Kingdom of Morocco Rabat, February 2nd 2008

Department of Economic Studies and Financial Forecasts

DSME/SREF

A Broad Outline of the 2008 Economic and Financial Report

The Financial and Economic Report (FER), a document accompanying the finance bill, offers an analysis of the international environment dynamics and the integration process of our country in the world economy. The report addresses the consequent challenges, as well as the adaptation capacity of our economy, which has witnessed profound changes in recent years. The performance analysis of this economy is comprehensive thanks to government policies, alongside the economic and social strategies devised to face constraints and ongoing stakes.

The study analyses the economic, financial, and social situation as well as the reforms undertaken for the previous year. It includes an overview of the conjuncture, hypotheses and projection results, which provided the basis for the 2008 finance bill.

Based on a medium term vision (2008-2010), the report offers and details the economic and budgetary framework, thereby assessing the opportunities to strengthen economic growth and to broaden such a framework. In the prospect of the gradual implementation of a multiannual programming of expenditures, the study outlines the evolution opportunities for the national economy and public funds for the two years subsequent to submitting the finance bill. The guidelines of this perspective are based on consolidating growth and reducing the social deficit, regarded as the major strategic axes of the new government policy.

World Economy: A Platform of Opportunities for the National Economy

The world economy registered a strong performance in 2006, largely due to a prospering American economy and the dynamism of other economies in different regions of the world, mainly in the Euro zone and Japan. The upturn of growth in Europe, our main commercial partner, has strongly sustained foreign demand in Morocco, which increased at a rate of 7.1% against 6% in 2005. This increase highlights the emergence of new globalisation dynamics based on the increase of exchange and investment flow, between as well as within regional poles.

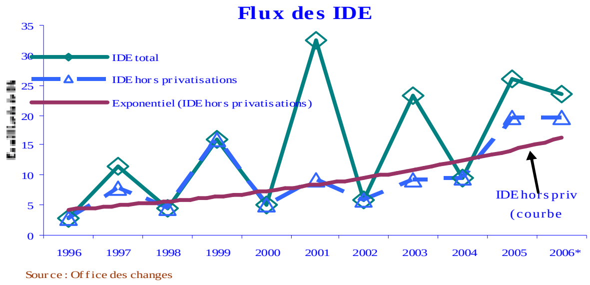
In this context, Morocco is deploying more effort to integrate the world economy through important network of free trade agreements, aimed at consolidating its position in its regional environment, and strengthening its economic ties with the world's main economic players. Hence, Morocco's relations with the European Union have witnessed sustained growth, increasing Morocco's share in the EU global trade from 0.243% to 0.294% between 2005 and 2007.

Regarding Morocco's regional integration, the Free Trade Agreements signed with Turkey, Egypt, Tunisia and Jordan in the framework of the Declaration of Agadir, should theoretically enhance trade flow and help attract direct foreign investment. The interplay of different economic sectors should induce the emergence of new types of industrial specialisations, as well as the establishment of international corporations in the region, thanks to market size increase.

These achievements are also in tandem with the broadening of Morocco's international partnership range. The Free Trade Agreement signed in 2006 with the US is indicative of such a dynamic. The agreement came into effect a year after it was signed, resulting in a 30% growth in trade exchange between the two partners. It also stimulated investment flow, revitalising American private loan directed notably to the finance sector, electronics and electricity, engineering, tourism and textile.

As Morocco commits to a wider opening of its economy through various Free Trade Agreements , the structural and sectorial reforms implemented have improved its appeal and increased the flow of direct foreign investment.

