Royaume du Maroc

Ministère de l'Economie et des Finances

Direction du Budget

المملكة المغربية

وزارة الاقتصاد والمالية

مديرية الميزانية

FINANCE BILL 2019

PRE-BUDGET REPORT

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INTRODUCTION

This document is part of a global trend to strengthen budget transparency and improve budgetary information for Parliament, in accordance with the provisions of organic law n ° 130.13 relating to the Finance Bill (LOF). Its objective is to define the government's budget priorities for the coming fiscal year and for the next two years, to review the economic situation and prospects and to clarify the public finance strategy. It thus allows the Parliament to prepare the review of the 2019 Finance Bill.

In fact, this multiannual approach to budgetary framework serves as a steering tool for the budget preparation with a view to optimizing the use of resources, in a manner consistent with the priorities defined by the Government. This program is based on precise and justified economic assumptions and defines the trajectory of revenues, State budget expenditures and key macroeconomic indicators over a three-year period. It reflects the determination of the Government, under the wise leadership of His Majesty the King, to implement the commitments contained in its program of actions for the period 2017-2021, aimed at the comprehensive and thorough overhaul of national programs and policies, and at strengthening the conditions for equitable economic and social progress in order to respond effectively to the needs of citizens and businesses.

In accordance with the Royal Directives and Morocco's strong will to lay the groundwork for sustained and inclusive economic and social development, the Draft Finance Law (PLF) for the year 2019 gives priority to the support of the social sectors (Education, health, employment, social security...), while ensuring the continuation of the Kingdom's major sustainable projects, linked in particular to industrialization and promoting private investment; consecration of advanced regionalization and administrative decentralization. The Government aims, through the implementation of the Draft Finance Law for the year 2019, to achieve a growth rate of 3.2% and to reduce the projected budget deficit to 3% of GDP, based on assumptions fixing the cereal production at 70 million quintals, the average price of oil at 68 dollars per barrel and the average price of butane gas at 544 dollars per ton.

This document is structured around three main parts. It presents in its first chapter an analysis of the recent evolution of the Moroccan economy in the global context as well as the outlook for key macroeconomic indicators. The second part focuses on the budget implementation situation for the year 2017 and the revised public finance forecasts for the year 2018, and the last part describes the 2019-2021 budget outlook and guidelines.

I. DEVELOPMENTS AND MACROECONOMIC OUTLOOK

I.1. World economic situation and prospects

Global economic growth strengthened in 2017 compared to 2016. According to the latest IMF report of July 2018, the global GDP growth rate reached 3.8% in 2017 against 3.2% in 2016. This improvement is all the more significant as the past decade has experienced a series of economic shocks, starting with the 2007 financial crisis in the United States and ending with the substantial correction of commodity prices between 2014 and 2016, including the Great Recession of 2008 and the European Sovereign Debt Crisis in Europe between 2010 and 2012.

The positive trend in the growth of the global economy is expected to remain steady at 3.9% in 2018 and 2019, according to the IMF forecasts. This improvement could be attributed to the persistent dynamics of the US economy and the rebound of emerging market economies with a growth rate of 5.1% in 2019 and 4.9% in 2018 against 4.7% in 2017, offsetting the expected slowdown in the euro zone and Japan. This recovery should experience a drop starting 2020, due to the expected deceleration of growth in developed economies, despite the ecomic resilience of emerging countries.

- Advanced economies

In the case of advanced economies, the growth rate of their economies has increased significantly thanks to policies supporting economic activity. In fact, the growth rate in 2017 is 2.4%, reflecting a sharp increase compared to 2016 when it was only 1.7%. This improvement concerned almost all developed countries and benefited from the recovery in world trade and household consumption.

In the United States, the drop in unemployment, thanks to the restart of investment and hiring programs of companies, helped to sustain household consumption, which boosted the economy's growth rate from 1.5% in 2016 to 2.3% in 2017. This increase in consumption helped to absorb part of the negative contribution of the rise in imports to the growth rate of GDP. The improvement in the growth rate is expected to continue in 2018 and 2019, reaching 2.9% and 2.7% respectively, driven mainly by household consumption, which is benefiting, thanks to tax measures for investment, from improved labor market conditions. Economic growth in the United States, which is above potential, is, however, subject to significant inflationary pressures in the money market. Inflation is well above the 2% target, which could prompt the Federal Reserve to continue its policy of gradual tightening. Forecasts of the growth rate in 2020 and 2021 show a gradual return to more moderate rates, in this case 1.9% in 2020 and 1.7% in 2021.

