Kingdom of Morocco

MINISTERE DE L'ECONOMIE ET DES FINANCES

Department of Studies and Financial Forecasts

Division of Macroeconomic Summaries

Economic and Financial Report Section

Overview of the 2009 Economic and Financial Report

The 2009 Economic and Financial Report provides an analysis of international dynamics, and the opportunities for, as well as indications to be considered by, the national economy. The report examines economic, financial, and social performance through the significant advances achieved at the economic and social level, but also through the weaknesses and shortcomings holding back the national economy.

With regard to economic and social policy, this document details the efforts made to speed up the reform dynamic in order to consolidate the modernisation and development process underway in Morocco in recent years. It also highlights the sector-based policy designed to speed up the development of strategic sectors, so that the national economy can face the changes which are occuring on the international scene and reposition itself on buoyant market segments.

The fourth part of the report examines the tax and budget policy conducted to sustain growth and reduce social deficit, and explore the scope necessary to meeting the challenges of human development. This part also presents the 2009 Finance Bill project as well as the macroeconomic framework underpinning it, alongside medium term economic and financial forecasts.

World Economy Dynamics: Opportunities and Indicators for the National Economy

In 2008, the world economy was affected by the American financial crisis and the unprecedented rise in prices of food and energy products, before taking a downturn. The effects of the crisis rippled through the real economy, impacting activity within different economic poles and slowing international growth forecast at 2.2% for 2009, after 3.7% for 2008.

While it varies from country to country, receding growth has resulted in a meltdown in the United States, bringing growth down to – 0.7% in 2009, against 1.4% forecast for 2008, down to – 0.5% in 2009 against 1.2% in 2008 inside the Euro zone, and down to – 0.2% in 2009, after 0.5% forecast in 2008 in Japan.

In emerging and developing countries, growth forecasts go up to around 6.7% for 2008 and 5.1% for 2009. This new scenario, whereby emerging countries, first to be affected in previous crises, seem to show greater resilience, is the reflection of the rise to power of countries such as China and India. The performance of these two countries, which are presently driving international growth, is attributed to their growing resilience to recessionary effects originating in developed countries and resulting from economic policies implemented in the past. In Latin America, similar resilience is also linked to advances made in terms of regional integration.

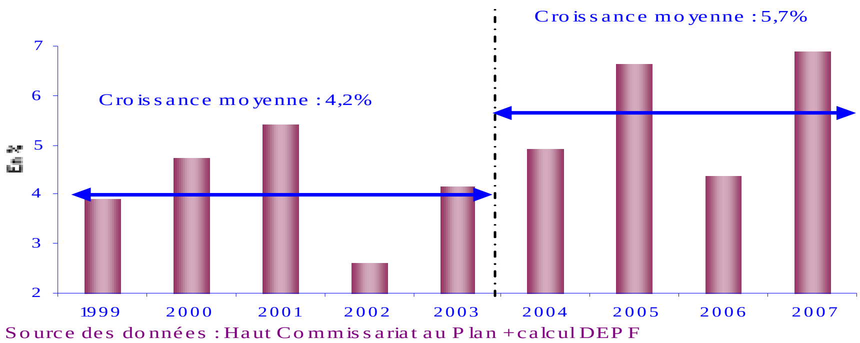
In the South Mediterranean region, while economic growth is at a relatively high level, it remains generally modest due to low regional integration. The south-south integration embraced by Morocco would create a vast regional market, and strengthen economic ties with European and American poles. For this reason, Morocco must benefit from the opportunity to consolidate regional cooperation, provided by the Union to South Mediterranean countries. Morocco's integration to the world economy is also moving forward through the consolidation of DFI "Direct Foreign Investments" in the country.

However, Morocco must overcome food and energy challenges, and like other countries, should implement measures to improve farming productivity and competitiveness, and conduct a policy geared towards energy diversification and security, as part of regional cooperation.

Economic, Financial, and Social Performance

Thanks to far-reaching economic reform in recent years, Morocco has undergone significant structural changes, despite a gloomy international climate. These changes vouch for greater economic vigour, greater resilience to crisis, and dynamic non-farming sectors. Since 2004, these sectors have enjoyed an average growth of around 5.7%, against 4.2% for the 1999-2003 period, mainly as a result of the emergence of new sectors, such as telecoms, finance and insurance, tourism, construction and public works, which have significantly contributed to diversifying sources of growth.

