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Summary of the Economic and Financial Report 2013 (EFR)

The preparation of the Finance Bill (FB) 2013 is conducted in an unsettled international and regional context involving several challenges. Significantly slowed down in 2011, the world economy seems to suffer in 2012 and the way out of the crisis proves to be more complex and problematic thanexpected.

Against this backdrop, while Morocco succeeded its democratic transition, crowned with the adoption of a new Constitution,on 1 July 2011, itstill confronts several challenges. Our country has indeed succeeded in incorporatingthe initiated democratic reforms and the assets of recent past into its national economic development modelbased on the consolidation of endogenous growth, through the reinforcement of public investment, the improvement of citizens' purchasing power and the continuation of the process of production diversification. Nevertheless, some concerns start to loomparticularly in relation with the persistent rise of our trade deficit.

It is in this vein that the Economic and Financial Report 2013 addresses, in its first section, the development of international and regional environment to specify the most important issues, the most pressing challenges and the opportunities to exploit.

The second section of EFR is dedicated to the analysis of the foundations of the Moroccan economic development model, in terms of consolidated growth assets and resilience capacity, as well asthe challenges related to the persistence of a set of structural weaknesses likely to compromise the economic momentumposted over the past decade.

The third section of the Report stresses the structural development and changes which took place over the past decade,as well as the evaluation of the impact of the reforms conducted on public finance, and reproduces the approach of DFB 2013 in terms of lines of reforms and measures to be undertaken in the light of the adopted priorities.

Morocco in its world and regional environment

World economic growth continued its deceleration in 2012 standing at 3.3% as against 3.8% in 2011 and 5.1% in 2010, generated by the effects of euro zone debt crisis, the increase of raw material costs and the tightening economic policy in emerging countries. In 2013, the world economic growth should stand at 3.6%, according to IMF. However, growth rates remain diverse according to countries and areas.

In the euro zone, the economic outlooksdeteriorated significantlydue to the worsening of the sovereign debt crisis and its impact on economic confidence. GDP should hence shrink by 0.4% in 2012 after a performance of 1.4% in 2011, before aslight recovery of 0.2% in 2013.

American growth should, in turn, recover by 2.2% in 2012 and 2.1% in 2013 as against 1.8% in 2011. The recovery of private consumption, a majordriving force of US economy, is supported by household income improvement, relative real estate market stabilization and the moderation of oil prices.

The Japanese economy should post a significant deceleration with a growth rate of 2.2% in 2012, affected by weak external demand,as well as by the rise of the yen. Japanese growth should continue at a moderate rate of 1.2% in 2013, due tothe slowdown in spending as result of rebuilding the country.

The growth of emerging and developing countriesslows downbut remains still solid, thanks to the relative resilience of domestic demand. It should stand at 5.3% in 2012 as against 6.2% in 2011, before recovering slightly in 2013 to 5.6%. This deceleration is explained by the weakness ofdemand from advanced countries, the rise of risk aversion and its impact on the volatility of capital flows.

The growth of the economies of MENA region should be reinforced in 2012 to reach 5.3% compared to 3.3% in 2011, before movingto a moderate rate of 3.6% in 2013. However, the region still confronts a climate of uncertainty related to the democratic transition process. In the medium term, the growth prospects are exposed to positive scenarios, especially if the political changes are accompanied by bettergovernanceas well asfar-reaching and accelerated reforms.

Concurrently, thevolume of the world tradein goods, according to WTO, will continue its deceleration moving from a rise of 5% in 2011 to 2.5% in 2012 due to the effect of the deceleration of world economic growth. The volume of world exports would increase in 2012 by 2.5%;that is a ratelower than the average growth recorded over the last20years (+5.5%). For the year 2013, world commerce in goods would rise by 4.5%, according to the same source.

Considering these developments, externaldemandfor goods addressed to Morocco should witness the deceleration of its growth rate in 2012 to record a growth of almost 0.7%, after posting a rise of 4.4% in 2011 and 12% in 2010. This trendis explained by the weak momentum of imports of European Union countries,particularly the majortrading partners of Morocco, namely France and Spain. In 2013, the demand addressed to our country should increase by almost 1%.