Europe has experienced a similar trend to that of the United States. In fact, GDP in the euro zone recorded a growth rate of 2.4% in 2017, a sharp increase compared to 2016 when it was 1.8%. This evolution, the best in 10 years, has benefited from a combination of various favorable factors. It is mainly due to the recovery of extra-EU exports and the evolution of domestic demand supported by a favorable monetary policy. However, according to the IMF, the euro zone is expected to slow down from 2019 to 2021. In fact, growth in the euro zone is expected to decelerate to 2.2% in 2018, 1.9% in 2019, and 1.7% in 2020 to finally reach 1.5% in 2021.

The acceleration of growth in 2017 compared to 2016 in the euro area was broadly distributed. In fact, growth accelerated in Germany from 1.9% to 2.5% and in Italy from 0.9% to 1.5%. Spain is the only country that has not experienced an acceleration in its growth rate and that is due to the fact that it is already achieving a high growth rate, the latter being 3.3% in 2016 and 3.1% in 2017. France, for its part, has more than doubled its growth rate from 1.1% to 2.3% in 2017. However, according to IMF forecasts, the euro area should experience a medium-term evolution similar to that of the US economy. Growth rates of the main countries in the zone are expected to decelerate slightly starting 2018. In Germany, the growth rate should reach 2.2% in 2018 and 2.1% in 2019 and in Italy this rate would reach 1.2% in 2018 and 1% in 2019. France and Spain should experience a similar trend. The French economy is expected to slow down in 2018 to reach 1.8% and 1.7% in 2019 compared to the Spanish economy which is expected to reach 2.8% in 2018 and 2.2% in 2019.

- Emerging economies

The GDP growth rate of the emerging economies accelerated slightly in 2017, reaching 4.7% against 4.4% in 2016, but overall remains fairly strong. It benefited particularly from the growth of the Chinese economy (6.9% in 2016 and 6.7% in 2017), and that of India (6.7% in 2016 and 7.1% in 2017). In a broader sense, emerging economies in Asia achieved a growth rate of 6.5% in 2016 and 2017. The upward trend in the growth rate of emerging countries is expected to continue in 2018 and beyond. In fact, the growth rate should be 4.8% in 2018 and 5.1% each year between 2019 and 2021.

Forecasts show that China is likely to experience a gradual slowdown in its growth rate, which will decelerate from 6.6 % in 2018 to 6.4 % in 2019 and gradually move towards a growth rate of 6 % by 2021. In contrast, India should experience an opposite trend. Its growth rate is expected to reach very high levels (7.3% in 2018 and 7.5% in 2019) and would continue to grow in the medium term too, with rates expected to reach 7.9% in 2020 and 8.1% in 2021.

On the other hand, the economies of Brazil and Russia should experience a slight rebound in their growth rates while remaining at moderate levels. The Brazilian economy should see its growth rate accelerate from 1% in 2017 to 1.8% in 2018 and 2.5% in 2019, driven in part by the expected improvement in commodity prices in international markets. Russia is expected to experience a similar trend as Russian growth would accelerate slightly from 1.5% in 2017 to 1.7% in 2018, thanks to improved oil prices and the consolidation of domestic demand.

- Risks and uncertainties

In comparison to the events that have shaken the world economy over the past decade, the latter appears healthy at the moment with risks that remain moderate. Moreover, growth prospects are generally rising, but remain surrounded by many uncertainties. On the one hand, the fiscal deficits that have accumulated following the global economic crisis have brought the public debt of many countries to alarming levels and could pose risks to global growth if they become problematic. This growth is also subject to the risks associated with the return of protectionist measures and commercial retaliatory countermeasures.

I.2. Analysis of the national macroeconomic situation in 2017

After a growth rate of 1.1% in 2016, the Moroccan economy has achieved a GDP growth of 4.1% in 2017.

Economic activity mainly benefited from positive developments in the primary and tertiary sectors, which contributed to shares almost equal to the growth rate. Additionally, the negative contribution of imports to that of GDP in 2017 was largely offset by the strong performance of exports.