Trends in non-farming GDP growth



In addition to new levels of growth and the diversification of sources, this period was marked by dynamic domestic demand, boosted by greater investment momentum. This positive investment trend, illustrated by an increase of 11.5% in GFCF, is the result of upgrading production means and boosting production capacity. Thus, the import of equipment goods and semi-products rose by 16% and 16.3% respectively. Solid demand is also attributed to strong household consumption, up by 6.8% per year, which is driven by a vibrant job market, with employment up by 2%, to the implementation of social dialogue provisions, and to the fallout of good farming seasons. The trend is also linked to the consolidation of money transfers made by Moroccan nationals residing abroad, the containment of inflation, and to very favorable loan conditions, as shown by the 18.6% increase in bank consumer loans which rose from MAD 9.5 billion in 2003 to MAD 19.7 billion in 2007.

For its part, foreign trade has enjoyed a higher profile in recent years. Thus, the export of goods and services grew by 14% on average over the last three years. The import of goods rose by +11.3%, driven by strong domestic demand.

The balance of current transactions improved slightly, registering a surplus average of 1.7% of GDP for the 2001-2007 period, against a deficit of 0.7% of GDP between 1998 and 2000, including the positive balance for miscellaneous current transfers and services relayed by a lower revenue deficit.

This period has also seen yielded greater national revenues, combined with the stabilisation of public finances and the continuation of reforms initiated in the financial market. These measures have improved the national savings rate, resulting in a financing capacity of 2.6% of GDP.

With regard to financing the economy in recent years, bank loans have played a greater and more significant part, combining improved assets, measured management of funds, and a flexible and accommodating policy for housing loans. Thus, banks' contribution to the economy increased significantly in 2007, with their share in overall deposits reaching 82.3% in 2007, against 78.2% in 2003.

The job market also picked up during the 2003-2007 period, while the unemployment rate dropped from 13.9% in 1999 to 9.8% in 2007, with the creation of around 1 million jobs, a yearly average of 192,000 jobs. The annual growth rate for jobs improved, rising to 2% over the 2003-2007 period, against 1.2% for 1999-2002.

On the social level, higher growth and job creation meant a higher standard of living for citizens, illustrated by the rise in gross national disposable income per person, which increased from MAD 15,798 in 2001 to MAD 21,748 in 2007. This improved standard of living is also linked to the National Initiative for Human Development which helped reduce poverty in recipient communes in rural areas. The number of people receiving basic services such as health and education increased, despite the persistence of dysfunctions in both sectors.

Furthermore, all macroeconomic and structural policies, as well as performances achieved, must be combined with a fair and equitable distribution of national wealth and resources, a fundamental part and objective of macroeconomic and structural policies. The study of Morocco's regional economic potential in 2006 provided an update on the socio-economic situation in the country's regions.

The Great Casablanca region concentrates a great deal of secondary economic activity, and is shifting production means towards high-added value sectors and the tertiary. The Rabat-Salé-Zemmour-Zaer region is developed socio-economically, with a predominance of the chemical and para-chemical industry. The region also provides great opportunities for the offshoring sector.

The Souss-Massa-Draa region and the Marrakech-Tensift-Alhaouz region have a varied economy (tourism, food industry, stock farming) and can further develop a significant potential in tourism, farming, and mining. The Fez-Boulemane, Meknes-Tafilalet, Tangiers-Tetouan, and the Eastern regions have achieved a moderate level of socio-economic development, with a production system geared toward domestic demand. However, the Tangiers-Tetouan region contributes significantly to national industrial production and exports, and is endowed with great potential for growth.

The Doukkala-Abda, Chaouia-Ouardigha, Tadla-Azilal, Taza-Al Hoceima-Taounate, and Gharb-Chrarda-Benihssen regions have reached a low level of socio-economic development, despite their potential in the agriculture sector. With the exception of Doukkala-Abda, these regions also register low levels of industrialisation and human development.

As to the Guelmime-Smara, Laayoune-Boujdour-Sakia El Hamra and Oued Eddahab-Lagouira regions, the study has highlighted good levels of social development and strong economic growth potential. These regions are host to emergent industrial activity and present adequate levels of human development.

The development of these regions requires the implementation of a regional policy geared toward territorial competitiveness, combined with balanced interregional ties. Such a policy would help redress the imbalance between the different regions which tends to undermine their competitiveness, and would close the socio-economic gap which can slow down Morocco's sustainable development.

The new reform dynamic necessitates forms of governance adapted to the projects launched by the authorities, opting for a management of proximity as part of a participatory approach aimed at more efficient public action. To this end, Morocco has taken a set of measures regarding deconcentration and regionalisation, to promote the territorialisation of the government's action. Nevertheless, more effort is needed with regard to the autonomisation and accountability of external services, the contractualisation of deconcentrated services, the adoption of a result-based approach, and to speeding up the implementation of a deconcentration scheme.

