

Economic and Financial Report 2014

Challenges and opportunities of the Moroccan economy

in a changing international context

The 2014 edition of the Economic and Financial Report elaborated the insights into the driving forces underlying the preparation of Finance Act 2014, without concealing the issues and challenges that it faces, at three levels: that of the evolution of a changing regional and international context, that of the national economy being confronted with the challenge of the economic and social transformation and that of the sustainability of public finance fastened with a logic of reform to the service of equity and performance.

The Finance Act of the year 2014 occurs in a changing global and regional environment with divergent recovery paths according to the contexts and countries. From a global point of view, the growth of the world economy should be redressed gradually as from the second half of 2013 and during the year 2014, consolidated by the support brought to activity by accommodating monetary policies, the improvement of the situation on the capital markets and the progressive recovery of the confidence of economic agents.

It is in this context that the Moroccan economy strives to maintain its trend of growth in a regional environment often unfavorable but where restructuring momentums reshape the world productive systems and offer new opportunities to the economic modernization of the country. Some achievements, especially the breakthroughs in new industrial specializations, confirm the capacity and potential of the country to be reformed, to be modernized and seize the opportunities of a world in a constant state of flux. At the same time, the gaps to bridge in terms of reforms and repositioning in the world competitiveness constitute major constraints to the growth and overall progress of the country and start imposing themselves as urgent priorities. Beside the major expected reforms, some prerequisites relating to the safeguard of external and internal balances now weigh heavily on the financing of the economy and the sustainability of investment effort, which is vital for the future of the country. The issues of education, employment, social protection, the fight against insecurity and inequalities in order to guarantee an equal access, especially from a gender perspective, to economic, social and environmental rights depend on it well.

The 2014 edition of the Economic and Financial Report has endeavored to establish the contextualization of Finance Act 2014, through a renewed reading of the international and national environment in terms of the problems and challenges resulting therefrom.

Morocco in its global and regional environment: challenges and opportunities

The world economic growth should recover gradually to stand at 3, 6% in 2014, as against a rate of 2, 9% in 2013 and 3, 2% in 2012, according to IMF. This trend is supported by the good performance of American economies (2, 6% in 2014 following 1, 6% in 2013) and Japanese

economy (1, 2% in 2014 compared with 2, 0% in 2013) and by the economic recovery of the euro zone (+1, 0% in 2014) after two successive years of recession (- 0, 4% in 2013 and -0, 6% in 2012). Emerging countries continue to pull world economy, in spite of their moderate growth potential. They should record a growth of about 4, 5% in 2013 and of 5, 1% in 2014 after 4, 9% in 2012. The economic outlooks for the MENA region count on a growth limited to 2, 1% in 2013, after 4, 6% in 2012, before edging up to 3, 8% in 2014.

Concurrently, the world trade of goods in volume should witness, according to WTO, an increase of 2, 5% in 2013, as against a growth of 2, 3% recorded in 2012 and a recovery in 2014 of about 4, 5%. Exports should increase by 6, 3% in developing countries and by 2, 8% in developed countries.

In reaction to these trends, the volume of the foreign demand addressed to Morocco would record a growth rate of approximately 0,5% in 2013, after posting a fall of 0,6% in 2012 and should witness an increase of almost 3,4% in 2014, due to the expected recovery of the world economy, particularly in the euro zone.

In addition, in spite of the efforts made in favor of liberalization, the development of the productive system and the promotion of foreign trade, especially through the implementation of ambitious sector based strategies and the improvement of the business environment, the trade deficit has continuously worsened. The degradation of trade balance is attributed to the increase in the purchase of energy products and food products and the sizable imports of capital goods, related to the momentum of investment of the national economy.

With regard to Moroccan exports, they are dominated by semi-finished and finished consumer goods (more than half of the total exports), which requires more efforts to reinforce the competitiveness of the national exportable supply. Sector based development plans, namely the National Pact for Industrial Emergence- mainly focused on the development of world trades in view of their momentum worldwide and the competitive advantages that they show- constitute within this framework a major opportunity for Morocco to improve its exportable supply and the modernization of the national industrial fabric. Indeed, the analysis of the national exportable supply between 2008 and 2012 reveal the emergence of certain trades whose dynamization was pulled mainly by the outstanding performance of the automotive sectors (+98% and a contribution of exports of more than 13 billion), aeronautics (+76% and a contribution of almost 3 billion), Offshoring (+70,2% and a contribution of 3 billion) and, to a lesser extent, agri-food (+11% and a contribution of 1,7 billion).