- Sector contributions

In 2017, agriculture has contributed significantly to improving economic growth. Indeed, after a -13.7% underperformance in 2016, the agricultural sector grew by 15.4% in value added volume in 2017, which results in a contribution of 1.7 points to the growth rate of GDP, knowing that the sector only accounts for 11% of GDP.

The secondary sector, with a weight of 26%, contributed 0.8 points to economic growth thanks to a 3.1% increase in its value added; a significant improvement over 2016 when it was only 1%. The sector of secondary activities was mainly marked by the performance of the extractive industries sector, whose value added increased by 16.5% in 2017 compared to a near-stagnation of 0.1% in 2016. Similarly, the chemical and parachemical industry branch grew by 4.6% in 2017 after a slight deceleration in 2016 of 0.4%. The year 2017 was also marked by the acceleration of the textile and leather industry, whose value added increased by 3.5% in 2017 after 1.8% in 2018. In contrast, the mechanical, metallurgical and electrical industry saw its growth rate decelerate from 2.3% in 2016 to 1.2% in 2017. Finally, the construction and public works sector is still struggling to accelerate; its value added increased by only 0.7% in 2017 against 1.6% in 2016.

The tertiary sector, accounting for 50% of the GDP, was the second largest contributor to GDP growth with 1.4 points thanks to a growth rate of 2.7% in value added in 2017. The hotels and restaurant industry has distinguished itself by its dynamism, growing by 11.5% against 3.6% in 2016. Moreover, apart from the education, health and social welfare sector, all the other sectors saw an increase in their added values. In particular, the transport sector saw a notable improvement in its growth rate, which rose by 4.3% after a near-stagnation of 0.7% in 2016. The tertiary sector was also driven by the performance of the real estate, renting and business activities sector, which accounts for 10% of the sector's total value added, and achieved a growth rate of 4% in 2017 against 4.4% in 2016.

- Demand contribution

Domestic demand continues to be the main driver of economic growth, contributing 3.6 percentage points to the GDP growth rate in 2017. In particular, household final consumption expenditure, which rose by 3.5 % in 2017, against 3.7% in 2016, contributed 2 points. Consumption rose mainly due to contributions from consumption growth of food and tobacco industry products (0.8 percentage points), agricultural sector products (0.77 points) and hotels and restaurants sector (0.72 points). The investment has, for its part, undergone a major correction. In fact, after a growth rate of around 8.7% in 2016, it fell slightly by 0.8% in 2017, contributing -0.2 percentage point to GDP growth.

The most significant event in 2017 is the sharp acceleration in exports, which rose by 10.9%, which makes a contribution to the GDP growth rate of 3.8 percentage points. This contribution not only offset the negative contribution of imports, but also led to a positive contribution of 0.5% of the foreign trade balance to GDP growth. The increase in imports decelerated in 2017 to 7.4% against 14.7% in 2016.
Exports have, for the most part, been driven by processing industries. The mechanical, metallurgical and electrical industry alone contributed 2.3 points to the exports growth rate. The chemical and parachemical industry also performed well and contributed 1.6 percentage points to export growth. More generally, the

processing industries sector accounted for most of the export growth with a contribution of 5.6 points.

I.3. National economic forecasts for the year 2018

For the international environment, forecasts for 2018 are based on a number of assumptions:

- Foreign demand growth in Morocco (excluding phosphates and derivatives products) was 4.9%;
- Average price of a Brent barrel at $ 70;
- A euro exchange rate of 1.20 (an exchange rate of the euro against the dirham of 11.20 and a dollar exchange rate against the dirham of 9.34).

On the basis of the assumptions used, the growth of the national economy, at constant prices, should increase to reach 3.6% in 2018, benefiting from the continued dynamism of the various branches of activity, the consolidation of domestic demand and foreign demand addressed to Morocco. Non-agricultural GDP is expected to show an improvement of 3.3% against 2.7% in 2017. After a growth of 15.4% in 2017, the value added of the agricultural sector is expected to grow by 5.3% in 2018 thanks to a cereal production of 103 million quintals and thanks to the strengthening of the production performances of the other agricultural sectors.

The fishing and aquaculture sector is expected to recover its value-added growth, which should increase by 5% after a -8.3% fall in performance in 2017. On the basis of these developments, the primary sector is expected to grow by 5.3%.