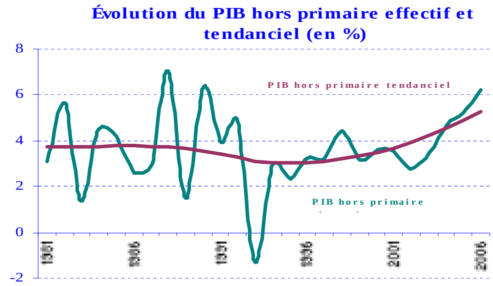
The amount of Foreign Direct Investment (FDI) rose from MDH 2.9 billion in 1996, to MDH 25 billion in 2006, reaching MDH 15 billion in the first seven months of 2007. Apart from this flow, this FDI is becoming increasingly independent in relation to privatisation, which testifies to the pertinence of the priorities set for the different sectors



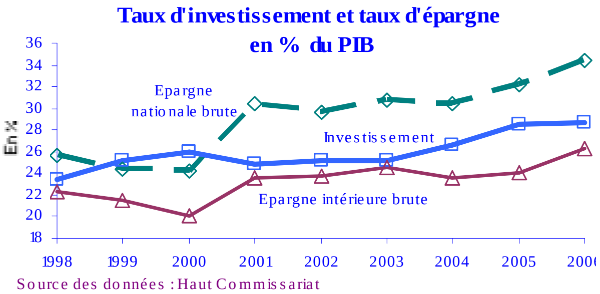
The Investment grade conferred by Fitch Rating, which identifies Morocco as a non-speculative risk country, confirms the improvement of Morocco's appeal on the international market. This encouraged Morocco to issue a loan of EURO 500 million in the international financial market last June, a loan which was in turn awarded an investment rating from very prestigious rating agencies, such as Fitch Rating and Standard & Poor.

Performance of the Moroccan Economy.

The performance of the Moroccan economy as shown by the macroeconomic indicators in the last five years reflects the government's effort in pursuing a sound macroeconomic policy and the positive impact that came out of the reforms undertaken. This has led to noticeable progress with regard to national economic growth and job creation. The recent years have thus been characterized by stronger and less volatile growth. The macroeconomic stability of the inflation rate around 1.7%, a budget deficit of less than 3%, a public debt contained at approximately 57%, external current account surplus of more than 2% and currency reserve, in steady increase since 2001, reaching more than MDH 208 billion, four times the amount reached in 2000.



The upward trend of non agriculture based growth and the strong resistance to internal and external shocks testify to the diversification of sources of growth and to the emergence of new promising sectors. The dynamics of the national economy has strongly stimulated imports, thanks to a momentum of productive investment, tariff dismantling, and booming household consumption.



National savings, which represent the totality of investments since 2001 and yield an average financing capacity of 2.9% of GDP, have been consolidated by an improving macroeconomic environment that offers better financial saving opportunities, by the consolidation of money transfers carried out by Moroccan nationals in residence abroad and by fiscal improvement.

The global trends within the economic context in 2006 remain generally positive, on account of a healthy macroeconomic environment, the fallout of the extensive reform programmes launched and the consolidation of the fundamental equilibrium of our economy. To strengthen these assets and ensure a strong and sustainable growth to face up to the challenges of creating jobs and fight poverty, Morocco has pursued its policy to promote investment and develop the private sector. Given the increasing openness of our economy and fierce competition, the government actively proceeded with its programmes of modernising and upgrading the investment environments at structural, sector-based and institutional levels.

Hence, different measures have been taken to improve the business environment, to consolidate investment in infrastructure as leverage for the development the private sector, and to make use of public-owned real estate. The private sector's development is subject to promoting and modernising means of production, an initiative which has come into play by putting in place an adequate legislation, investment-friendly environment and financial incentives.

Given their potential to generate wealth and creating jobs, SMEs[1] are at the heart of governmental development concerns. Programmes in support of SMEs help these enterprises to restructure, adapt to changing markets and improve their trade and managerial performance. However, it must be stressed that SMEs still encounter various difficulties and that more effort is needed to finance and sustain their development. As to VSEs[2], and their important role in the fight against poverty and unemployment, the state continues to consolidate existing legislation by introducing programmes that help the creation of micro enterprises and seek ways of integrating informal economic activity, which is regarded as thriving sector and constitutes an incubator of business players and activities.