In this connection, trade between Morocco and EU posted in 2011 a trade deficit of45.4 billion dirhams. Nevertheless, Morocco will continue its integration in the global economy. Therefore, its effortsmade in democratic matters were crowned in 2011 by obtaining the status of “Partner for democracy” with theParliamentary Assembly of the Council of Europe. This developing context offers the opportunity to consolidate the modernization process of the legal and institutional system in order to increase convergence with the community gains and to intensify integration into the European market.

Between the democratization process underway in the countries of the region and the crisis in the eurozone, major partnerof the Maghreb, regional integration is a keylever for development, particularly, because of its effects with regard to the creation of the economies of scale. This integration constitutes a powerful guaranteeto lend credibility to partnership with the European Union and to reinforce the attractivenessof the region for FDI flows. In this North-South strategic approach, Morocco consolidates its positioning on sub-Saharan markets, particularly through concluding agreements with several countries and establishinga legal framework conducive to commercial and investment relations with this region. Thus, trade between Morocco and sub-Saharan Africa tripled over a decade to reach 11.9 billion Dirhams in 2011.

Concerning the attractivenessof Morocco for foreign direct investments (FDI), after decreasing forthree successive years, FDIflows towards Morocco posted a strong increase of 60% in 2011, standing at 2.5 billion dollars asagainst 1.6 billion dollars in 2010 (according to the UNCTAD report)[1]; that is 6% of FDI intended for Africa in 2011 and 33% of the FDI towards North Africa. As for the prospects of attracting new FDI attraction, they remain related to the development of world economic and financial activity, particularly in the euro zone.

Overall, in a world context unfavorable for the national economy, the challenge for Morocco consists in upgrading its competitiveness and transforming possible risks into opportunities by exploiting its comparative advantages in dynamic sectors.

Development of the national economy: Resilience and challenges

In this unsettledinternational and regional context, the Moroccan model of growth showed solidity and resilience and revealed a strong potential for progress. Indeed, Morocco succeeded in combining its democratic reforms of the benefits of the pastwith its economic development model, to achieve an average annual growth rate of 4.9% per annum over the period 2006-2011 as against +3.8%/ per annum between 1999 and 2005.

The structural analysis of the national growth confirms the unquestionable commitment of Morocco to the diversification and modernization of its productive base and progressive specialization in activities with strong added value.

In terms of sector- based diversification, the tertiary sector contributes significantly to the growth with an increasing share in the total value-added (TVA) between 1995-2005 and 2006-2011 moving to an average from 55.2% to 56%. For the primary sector, its added-value posted an average annual increaseof 6.9% during the period 2006-2011 after +0.6% in 1999-2005. Consequently, its contribution to the total value-added recorded significant improvement between the two periods, up from 0.1

1According to the Exchange Office statistics, FDI flows to Morocco in 2011 reached 25.6 billion dirhams, or about $ 3.2 billion, thatis $ 2.5 billion net of direct investment expenses, as published by UNCTAD. The difference between these two amounts isdue to the fact that it evaluates FDI on a net basis; that is FDI receipts minus theexpenses relating to the operations of investment costs.

point to 1.2 points, knowing that its average share in the total of suchvalue-added remained quite stable (around 17%). As for the secondary sector, the deceleration of its growth rate, downfrom 3.8% in 1999-2005 to 3.4% in 2006-2011, combined with the decline of its average share in the total value-added from 28% to 26%, resulted in a reduction of its contribution to the growth of the total value added (down from 1.1 pointsto 0.9 points).

Major pillars of national economic growth, domestic consumption and investment recorded a significant momentum. The final household consumption, main component of domestic demand had its contribution increased from 1.8 points of growth in 1999-2005 toan averageof 3 points between 2006 and 2011. This performance was driven by the measures taken to consolidatehouseholds' purchasing power. The Gross Fixed Capital Formation, in turn, posted an average growth rate of 6.5% between 2006 and 2011, compared to an average growth of 6.2% per annum in the period 1999-2005.

Nevertheless, the positive contribution of the final domesticdemandelements was not consolidated by the external trade development,which resulted in a negative contribution of -1.3 pointsin average over the period 2006-2011 as against a weak positive contribution of 0.1 point in 1999-2005.