The growth in the value added of the secondary sector is expected, for its part, to continue its acceleration that began in 2017 and would record growth of 3.4% in 2018. This increase is mainly due to the continued acceleration in the growth of the value added of the extractive industries, which is expected to grow by 11%, as well as the electricity and water industry and the chemical and parachemical industry, whose added values are expected to grow by 5% and 4.8%, respectively. The construction and public works sector is expected to achieve growth of 1% against 0.7% in 2017.

In terms of demand, economic growth would be driven mainly by final consumption of 2.9 points, of which 2.2 points are due to the growth in household final consumption. Exports are expected to continue to grow rapidly at 8.2%, offsetting the projected 6.4% rise in imports.

Much of the increase in exports is due to the dynamism of exports of goods excluding OCP products (9.2%). Moreover, and given the dynamism of the growth in travel revenues, which should reach 10% after 11,9% in 2017, as well as the expected increase in transfers made by Moroccans living abroad by 8% in 2018 the current account balance is expected to stabilize at its 2017 level and stand at -3.6% of GDP.

I.4. National economic outlook for the year 2019

The economic forecasts for the year 2019 are based on a set of assumptions on the context of evolution of the national and international environment.

Internationally, the technical assumptions about raw material prices and exchange rate are based on the expectations and implied prices of futures contracts on international markets. Regarding energy prices, the foresight exercise forecasts an oil price of 68 dollars per barrel in 2019. In terms of foreign exchange, the exchange rate of the euro to the dollar is equal to 1.2 in 2019. In terms of foreign markets, foreign demand for manufactured goods in Morocco is expected to strengthen and grow by 4.3%.

At the national level, the economic forecasts for 2019 are based on the assumption of a cereal production of 70 million quintals.

Taking into account this assumption for cereal production, economic growth is expected to decline in 2019 to 3.2%. Nonagricultural value-added growth is expected to continue its acceleration that started on 2015 and is expected to grow by 3.7% in 2019, after 3.3% in 2018 and 2.7% in 2017.

Economic growth would continue to be driven mainly by household final consumption expenditure. The contribution of household final consumption is expected to remain at 2.2 points and the balance of trade in goods and services should make a negative contribution of -0.4 points to the GDP growth rate in 2019. This change reflects the performance of exports of goods and services, whose growth would fall slightly from its 2018 level while remaining strong. In fact, it is expected that exports will increase from 8.2% in 2018 to 8.5% in 2019. The rest of GDP growth will be driven by growth in investment, which should contribute 1.2 percentage points in 2019.

In addition, following the favorable dynamics of exports and the continued trend in other elements of the current account balance, especially the transfers made by Moroccans living abroad, the deficit of the current account balance should be slightly reduced. In fact, it should reach 3.5% of GDP in 2019 after 3.6% in 2018.

II. PUBLIC FINANCE MANAGEMENT

II.1. Status of Budget Implementation for the year 2017

The implementation of the 2017 finance law resulted in a budget deficit excluding privatization of around 3.6% of GDP. This level of deficit is up 0.9% compared to 2016, but down compared to the initial forecast of the finance law.

This change is due to ordinary income (+11.5 billion dirhams), which overcompensated the increase in expenditure (+6.0 billion dirhams).

- **Net tax revenue** totaled 200.5 billion dirhams, up 6.1% (+11.6 billion dirhams) compared to the end of December 2016. This improvement is due mainly to the Corporate Income Tax (CIS) (+7 billion dirhams) and the favorable progression of Value-added tax (VAT) (4 billion dirhams) and Domestic Consumption tax (1.2 billion dirhams), which compensated for the drop registered by the customs duties (-465 million dirhams) and registration and stamp duties (-158 million dirhams);

- **Non-tax revenue** was 25.8 billion dirhams, down slightly by 0.3% (-87 million dirhams) compared to the same period last year for which the general budget recorded a privatization revenue of 570 million dirhams. After deduction of this amount, non-tax revenue increased by 483 million dirhams, including the following main developments:

  - Mobilization of 9.5 billion dirhams in donations from GCC countries against 7.2 billion dirhams the previous year;

  - The decline in "other non-tax revenue" by nearly 1.8 billion dirhams.