The consolidation of the achievements of recent years in Morocco is essential to the continuation of the reform process. However, it is important to learn from past experience and identify structural and sector-based obstacles, in order to better understand challenges that still lie ahead, and strengthen the foundations of an emergent and competitive economy. These challenges comprise speeding up and sustaining Morocco's economic growth, to create a sufficient number of jobs every year. To achieve stronger economic growth, Morocco will also have to address several sector-specific issues such as energy, agriculture and water, and boost the economy's resilience to crisis. Finally, further action in favour of human development is absolutely essential to the long-term improvement of the living conditions of citizens.

Economic and social policy

To diversify the sources of growth and sustain its pace at a reasonable level despite a difficult international climate, Morocco has implemented reforms in the sectors likely to be affected by the present climate, such as the sectors of energy, farming or professional training. While sector-based and transversal reforms are proceeding, new momentum has been given to promoting human development, so as to better address the basic social needs of citizens[1].

Public authorities are pressing ahead with reforms in the sectors of farming, water, fishing, mining, as well as in the sectors of new industry, housing, tourism, handicraft, and high added value services.

In the farming sector, a new strategy, the Green Morocco Plan, has been launched to develop high added value farming and achieve high levels of productivity, as well as to upgrade production capacity through collaborative means to ensure that the sector plays a leading role in the country's economy. The Plan is also designed to ensure greater adequation with water policy, and more specifically with a sustainable and optimal use of water resources. Hence, in view of the extent of climate change, the adequation of water policy with farming, a sector heavily dependent on water, is paramount.

Given its contribution to sustainable development, the fishing sector has in recent years seen structural changes mainly aimed at modernisation and better governance, focusing on the preservation of fish resources and coastlines, and on upgrading coastal and traditional fishing. The IBHAR programme has been launched with the aim of modernising the coastal fishing fleet, and developing storage and conservation facilities with better preservation equipment and means to raise product quality.

With regard to the mining sector, Morocco is repositioning itself by consolidating institutional and financial structures in the OCP Group, embarking on an ambitious

[1] Assessment of public policies in the Gender Report.

investment programme worth MAD 37 billion for the 2008-2012 period, and setting up joint-ventures with renowned international partners. Besides the objective of maintaining the OCP market share in the field of phosphate minerals and phosphoric acide above 40% over a period of 10 years, the sector is intended to play a leading role for Moroccan exports.

Morocco is also proceeding with the implementation of an industrial strategy notably designed to target high-added value sectors in which it enjoys comparative advantages, through the promotion of Morocco's niches on the international market, such as the car industry, aeronautics, and electronics, taking advantage of sector reconfigurations underway around the world and of the externalisation trend affecting these sectors, notably in Europe.

In housing, new orientations focus on programmes specifically destined for disadvantaged populations in rural and urban areas, and for the middle class. For the latter, public authorities are implementing a building programme for 50,000 low-cost villas a year, simplifying procedures and registration formalities, and merging FOGARIM and FOGALOGE into one housing fund, DAMANE ASSAKANE, thus extending access to guarantees required for the purchase of homes or building plots of land.

To support the tourism sector and its strategic position for the country's economic and social development in a difficult international climate, measures taken by the government will help with the implementation of the Azur Plan, the promotion of rural and domestic tourism with the launch of the Biladi Plan, and the incentives to travel agencies to regroup into tour operators specialising in the domestic market.

In an effort to modernise the handicraft sector and strengthen its contribution to economic and social development, a set of measures have been taken, like those aimed at the emergence of new large-scale producers and dealers, to boost exports, to support small and medium businesses and one-craft artisans. These measures will help adapt offer to match customer demand, overcome challenges relating to distribution and commercialisation, and promote products and coordinate between the different actors.

Furthermore, with the new trend of delocalisation and externalisation toward high added value sectors, the national economy can enjoy new opportunities. As part of the Emergence programme, the development plan for delocalised services or Offshoring, depends on the introduction of a tax system, assistance with in-service training, and the creation of technopoles.

To support sector-based development, make exports competitive, and contain the negative fallout from the rocketing prices of energy products on public finances, public authorities have put in place a set of transversal reforms and measures, mainly in the fields of energy, logistics and education.

In the energy sector, the National Priority Action Plan has been put in place to boost production, consolidate transport and distribution infrastructure as well as interconnections with neighbouring countries, diversify and secure national energy sources, with the aim of increasing energy efficiency in the sector.