To increase productivity, focus has been laid on the consolidation of good governance and the development of human capital. As to governance, operations undertaken are hence geared to making administrations more responsive to citizens' needs, setting up competent public institutions which can devise rational policies, ensuring transparency in providing public service, and offering high quality service to users. The judicial system Reform, a tenet of good governance, has made some progress. However, more effort is needed to speed up the process of upgrading the sector in terms of judiciary independence, efficiency, equity and ethics, so as to partake in the social and economic development our country is committed to.

With regard to human capital development, different measures have been taken to develop education, training and ensure better access to health services. Despite the essentially quantitative improvement in the educational sector, more effort is called for to improve quality and to meet economic requirements.

Nonetheless, important social and economic challenges still lie ahead and warrant a new series of reforms to optimise growth potential, capitalise on the demographic advantage and carry on the task of improving the country's economic competitiveness.

Social and Economic Policy: Speeding up the Implementation of Major Reform Programmes

Committed to greater economic openness, in the face of a changing world economy and growing international competition, the national economic policy has been opted for public-private partnership programmes to allow economic foresight on the medium and long term range for different sectors. These programmes will also chart out the ways of achieving set objectives. In addition to consolidating the macroeconomic framework, targeted sector-based approaches have stimulated the promising sectors, benefitted from opportunities on the international scene and removed impediments to investment and growth.

This new orientation has taken shape through by the implementation of a strategy based on electively targeted sectors, wherein Morocco enjoys comparative advantage. This strategy aims at promoting sectors geared towards export by developing new skills and jobs, such as off shoring, aeronautics, automobile industry and electronics. It also seeks to reposition the textile industry and promote the food industry, mainly the fruit and vegetable transformation industry.

[1] Small and Medium-sized Entreprises (Petites et Moyennes Entreprises)
[2] Very Small Enterprises (Très Petites Entreprises)

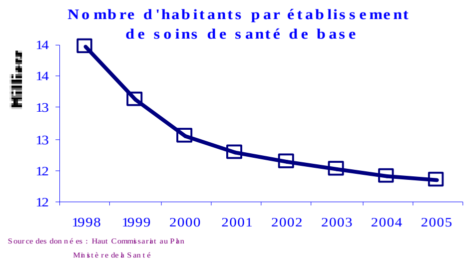
MMC's support to Morocco is part of the dynamic to support the sectors of agriculture, traditional fishing and handicraft that are tourist oriented, and is expected to contribute to fighting poverty, by improving the nature and rate of economic growth.

Fully aware of the importance of networking in the social and economic development of the country, public authorities work towards reinforcing networks to boost the economic momentum in different sectors, thus allowing Morocco to benefit from its comparative geographic advantage and foreground itself internationally as a platform for investment and exchange.

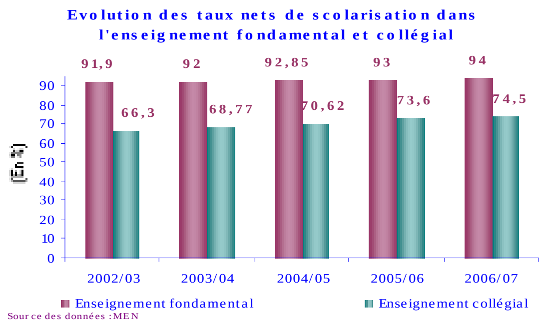
The reform of the financial sector and the promotion of the stock exchange market have been pursued through introducing new legislation and stabilising financial institutions. The "RAWAJ 2020" strategy was launched to modernise the sector of domestic trade.

On the social front, the attempt to resorb the basic social deficit and to achieve the Millennium Objectives for Development has resulted in a series of measures taken to consolidate health policy, to extend social welfare schemes, improve education and training strategy and promote low-cost housing.

Social welfare policy has then been consolidated by the implementation of the National Initiative for Human Development and the gradual extension of Compulsory Health Insurance to all workers in all sectors. The new health care strategy aims at meeting growing health care needs, using a global but integrative approach, and improving the performance of the health system by 2015.