- **Staff costs** at the end of December 2017 amounted to 104.6 billion dirhams, down 261 million dirhams compared to 2016. This change includes, on the one hand, an increase in structural payroll and the one served by the network of accountants under the General Treasury of the Kingdom (TGR) and, on the other hand, a decrease in back pay;

- **Compensation expense** increased by nearly 1.2 billion dirhams or 8.7%, due to the combined effect of higher releases for consumption and international prices for butane gas;

- Spending on **"other goods and services"** increased by 1.8 billion dirhams or 3.2 percent;

- **Interest on debt** has been stable, with both internal and external debt;

- **Investment spending** was 66.9 billion dirhams, up 5.1% (+3.2 billion dirhams) compared to the same period last year. Compared to the forecasts of the finance law, these expenditures were realized up to 120.3%;

- **Transactions of Treasury Special Accounts** generate a positive balance of nearly 4.9 billion dirhams, against 4.3 billion dirhams for the same period in 2016, an increase of 0.6 billion dirhams.

Given these developments and a decrease in outstanding expenses of 0.9 billion dirhams, the Treasury's expenses and resources situation generates **a financing requirement** of 38.7 billion dirhams. As treasury deposits increased by almost 7 billion dirhams, the coverage of this need was ensured by recourse to the domestic debt market with a net cash flow of 27.6 billion dirhams and external financing up to a net cash flow of 3.3 billion dirhams.

II.2. Budget implementation end of June 2018

The Treasury's expenses and resources situation at the end of June 2018 resulted in a budget deficit of nearly 20.2 billion dirhams, up 8.0 billion dirhams compared to the level recorded at the end of June 2017, due to the following main developments:

- A decline in **ordinary income** of 1.3% (-1.5 billion dirhams) compared to the same period in 2017. This change is the result of a decrease in non-tax revenue, partially offset by an increase in tax revenues;

- An increase in **tax revenues** of 0.7% (+785 million dirhams) compared to the end of June 2017. This change is due to the combined effect of the increase in indirect taxes (+2.4 billion dirhams) and customs duties (+723 million dirhams) and lower direct taxes (-2.2 billion dirhams) and registration and stamp duties (-186 million dirhams);

- A decrease in **non-tax revenue** of 1.9 billion dirhams compared to the same period last year including the following developments:
  - A decrease in revenue from Public Entitites and Enterprises (EEP) of 1.4 billion dirhams;
  - The mobilization of 147 million dirhams as part of donations from the GCC countries against 1.1 billion dirhams at the end of June 2017;
  - Decrease in other non-tax revenue of about 385 million dirhams, of which 358 million dirhams is under the Gas Pipeline Fee.

- An increase in **ordinary expenses** of 3.6% (+3.8 billion dirhams) compared to the same period last year. This change is due to the increase in expenditure on goods and services of 4.6% (+3.8 billion dirhams) and the near-stability of compensation expenses and interest on debt;

- An increase in **investment spending** of 5.8% (+ 1.7 billion dirhams) compared to the same period last year to reach 31.7 billion dirhams;

- **Transactions of Treasury Special Accounts** generated a positive balance of nearly 7.0 billion dirhams, compared with 8.0 billion dirhams for the same period of 2017, a decrease of 1.0 billion dirhams.

Given these developments and a decrease in the outstanding expenses of 2.9 billion dirhams, the Treasury's expenses and resources situation generates **a financing requirement** of 23.1 billion dirhams. This need, increased by negative net cash flow in external financing (-3.6 billion dirhams), was mainly covered by the domestic debt market with a net cash flow of 19.8 billion dirhams and by increasing treasury deposits by 3.8 billion dirhams.

II.3. Year-end forecasts for fiscal year 2018

Within the context of the Committee on the Financial Situation, a preliminary update of the forecasts of the Treasury's expenses and resources in respect of the 2018 Finance Law was made on the basis of the changes observed at the end of June and those expected for the second half of the year. This update shows **a deficit of nearly 43 billion dirhams (3.8% of GDP)**, against a forecast of 33.4 billion dirhams (3% of GDP), an increase of nearly 9.7 billion dirhams. To this end, it should be emphasized that an active monitoring system will be set up at the level of the Ministry of Economy and Finance, with the aim of taking the necessary measures to get the deficit towards the one foreseen by the 2018 Finance Law. This update, which is supported by the achievements at the end of July, is based on the following main assumptions:

- Downward revision of tax revenues for nearly **3 billion dirhams**, **2.9 billion dirhams** due to the expected capital loss on corporation tax. Expected changes in other tax revenues should offset each other;