In terms of logistics, reform has been implemented, regarding notably road transport for goods, ports, and putting into gradual service the Tangiers Mediterranean port complex.

The different policies mentioned above are supported with investment in human capital through the NAJAH emergency plan designed to speed up the implementation of education and training reform, through the extension of compulsory schooling, the upgrading of schools as well as the increase in their number. The plan also provides support to disadvantaged populations through the « One million school bags » initiative and the creation of more than 600 boarding facilities at rural colleges.

On the financial level, the on-going modernisation process has resulted in the adoption of the law against money laundering which will bring more transparency to the sector. The same dynamic has led to the creation of the Credit Bureau, set up to provide overall visibility over borrowers' debt and to extend access to credit, specially to small and medium businesses and to private individuals.

To comply with international standards, the Bâle 2 prudential scheme has been gradually implemented. Besides efforts to modernise the financial sector, Morocco is proceeding with the implementation of reforms and measures designed to achieve more efficient management of domestic debt and public finances.

On the social front, the government's efforts are focused on raising the level of human development through the consolidation of purchasing power, with a monthly salary increase for civil servants (grades from1 to 9) ranging from MAD 300 to 459, a 10% raise in the minimum wage (SMIG and SMAG) in two stages, a raise in family allowances from MAD 150 to 200 per child, and a raise in old pensioners' allowances from MAD 500 to 600. To support human development and address the basic needs of populations, public authorities have invested in the fight against poverty, by pressing ahead with the implementation of the National Initiative for Human Development, supported by the implementation of MCA, the improvement of the health system through greater access to care and medicine, and a drop in maternal and child mortality rates. As to professional training, it is geared towards providing greater support to major development projects.

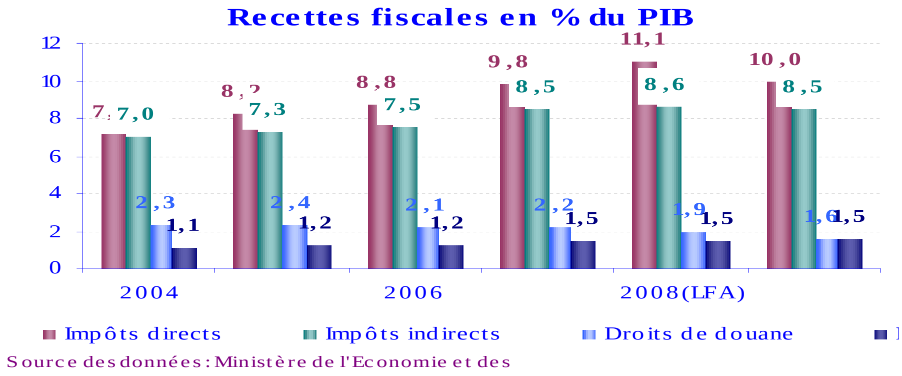
The dynamic in the training sector is thus sustained thanks to well-designed training schemes.

Public Finances

The 2009 Finance Bill is another milestone in the tax system reform process, notably with the reduction in tax charges, the improvement of middle class incomes, and cutting factor costs for businesses to give a new momentum to economic and social development. With regard to the budget, the bill is designed to achieve efficient public spending and to further budget consolidation.

Figures relating to trends in public finances show that, for the first time since 1999, the budget deficit has changed into a slight surplus of 0.3% of GDP in 2007. With non-privatisation revenues, the deficit stands at 0.2%, confirming the autonomy of the budget balance in relation to privatisation revenues.

Non-privatisation revenues exceeded by 21.5% forecasts made in the 2007 Finance Actl, underscoring an upward trend in tax revenues which account for 24.4% of GDP in 2007, against 22.9% in 2006. This trend is notably driven by the development of non-farming activities, measures taken to extend tax base, and the positive impact of VAT measures taken between 2005 and 2007. Non-tax revenues account for 11.7% of overall revenues in 2007, against 14.2% in 2006 and 15.1% in 2005, highlighting that the budget is increasing less dependently on such a category of revenue.