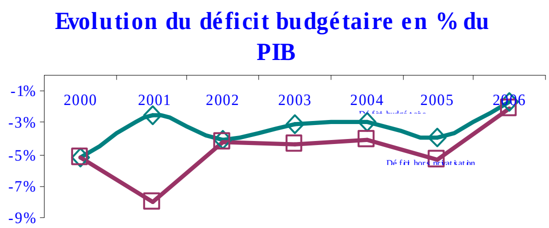


For its part, the national education strategy is designed to implement the objectives set by the National Charter for Education and Training in the three coming years 2007-2010, by providing general access to education and reducing illiteracy. Furthermore, the assessment of action taken in the promotion of low-cost housing has shown a significant improvement, despite ongoing constraints that hinder public policy efficiency in the field and reduce their impact on prospective beneficiaries



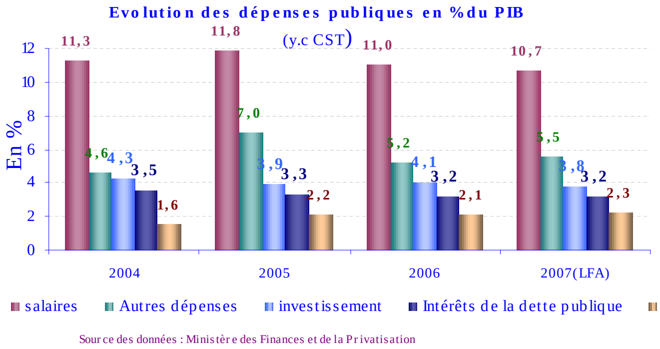
Public Finance: Favourable Scope for maneuvering

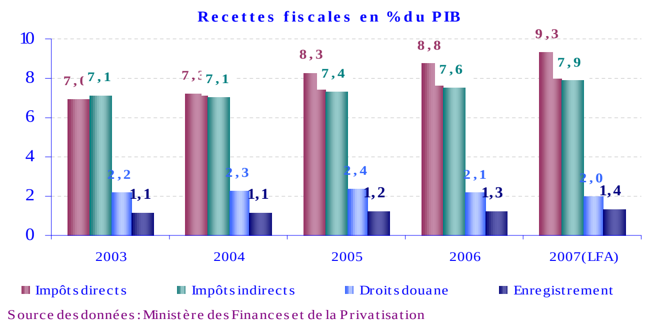
The 2008 finance bill underscores the will to consolidate achievements, manage constraints, and proceed with reform and modernisation in order to meet the objectives set for of human development, despite the added constraint resulting from the price increase in raw materials. The bill also highlights the will of the public authorities to proceed with tax reform to make the Moroccan tax system more equitable and responsive to the requirements of social and economic development. As far as the budget is concerned, the effort to control public expenditures should be pursued by generalising a result-based budgetary management, active management of public debt and a more rigorous payroll control.



The drop of the budget deficit to 1.7% of GDP in 2006 against 4% in 2OO5, and the consolidation of its autonomy in relation to privatisation revenue (-2.1% in 2006 against -5.3% in 2005)together with the downturn of treasury debt to 57.4% in 2006 are all indicative of the evolution of Public finance

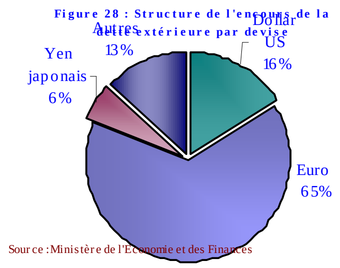
With regard to resources, the recurring revenue continued its trend (23.5% of GDP in 2006) backed up by the recrudescence of tax revenue 19.7% of GDP in 2006 against 19.2% of GDP in 2005. Non-tax revenue, on the other hand, accounts for 3.3% of GDP. The promulgation of the tax code, which is based on a simple and harmonised tax system, the decrease in Income Tax, and the broadening of the tax base, notably through VAT reform, together with effort made to modernise tax administration, have all contributed to the increase in tax revenue estimated at 8% and 6.2% for non-agricultural activities