In view of these trends, maintaininga steady, sustainable,employment-generating and inclusive growth cannot take place without the support of productive sectors (agriculture, mining, industries,…),coupled with transmission channels capable of supporting this productive apparatus (logistics, energy,…). Moreover, supporting the tertiary sector (trade, tourism, telecom,…) proved to be unavoidable to guarantee an efficient support to the productive apparatus and to improve its productivity,starting a far-reaching socio-economic transformation, which led to the national economy progressivelyshifting to the service sector.

Hence, ***strategically maturesectors***such as agriculture, fisheries, mining, real estate and domestic trade continue to develop positively with promising perspectives for the years to come.

As regards the agricultural sector, Green Morocco Plan (GMP) continuous to have tangible impacts on the performance of the sector[2], as testified by the improvementof

[2]For the integrationof Moroccan agriculturein the global market, an agreement of progressive liberalization andrationalagriculturaltradewas concludedbetween Morocco andthe EUin 2012.This Agreementwill enter intoforce uponthe export season2012/2013

agricultural output of 40% between 2007 and 2011[3], as well as the mobilization of 38.1 billion dirhams of investment in the sector between 2010 and 2012. Also, Halieutis Plan postssignificant progresstowards the consolidation of the sustainability of resources, competitiveness reinforcement of the fishery sector, as well as aquaculture development.

In the same way, under the combined effect of the world demand recovery as well as the rise of the prices of phosphate and its derivatives, on the one hand, and the establishment byOCP Group of a new development strategy, on the other hand, the year 2011 was marked by outstanding performances of the phosphatesector and its derivatives, posting a rise of 41.3%[4]of the sector's value-added in 2011 compared to 2010.

The sector of the real estate has also witnessed,since 2011, a new momentum asindicated by the positive development of the sector'smajorindicators. Indeed, following the implementation of the low-cost housing revival plan,which represents more than 60% of the real estate sector, the output of this segment posted a rise of 37% compared to the year 2010. Setting up a new strategy (2012-2016) aiming atthe consolidation of assets will make it possible to lay the foundations for a proactive policyof the city likely to allow the emergence of asupportive, integrated and productive city.

Moreover, ***emerging sectors*** standas new levers fordevelopment. A case in pointis the automobile industry, which is one of the driving forces ofthe national industry and National Pact for Industrial Emergence (NPIE). The sector achievedoutstanding performances over the last three years,posting an average annual growth of exports of almost 18%. Exports of air transport sector also recorded, over the three-year implementation ofNPIE, an average annual growth of 18.3% between 2008 and 2011. Offshoring,in turn, posts an important internationally oriented momentum[5]reflected in an annual growth of 15%.

Other ***sectors with potential***call for competitive readjustment and strategic repositioning. A case in point is agri-food industry (AFI),which despite its variousdevelopment opportunitiesremains characterized byfragile productivestructures, particularly in exports.Similarly,in response to the decline of the

[3]Source : Department of Agriculture (2012)

[4] Source: Directorate of Public Companies and Privatization

[5] Study conducted in 2008 by Frost & Sullivan, a growth strategy consulting firm.

national industry of textile-clothing (the sector's value-added decreased, posting a negative average growth rate of 0.72% between 2000 and 2011), public authorities undertook, within the framework of the Emergence plan, a set of measures and actions aiming at a better repositioning of the sector.

Concerning ***supportingsectors***, Morocco managed to achievelogistic performance deemed higher than the average within the framework of the group of intermediate-income countries. In the area of energy, and within the framework of the implementation of the energy strategy launched in 2009, several projects and reforms were initiated or are currently underway relating to the various aspectsof energysupply, the reinforcement of the institutional[6] andregulatory[7] frameworkas well asfunding. The telecommunications market, in turn, posted steady growth. The sector turnoverstood at 43 billion dirhams in 2011, up 18.4% compared to 2010. The momentum of the sector,stimulated by the implementation of DigitalMorocco 2013, resulted in the modernization ofinfrastructure, multiplication of digital uses driven by technical innovation, intensification of communication practices and the emergence of new trades, particularly those related to offshoring.