- Downward revision of non-tax revenue for nearly 2 billion dirhams, mainly due to the revision to **4.8 billion dirhams** of donations to be mobilized from the GCC, against an initial forecast of **7 billion dirhams**;

- Upward revision of ordinary expenses for **2.3 billion dirhams**, including, on the one hand, an increase in compensation expenses of nearly 3.2 billion dirhams, mainly driven by the increase in the price support cost of butane gas, and, on the other hand, a decrease of nearly 0.8 billion dirhams in staff costs;

- Upward revision of investment spending for **2.4 billion dirhams** on the basis of an issue rate assumption of 73% instead of 70% initially retained;

III. GUIDELINES AND BUDGET OUTLOOK 2019-2021

III.1. New budget guidelines

The preparation of the Draft Finance Law for the year 2019 is part of the Royal Guidelines contained in the speeches of His Majesty the King delivered on the occasion of the 19th anniversary of the Throne Day and the 65th anniversary of the Revolution of the King and the People. It reflects Morocco's strong will to build a model of development based on solidarity, parity and equality between different regions and social categories, thus allowing to achieve appropriate and quick solutions to citizens' problems, to serve them and meet their expectations, while maintaining the State's financial equilibrium.

This overhaul of the development model involves, on the one hand, the need to reconsider the order of economic and social priorities at the central and territorial level, and on the other hand, the obligation for a comprehensive and far-reaching restructuring of national policies and programs, in order to achieve the desired objectives in terms of decent job creation, quality education, appropriate social protection and equitable access to adequate health care and housing.

Thus, the 2019 Budget focuses mainly on the prioritization of social sectors, including education, health, employment, social dialogue and social protection. It also emphasizes the pursuit of major reforms and sectoral strategies as well as boosting of investment and business climate in order to build confidence and preserve macroeconomic balances, while ensuring the advancement of budgetary discipline and rationalization of expenditure with the objective of maintaining the deficit at 3% of GDP.

It would be worth mentioning at this level that the preparation of the 2019 Draft Finance Law (PLF 2019) takes into account the constraints related to the management of public finances, in a context characterized, on the one hand, by the rise in oil prices and by numerous social demands, and on the other hand, by the need to strengthen commitments related to improving the efficiency and effectiveness of investment spending, by speeding up the pace of implementation of programs and investment projects. while giving priority to those who are the subject of national and international conventions signed before His Majesty the King, or those signed with international institutions or donor countries. Also, plans are under way to continue the implementation of the other major structural reforms, especially those concerning the pension system and the tax system.

Given the adopted framework of reference and elements of the national and international context, the 2019 Draft Finance Law is based on the following four pillars:

- Give a strong impetus to social policies: education, health, employment, social protection programs, speed up the conclusion of social dialogue and support the purchasing power of citizens:

In accordance with the Royal Guidelines, the government will implement, under the present Draft Finance Law (PLF), programs to **support schooling, fight against school dropout, making pre-school and basic education available** and simplify the educational content by orienting it towards the reinforcement of the students' capacities in terms of reflection, analysis, research and self-learning. Particular attention is given to the social dimension of the "Tayssir" program of financial assistance for schooling.

The 2019 Draft Finance Law (PLF) will also be an opportunity to confirm the will to **remedy the dysfunctions recorded during the implementation of the "Ramed" medical assistance program**, while giving great importance to the reform of the national health system through the implementation of the 2025 health plan in order to launch, in 2019, the medical coverage program for professionals, the self-employed and non-employees.

The government also plans to undertake a **comprehensive and deep restructuring of national social protection and support programs and policies**, while ensuring the establishment of the Unique Social Register. It also concerns the launch the third phase of the National Initiative for Human Development (INDH), and continuing the implementation of the program to reduce territorial disparities and expand medical coverage, ensure the sustainability of the resources of the Social Cohesion Support Fund and further simplify and unify the provisions for divorced and marginalized women and their children so that they can benefit from support from the Family Mutual Fund.

On the other hand, as the achievement of a desirable level of growth depends on our country's ability to invest in its youth and to make it the main lever of economic and industrial emergence, efforts will be oriented towards **the implementation of the national employment plan by making it a priority in all public policies** and by giving great attention to the creation of adequate jobs in the context of sectoral strategies and investments. The government also places special emphasis on developing funding mechanisms for young people with small projects and innovative projects, as well as supporting self-employment.