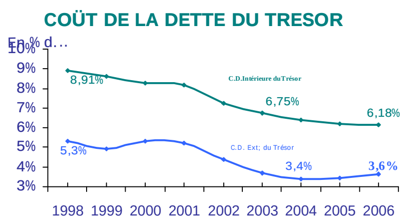


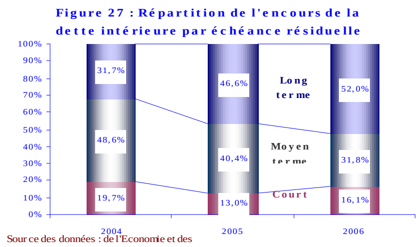


The decrease in the total expenditure cost from 27.5% in 2005 to 25.2% of GDP in 2006 is largely due to the payroll drop to 11% of GDP, counterbalancing investment effort that reached 4.1% of GDP and compensation at 2.1% against 11.8%, 3.9% and 2.2% GDP in 2005 respectively.

As far as debt is concerned, the consolidation of the fundamental equilibrium ensured that treasury financing needs remain compatible with the government's aim to significantly lower the debt ratio and improve its cost and profile. This ratio was brought down to 57.4% in 2006.







The 2008 Finance Bill: A Perspective Compatible with Medium-Term Objectives of Stimulating Growth and Promoting Human Development

In the Medium term, economic forecasts for the period 2008-2010 anticipate an upturn in economic growth that will rest at 6.1% in keeping with the 6% increase in non-agricultural activities. Primary activity is expected to witness a dynamic growth following the implementation of the MCA program. As to demand, household consumption will, at current prices, witness a 7.9% increase that will be induced by factors such as the promotion of the job market, the improvement in household income, the consolidation of cash transfers made by Moroccan nationals in residence abroad, and the preserving of spending power favoured by curbing inflation. Likewise, investment should sustain its upward trend to reach 34.6% of GDP, while benefiting from maintaining gross national savings at a sufficiently high level.

Socio-economic achievements for the budget year 2008 are expected to continue. In spite of soaring international oil and wheat prices (expected to rest at $75 a barrel in 2008 and to go down to $70 in 2009 and 2010) and the somewhat inclement weather conditions, the GDP growth for 2008 should reach 6.8% following 2.5% in 2007. Such a growth will be boosted by the ongoing dynamism in non-agricultural sectors that will see a sustained level of growth of 6.1% following 5.6% in 2007. This will be in keeping with the rebound of the sectors of construction and public work, tourism, telecommunications, and services provided to corporate entities. Furthermore, the consolidation of revenues and transfers made by Moroccan nationals in residence abroad will make it possible to keep a surplus current account in spite of a weaker trade balance.

As to public finance, the budgetary policy adopted anticipates keeping the budget deficit at less than 3% for the year 2008 while giving priority to the consolidation of social welfare. The prerogatives set in the 2008 Finance Act will in particular concern the promotion of private investment, regional as well as territorial development and the stimulation of exports. These prerogatives also aim at extending healthcare coverage, speeding up educational reforms, consolidating low-cost housing programs and creating job opportunities. These initiatives, which are expected to take shape in view of the forthcoming reduction of taxes and customs duties, will consequently broaden the tax base in keeping with our objectives.

Besides, the cut in corporate tax (IS) will be granted to corporate entities (30%) and to financial institutions (37%). Likewise, real estate companies that commit to building low cost property development (50 to 60 square meter housing units for no more than MDH 140.000) will benefit from a tax exemption for the period 2008 -2012.

All these cuts are expected to slow down the gradual pace of tax revenue, a pace that is restricted to 5.4% following the 9.5% rate anticipated by the 2007 Finance Act. The expected capital loss will nonetheless be moderate thanks to the ongoing dynamism of revenues in VAT (set at 20% and will extend to leasing) as well as the increase in income tax (set at 15% and will apply to transfers of real estate value). As to expenditures, public investment will be consolidated so as to reach 4.9% of the GDP for 2008 following 4.1% in 2007. It will be set off by the decrease in the payroll that accounts for 10.2% of the GDP. These expenditures will be carried out with the aim of accompanying structural reforms and sector -based policies.