the share of the compensation fund of 8.5 points compared with 2014. This allowed to cover the share of expenditure on goods and services and to maintain the share of capital budget. However, the pattern of public spending over the period 2001-2015 remains marked by the predominance of ordinary expenditure compared to investment expenditure. This is due to the huge wage bill and the cost of subsidies, but also to the low rate of implementation of investment expenditure, which has resulted in a negative impact on the accumulation of large carryovers.

These developments reflect the relevance of the measures undertaken, which have consolidated the process of rebalancing the state's finances, as shown by maintaining the downward trend in the budget deficit, from 6.8% of GDP in 2012 to 5.1 % In 2013 and then to 4.7% and 4.3% in 2014 and 2015 respectively.

The efforts to control the budgetary balance were also supported by the new budgetary management framework advocated by the new Organic Law of the Finance Act, which has gradually entered into force as early as 2014 before its full entry into force in 2016. This Organic Law, marked by considerable contributions in terms of management, rigor, monitoring, transparency and accountability, prescribes a new budgetary management approach that takes into account the various levers of action capable of strengthening the control of the public budget in terms of revenues, expenses and means to finance public policies.

In order to lay the foundations for a balanced growth in terms of its economic, social and environmental dimensions, and to allow the national economy to join the concert of emerging countries, the Finance Act 2017 aims to reinforce the priorities arising from the Royal High Guidelines and the government program. This will be achieved thanks to the acceleration of the structural transformation of the national economy through developing industrialization and exports, strengthening the competitiveness and productivity of the national economy, qualifying the human capital, enhancing institutional governance mechanisms, and continuing the recovery of macroeconomic balances.

In terms of prospects, the Finance Act forecasts a growth rate of 4.5% in 2017 compared to 1.8% in 2016. This positive forecast is due to the increase of agricultural added value by 11.9% and the rise of non-agricultural added value by 3.5%. It is also based on an oil price of $ 54 in 2017, a Euro/dollar exchange rate of 1.12, and on an increase of foreign demand on Morocco by 4.3%. In addition, the draft of the Finance Act 2017 forecasts a decrease in budget deficit by 3% of GDP, a gross national saving rate of 29.1% of GDP in 2017 after 28.3% in 2016, and a gross investment rate of 31% of GDP against 30.5% in 2016, with the consolidation of the public investment to amount MAD 190 billion in 2017.