The government is also working to implement the Royal Guidelines of the Throne Day Speech, in order to **accelerate the continuation of the dialogue with the various social and economic actors** and the implementation of additional measures and mechanisms to **support the purchasing power of citizens**, and in particular that of precarious social categories and the middle class.

- Continue with major projects and sectoral strategies to ensure economic take-off, investment and business support:

At this level, the government will redouble its efforts to pursue major projects and sectoral strategies, able to boost the economy and support investment and business. The projects planned for 2019 concern **the acceleration of industrialization** through the increase of the industrial sector's share of GDP, the attraction of foreign investment and the continued expansion of the scope of industrial plans. The 2019

Draft Finance Law also provides for **the completion of the development of the national water plan and the reduction of energy dependency** through the Renewable Energy and Energy Efficiency Development Plan.

Equitable spatial distribution of public investments is also one of the Government's major concerns, paying particular attention to projects that have the greatest impact on improving the quality of life of residents, especially in remote and isolated areas. **A new approach to the management of public investment projects will thus be established** through the adoption of laws and regulations aimed at improving the system of selection of investment projects, on the basis of the spread of social valuation studies and particularly in terms of their impact on employment, the reduction of disparities and the improvement of the living conditions of citizens in general.

In line with this support for public investment, **the government intends to support companies and promote private investment** through improving the business climate, accelerating the adoption of a new investment charter that lays down the mechanisms for encouraging private investment in low-value-added regions and creating jobs.

- Continue implementing major reforms :

Among the components of this area are **the completion of the implementation of the project of advanced regionalization and the implementation of the administrative decentralization** through the publication of the charter related thereto. The government is also working to give a strong impetus to **the reform of the public administration**, to implement the **National Anti-Corruption Strategy**, to continue **the reform of the pension systems**, to bring to completion the provisions of **the reform of the organic law relating to the finance law** and to continue **the tax reform**.

- Maintain the economic equilibrium:

In order to reduce the burden on the State budget, it is planned to put in place, under this year's Draft Finance Law, **a new mechanism for financing investment projects planned under the general budget**. This mechanism, which is based on the institutional partnership, will participate in the financing of infrastructure projects and the support of development projects in the various sectoral strategies with a view to making them a lever for attracting private investment and this, within the framework of promotion of the public-private partnership.

In the same context, the government is working to **preserve macroeconomic equilibrium**, particularly in view of the increasing internal and external constraints and the increase in the volume of commitments, which make it necessary to prioritize. **Efforts are geared towards reducing the budget deficit and pursuing careful debt management**, while taking into account funding opportunities for the public and private sectors.

These measures will undoubtedly make it possible to provide a platform capable of optimally managing the various strategies launched by the State and ensuring a balance in the distribution and convergence of programs and objectives.

III.2. 2019-2021 Budget outlook

To increase the visibility of strategic choices and improve coherence between sectoral strategies while preserving the financial balance of the State, the new Organic Law relating to the Finance Law n ° 130-13, launched the triennial budget programming (PBT). The latter has been put in place to meet the following objectives:

- Support the sustainability of public policies by ensuring the compatibility of their future budgetary impact with the financial ressources of the State and the macroeconomic framework;

- Increase the efficiency of budget allocation by strengthening the link between sectoral strategies and the annual budget;

- Improve the conditions for the preparation of the finance law by placing it within a three-year rolling plan while taking into account the necessity to preserve fundamental balances;

- Provide better visibility for managers to manage their programs by providing a medium-term tool for monitoring the performance of public policies.

Moreover, the triennial budget programming as institutionalized by the new Organic Law relating to the Finance Law is updated every year. Thus, the data for the first year of this triennial budget programming are those of the draft finance law and the data for the next two years is a rough guide but must be realistic. The triennial budget programming will be subject to an annual update showing the discrepancies when compared to the original forecasts.

This triennial budget programming concerns both the budgets of the ministries as well as the public institutions and enterprises under their supervision and benefiting from earmarked resources or State subsidies. The three-year expenditure forecasts from the triennial budget programming are included in performance projects to ensure consistency with performance objectives and thus limit the duplication of budget documents.