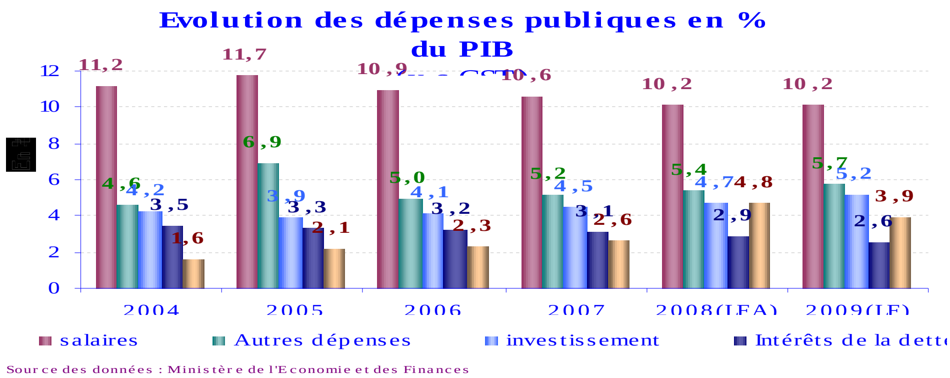


Tax revenues in % of GDP

Direct tax, indirect tax, customs duties

Source: Ministry of Economy and Finance

Overall spending accounted for 25.6% of GDP in 2007, against 25.1% in 2006. Total payroll was brought down to 10.6% of GDP, investment rose to 4.2% of GDP and compensation charges to 2.4%, against 10.9%, 3.9%, and 2.1% of GDP in 2006 respectively. The increase in spending came at a time when oil prices and, to a lesser extent, food prices rose on international markets.



Public spending trends in % of GDP

Payroll, other expenditure, investment, interest on debt

Source: Ministry of Economy and Finance

With regard to public debt, the consolidation of public finances, combined with favorable financing terms on the domestic market and active external debt management, achieved the gradual reduction in interest charges and led to the downward trend in indebtedness ratio which stood at 50.9% in 2008.

The 2009 Finance Act is designed to sustain a high growth rate of around 5.8%, after 6.8% in 2008, in a difficult international climate. This trend could be the result of more dynamic investment, with a gross rate of around 35.5% of GDP, and consumption. GDP growth is also linked to the implementation of new and reviewed sector-based policies. The growth in non-farming activity could rise by 6.1% in 2009, mainly attributed to the service sector and to secondary activity, with contributions to growth of 2.9 and 1.5 points respectively.

Choices made in terms of financial policy for 2009 aim to consolidate and put public finances on a strong footing. The budget deficit should stand at around 2.9% of GDP, despite sustained efforts to boost investment and to preserve and support purchasing power. The reform of customs tax policy will proceed with the reduction of maximum import duties from 40% to 35% in 2009, to achieve in the medium term a maximum rate of 25% and a differential of 10% between the preferential and the common rates. As to corporate tax, the 50% rebate, granted to property developers who commit to social housing projects within a framework convention, will be carried forward until the end of 2010.

With regard to income tax, reducing the marginal rate from 42% to 40% and raising the exoneration threshold from MAD 24,000 to 28,000, should strengthen households' purchasing power and cut factor costs for businesses, especially small and medium-size businesses. As to VAT, the liability threshold for small businesses is raised to help reduce management costs; tax on building mosques is halved, while cancer and hepatitis medicine is exonerated.

The 2009 Finance Act also prioritises and includes social provisions, as can be seen in the state budget share allocated to relevant sectors (53% excluding debt interest), in the new budget measures which raise family and minimum old pensioners' allowances, and which set up a special risk fund.

All these measures, combined with support for sector-based policies, would result in lower tax revenues, dropping from 23.1% of GDP in 2008 to 21.6% in 2009. Investment spending would increase to 4.9% of GDP, a rise of 20.1% of GDP compared to 2008, in order to provide support for structural reforms and the implementation of sector-based policies and major development projects. Debt interest charges should stand at 2.6% of GDP, a 3.3% drop compared to 2008, while total payroll should remain at 10.2% of GDP, the same rate set in the updated 2008 Finance Act.

By 2012, the national economy should proceed with macroeconomic balance, thanks to a better international climate, and with supporting private initiative and further extending productive activity.

In such a context, GDP should grow by 6.3% in real terms per year over the 2009-2012 period, as a result of the 6.5% growth in non-farming activity and strong demand linked to household consumption. The latter should rise by 8.7% in nominal value, driven by a healthier job market, higher household incomes, contained inflation, and the preservation of purchasing power, supported in part by compensation schemes and lower tax charges. Moreover, investment should reach a rate of 35.6% of GDP in 2012, thanks to greater public and private investments.

Coupled with the impacts of economic recovery and the on-going implementation of reforms, maintaining economic balance should result in increased revenues, especially from direct tax, and in better management of operating costs.

Public spending should grow at a pace lower than the pace of GDP. Setting a cap on compensation spending at 3% of GDP and on deficit at 3% of GDP should help increase investment spending. In view of the objectives set for growth and for the reduction of social deficit, additional budget margins can be mobilised for investment through the compensation system reform.