As regards the attractiveness of FDI, according to the most recent UNCTAD "World Investment Report 2013", Morocco received in 2012 nearly 2,8 billion dollars of foreign investments, up 10,4% compared to 2011. The geographical distribution of these investments show that nearly two-thirds of investments intended for Morocco (39%) come from France and (25%) from the United Arab of Emirates. At the sector based level, manufacturing industries (26% of total FDI) were the most attractive in 2012, recording 8,3 billion dirhams; that is a rise of 36% compared to 2011.

Evolution of the national economy: Impact strength and challenges

The structural analysis of the national economic growth confirms the commitment of Morocco to the diversification of its production base and an increasing tertiairization of the national

productive fabric, benefiting from the initiated reforms and consolidated gains. However, external imbalances widened significantly in recent years, which is likely to weaken the stability of fundamental balances and hence increase the financing needs of our economy.

The Moroccan economy witnessed a phase of growth in conformity with its potential of approximately 4, 6% on average per annum over the period 2006-2012 compared to 3, 8% between 1999 and 2005. By sector, the contribution of the tertiary sector to the growth of GDP during the period 2006-2012 was significant, standing at 2, 7 percentage points on average. This sector, whose share in the total added-value increased by 1, 1 points between the two dates, recorded an average growth of 5% and 4, 9% per annum, respectively, during the periods 2006-2012 and 1999-2005. As regards the primary sector, the added-value increased by 4, 8% per annum on average between 2006 and 2012 as against 0, 6% over the period 1999-2005. This trend results from a limited dependence of agricultural production on climatic risks and efforts made for the modernization and reinforcement of the sector within the framework of Green Morocco Plan.

As for the secondary sector, the shift of the growth rate of the sector of 3, 8% on average over the period 1999-2005 to 3,1% in 2006-2012, due to the decline of its average share in the total added value from 28% to 26,3%, resulted in a decrease of its contribution to the growth of the total added value from 1,1 point to 0,8 point, on average, between the two periods.

As for domestic demand, it continues its role of lever of the national economic activity supported by the continued dynamism of final consumption and investment. Indeed, the contribution of domestic final consumption, a major component of demand, was consolidated during the period 2006-2012, standing at 3,6 points after 2,3 points between 1999 and 2005. This improvement was supported by the implementation of a certain number of measures benefiting the consolidation of the purchase power of households including, inter alia, wage revalorization, reduction of income tax and the dynamization of the job market.

Gross fixed capital formation, in turn, recorded an improvement of its average share in GDP over the period 2006-2012 to reach 30,7% compared with less than 26% in 1999-2005. Its contribution to GDP growth rose from 1, 6 point, on average, during the first period to 1, 7 points between 2006 and 2012.

Taking these trends into consideration, the national economy reveals the resilience of its growth at a quite high level, supported by a robust domestic demand. However, foreign imbalances significantly widened, especially over the last two years, because of the soaring oil and cereal bill and a decline in currency resources. Thus the deficit of the trade balance accounted for 20, 8% of GDP in 2012.

To mitigate our foreign trade imbalances, the reinforcement of the positioning of Morocco on the chain of world sector based value has become a pressing need. To this end, Morocco, which is engaged in a set of sector based strategies built around a reference frame open onto the challenges and opportunities at the national, regional and international scales, is required to accelerate the process of diversification and modernization of its production base, in order to seize opportunities offered by new world sector based reconfiguration and take up the challenges and stakes that it generates.

This is the case of the sectors driving economic growth, particularly agriculture, fisheries, automotive and aeronautic industry, offshoring, mines and tourism, which have a strong competitive potential and promising development prospects.

Thus, within the framework of Green Morocco Plan, agricultural GDP was improved by almost 32% over the period 2008-2012, as against the base period (2005-2007), with the mobilization of 53 billion dirhams in investment in the sector over the last five years, while continuing the implementation of the programmed strategic reforms. Moreover, major advances were accomplished within the framework of the implementation of the Halieutis strategy, through the continuation of the National Coastal Development Plan, the reinforcement of fishing infrastructures, the implementation of the national plan of quality control and the program of establishing three clusters of competitiveness (Haliopolis Cluster of Agadir, Cluster of Tangier and Cluster of Laâyoune).

Worth noting also are the consolidation of the competitive positioning of the auto industry and the reinforcement of its integration with the launching of the second production line of Renault-Tangier project, making it possible to increase the total capacity to 340.000 vehicles per annum. Noteworthy are the strengthening of the potential of the aircraft industry and the reinforcement of its foothold on the world aeronautical map via the implementation of important projects (effective launching of Nouaceur Aeropole and P2I MidParc).