with regards to growth spatial distribution, theanalysis of GDP by region during the period 1998-2010 showsthe predominance of the region of Casablanca – Settat, whichachieved the most significantaverage share of GDP (24.6%) followed by the regionsof Rabat- Salé- Kénitra (15.7%), Marrakech - Safi (11.1%) and Sous- Massa (10.5%). Nevertheless, in terms of growth rate, it is the regions with weak contribution that post the most dynamic trends, with growth rates exceeding the national average (+6.2%), namely the regions of Laâyoune - Saguia Al Hamra, of Ed Dakhla - Oued Ed Dahab, Marrakech -Safi and Drâa- Tafilalet, whose growth rates are 11.4%, 9.6%,7.7% and 7.2% respectively. Like this spatialconcentration, a sector-based concentration was detected with regard to regions' potentialities, vocations, demographic structures as well as economic and socialliabilities.

[6]To support the energy strategy and foster a favorable business environment in the sector, the government has strengthened its institutional arsenal, through the creation of the Moroccan Agency for Solar Energy (MASEN), the National Agency for the Development of Renewable Energies and Energy Efficiency (ADEREE), and the Institute for Research in Solar Energy and New Energy (IRESEN).

[7]Theadoption of Act13-09on renewable energyin 2010,and the year 2011was marked bythe adoption ofAct N°47-09onenergy efficiency.

As for the financial sector, in spite of the increase in outstandingloans, the momentum ofloans remained strongly directed towards financing household and Treasury debt. Moreover, domestic savings dipped by 4.8% to stand at 183.3 billion dirhams, after an increase of 6.6% in 2010, reducingits share in GDP to 22.8% in 2011 instead of 25.2% in 2010, in spite of reforms and incentives in favor of the constitution of long-termmaturity saving(introduction of new financial products such as Equity Saving Plan, Company Saving Plan and Home Ownership Saving Scheme, within the framework of Finance Act2011). Hence, the challenge confronting public authoritiesis to manage to encourage the creation of supplementary saving, taking account of the constraints of preservingthe momentum of the domestic consumption and the recent developments characterizinghouseholddebt in Morocco.

Generally,while the Moroccan economy showed resilience, the fact remains that structural weaknesses burden the national economy and underlie of the economic competitiveness degradation of the country. The industrial supplyis strongly centered on subcontracting and specialization in the industrial activities with low technological intensity, strong concentration of industrial exports to some EU outlets, unavailability of inputs on the national market,hindering the development of the exportable supply with more significantvalue added and eroding the country'scomparative advantages in terms of costs and lead times, weak competitiveness compared to the closest competitors… Aware of these weaknesses, Morocco is required, in order to increase itseconomy competitiveness, to transform the potentialrisks into chances and opportunities. To this end, Morocco should intensify its efforts to implement the entire set of the initiated reforms (improving the businesses climate within an operational macro-economic framework, qualification of workforce,…) and to ensure their follow-up.

Notwithstanding the structural challenges facing the Moroccan development model, there is no doubt that economic developmentsin Morocco had positive effects at the social level. Unemployment rateposted a significantdecrease from 13.8% in 1999 to 8.9% in 2011. In its Declaration, the Government considered the fight against youth unemployment a priority targeting an unemployment rate of 8% during the period 2012-2016. To this end, two special measures of training and integration were prepared for the benefit of young people, namelyImproved Integration Contract (CIAM) and Professional Integration Contract (CIP). Furthermore, encouraging the creation of companies is also part of the program of the planned measures, throughtwo new main programs “Moubadara” (Initiative) and “Taatir” (Supervision).

With regard to access to education, the school enrollment rate at the primary education level posted a significant rise between 2007-2008 and 2011-2012, from 91.4% to 97.9%. Concurrently, illiteracy rate of the population aged 10 years or older reached 30% in 2010 compared to 55% in 1994. To improve the effectiveness and relevance of its action, the Ministry of Education is working on a strategic plan over the period 2013-2016 based on of four strategic guidelines, namely the development of schooling taking into account equity and equalopportunity, improvement of the teaching content quality, the development of the education system governanceand adequate management of human resources as well as the reinforcement of its capacities and competencies.

A positive development is also noticedat the level of the major indicators relating to access to health care. The most significant progress was recorded at the level of maternal and infant health care, where death rates dropped significantly. However, the needs and gaps to be bridged remain significant particularlyin rural areas. Aware of such challenges, the Ministry for Health launcheda program entitled “Intidarat”, in 2012, which aims at collecting, in the framework of a participative approach, the opinions and expectations of citizens and various stakeholders in the field of health care. It should be notedthat the effective generalization of the initiated medical coverage was launched in April 2012.