This provision will come into effect on January 1st, 2019. Thus, all the ministerial departments during the preparation of the Draft Finance Law 2019, were invited by the circular of the Head of Government of March 22nd, 2018[1], to present their 2019-2021 triennial programming plans, during performance and multi-year programming commissions organized between April 15th and May 15th, 2018

The 2019-2021 triennial budget programming is carried out taking into account a set of assumptions and macroeconomic indicators. Overall, the way public finances are set up, as reflected in the current Draft Finance Law, is part of the ongoing rebalancing of the public finance profile with a view to controlling the budget deficit, in order to ensure their medium-term sustainabilit. Thus, revenue and expenditure forecasts should result in a budget deficit limited to 3% of GDP between 2019 and 2021:

[1] Circular of the Head of Government No. 5/2018 dated March 22, 2018 relating to the preparation of the proposals for Triennial Budget Programming 2019-2021.

- Hypothèses adoptées pour la préparation de la programmation budgétaire triennale [2] :

- **Staff Costs:** Average change in these costs (structural payroll, minus the impact of positions eliminated and increased impact of positions created and promotions), without taking into account the financial impact of the results of the social dialogue.

- **Equipment and Miscellaneous costs:** stable trend of these expenses (excluding the impact of positions of contractors to be created for the national education).
- **Compensation Expenses:**

	2019	2020	2021
Average cost of butane gas (Dollar per ton)	544	560	560
Average cost of oil (Dollar per barrel)	68	70	70
Exchange rate (Dollar / Dirham)	9,5	9,5	9,5

- **Contribution to pension plans and medical coverage**: related to the reform and changes in payroll.

- **Investment spending:** takes into account during the triennial programming:

  - projects and programs signed by His Majesty and agreements signed jointly with international donor institutions, including development programs in the southern provinces, the plan for acceleration of investment in the drinking water and irrigation sector, development programs for major cities, conventions for the construction and rehabilitation of mosques and their equipment, including mosques in Africa…;

  - projects to be finalized, including the dam construction program, the construction of hospitals, the rehabilitation and equipping of hospitals and health centers, the construction and replacement of prisons, maintenance of roads and highways, construction of the headquarters of the General Directorate of National Security, the construction of diplomatic complexes abroad, the construction of university campuses, the construction of the port of Safi…;

  - transfers to public institutions and companies (regional academies of education and training, universities, ONCF, the national agency for the fight against illiteracy, the National Television and Radio Company, the National Office Moroccan tourism, etc.), and for the benefit of special accounts of the treasury (Rural Development and Mountain Zones Fund for financing the program to reduce social and territorial disparities in rural areas, Agricultural Development Fund, Industrial Development and Investment Fund, etc.) as well as for the benefit of independently managed State Services.

[2] Source: Speech by the Minister of Economy and Finance to the two parliamentary finance committees on July 19th 2018 on "The implementation of the 2018 budget, the preparation of the 2019 draft law and the triennial budget programming".

- Macroeconomic Indicators for 2021 :

Indicator	Target value by 2021
Growth Rate	Between 4,5% and 5,5%
Budget deficit (in% of GDP)	Less than 3%
Treasury debt (in% of GDP)	Less than 60%
Inflation rate	Less than 2%
Unemployment rate	Less than 8,5%

Source: Speech by the Minister of Economy and Finance to the two parliamentary finance committees on July 19th 2018 on "The implementation of the 2018 budget, the preparation of the 2019 draft law and the triennial budget programming".

- General Budget Expenditure for the 2019-2021 three-year period in billions of dirhams:

Title	2019	2020	2021
Operating costs :	**210,98**	**216,26**	**221,89**
- Staff costs	112,15	113,94	115,76
- Equipment and Miscellaneous costs	44,75	46,83	48,55
- Common costs	45,18	46,59	48,67
Including the compensation fund	*19,21*	*19,75*	*20,52*
- Expenses relating to refunds, reliefs and tax refunds	7,20	7,20	7,20
- Unforeseen expenses and Provisional allocations	1,70	1,70	1,70
Investment spending :	**70,76**	**74,78**	**75,44**
- Budgets of ministries	49,78	52,82	53,18
- Common costs	20,98	21,96	22,26
Total expenditure of the general budget (excluding public debt)	281,74	291,04	297,33

Source: Speech by the Minister of Economy and Finance to the two parliamentary finance committees on July 19th 2018 on "The implementation of the 2018 budget, the preparation of the 2019 draft law and the triennial budget programming".