A momentum of dialogueon a generalreform of the pension schemes was alsoinitiated, on the basis of the scenarios allowing the safeguard of the viability of the various system components,some of which are now threatened by the emergence of deficits.

There is no doubt that the set of projectsas well as the political, economic and social reforms, started by our country in recent years, and crowned by the adoption of a new Constitution, strengthen and consolidate the Moroccan model of democracy and development. However, they require, more than ever before,the commitment of all stakeholders as well as thespecification of the order of priority. The speech of His Majesty the King on 30July 2012 constitutes a clear roadmap for the establishment of structuring reforms which corroborate the provisions of the new Constitution. Some of its priorities are the reform of justice and advanced regionalization, which involves, besides the mobilization of the required resources, the establishment of support measures that could be summarized in four fundamental lines: contract-based operations, reinforcement of the role of the private sector, the regional statistical information system and the reform of theorganic law on Finance Act.

Public finance

Meeting the challenge of securing a steady job-creating growth requires maintaining investment plans, particularlyin economic and social infrastructures, launched over the past decade, with stronger involvement of the private sector investment. This calls for the continuity of several structuring reforms, aiming at governanceimprovement and promoting adequateperformance in public expenditure.

Taking these elements into account, the Finance Bill (FB) 2013, which takes places in a quite restrictive context, aim at the improvement of the national economy competitiveness, reinforcement of the productive apparatus and the development of the instruments related to the promotion of employment, the reduction of social and regionaldisparities and the fight against poverty, the implementation of institutional and structural reforms as well as the progressive re-establishment of macro-economic balances.

This project intends to achieve a growth rate of the national economic activity, at constant prices, of 4.5% compared to 3.4% in 2012, which covers an increase in nonagricultural GDP of 4.5%, or the same level as in 2012.This development takes into account the achievement of a world economic growth in 2013 that stands at nearly 3.6% compared to 3.3% in 2012, oil priceat $ 105 a barrel and euro -dollar exchange rate at 1.25.

In terms of budget, FB 2013 constitutes an opportunity to give a fresh impetus to the modernization of the State and reinforcement of public administration performance, to substantially change the entire budgetary mechanism for more effectiveness and accountability, and to make the public financesystem shift from an approach based on legal and accounting dimensionsto an approach promoting the managerial culture needed for the development and well being of citizens. This project aimsalso atsustaining the rationalization of Government spending, reformingpublic contracts regulation, reformingsubsidy systemand reformingthe organic law on Finance Act.

Therefore, the choices adopted with regard to the financial policy for 2013 aim at decreasing budget deficit to 4.8% of GDP with the perspective of bringingit back to 3% of GDP by 2016, in spite of the sustained effort made in public investment as well asthe preservation and support of the purchasing power.

To this end, the public authorities plan to continue the actions initiated within the framework of tax reform by fostering acoordinatedapproach in the setting of the tax foundations scheduled for 2013. The FB 2013 provides forgenerating 207.4 billion dirhams inregular income (excluding privatization revenuesand the revenues of price support fund and special road support fund) up 10.9% compared to Finance Act 2012.

The optimization of public spending continues to be considereda national priority through the capping ofsubsidy costsat a sustainable level, removal of unproductive expenditure, reduction of Government spending and the pooling of available resources inside the administration. Spendingon goods and services would reach, in 2013, nearly 148.3 billion dirhams, up 4.9% compared to 2012. Debt interest costswould standat 22.4 billion dirhams, up 10.6% compared to 2012, reaching 2.5% of GDP. Subsidy costs (including Price Support Fund) is expectedto reach 4.4% of GDP;that is an expenditure of 40 billion dirhams, on the basis of an average oil price of 105 dollars/ barrel and a foreign exchange rate of 8.5 dirhams per dollar.

With regard to State budget investment, the Finance Bill 2013 translates the will of public authorities to continue their supporting efforts for economic activity, issuing the amount of 47.5 billion dirhams (including Road Special Fund), or 5.2% of GDP.