Similarly, the sector of offshoring witnesses an important momentum taking into consideration the job positions created and the improvement of export revenues which it generates. To reinforce its competitiveness, a number of actions could be considered, namely the improvement of the attractiveness of Morocco by raising the status of P2I to that of free zones, consolidating the existing infrastructure for a better profitability of these zones.

As for the consolidation of the leadership of Morocco on the world market of phosphate and derivatives, a massive investment plan was implemented, centered on the extension of the production capacities of the Group, requiring a global amount of 144 billion dirhams by 2020. As regards the tourist sector, the progressive implementation of the measures of the "Vision 2020" and the materialization of part of the projects scheduled within the framework of this strategy supported the emergence of a tourist sector which gains in competitiveness.

Concerning the domestic sectors, the public authorities plan a set of actions which aim at a better repositioning of the sector of housing, particularly through the improvement of the legal and regulatory framework of the sector, support of the demand of middle-classes, consolidation of the gains of low-cost housing and the fight against substandard housing and the exploration of new funding sources. It is also a question of modernizing domestic trade, which plays a key role in the economic momentum of the country, by means of adopting a new action plan 2014-2018 within the framework of "Rawaj 2020" Plan, for which an investment of 9,3 billion dirhams is planned. In order to make it possible for the financial sector to continue playing its role of support to sectors with strong growth potential, the mobilization of additional financial resources is critically required in view of the context which is marked by the rise of funding needs coupled with tightening liquidity.

At the social level, the implementation of sector based policies and programs aiming at the improvement of the living conditions of the population resulted in a positive development of the

major social indicators, especially those relating to employment, education and health. However, certain weaknesses still persist, particularly in the management of the started reforms.

As regards employment, the analysis of the relation between growth and employment for the period 2002-2012 revealed that an increase of 1 point of economic growth resulted in a rise of 0,31 points of employment. At the sector based level, the tertiary sector and the sector of construction and public works alone monopolize nearly 85% of the jobs created between 2002 and 2012. Concurrently, unemployment rate posted a downward trend from 11,3% in 2002 to 9% in 2012. Nevertheless, the job market continues to suffer from several insufficiencies, particularly insufficient employment pattern of economic growth, weak match of training and labor market needs, the limited range of the active program for the promotion of employment (Idmaj, Taehil and Moukawalati) and the weak intermediation of employment. The development of a new strategy of professional training constitutes a major challenge in the acquisition of know-how and necessary competences for the improvement of performances and competitiveness of companies and support to sectors with promising growth potential and job creation.

As for access to education, considerable advances have been recorded in terms of the schooling rates at the primary, secondary and high school levels nationwide, by gender and area. However, many challenges are to be taken up, related primarily to the poor outcomes of the national education system both at the internal (high dropout and repeating rate) and external (difficulty of access to the job market) levels. It is in this direction that the Royal Speech of 20 August 2013 reconsidered the national major challenges, calling for a closer examination of the education sector to evaluate the accomplishments recorded and identify the weaknesses and deficiencies.

In the area of access to healthcare services, it is necessary to note the positive trend of indicators relating to health care supply, reduction of maternal death rate, increase of life expectancy at birth and the expansion of basic medical coverage. Nevertheless, important challenges should be met, particularly as to the availability of medical and paramedical personnel as well as the access of the isolated populations to health care. Hence, there is a pressing need to initiate an in-depth reform of the health system, revolving around three major lines: acting upon the determinants of health, making headway towards universal coverage and controlling the entire health system (public, private, formal and informal).

As regards the sector of retirement, it remains characterized by the existence of disparate systems (CMR, CNSS, RCAR, CIMR...) with a weak coverage, significant deficits and a short-term worrying situation, especially with regard to the civil pension scheme of CMR (Moroccan Pension Fund). Hence, this sector requires a comprehensive reform through taking urgent measures conducive to redressing the fragile financial balance of the civil pension scheme and establishing a coherent system of retirement.

In response to these efforts, the rate of poverty dropped from 21% in 1985 to 6,2% in 2011. The general evolution of poverty is marked by a downward trend in all its forms (incidence, depth and severity) and at all levels (urban, rural and national). To maintain this rate, it is imperative to continue the efforts made to ensure equal access of the citizens to income and living conditions conducive to decent existence life for them, within the framework of several

initiatives and strategies, especially the National Initiative for Human Development and the national strategy for the development of the initiatives of Solidarity and Social Economy by 2020.

In view of the recorded progress and the challenges to meet, the reinforcement of the governance proves to be imperative for the success of economic, financial and social policies, in order to consolidate the assets of Morocco and explore new tracks of progress. The improvement of business environment constitutes one of the priority fields supporting the establishment of the foundations necessary to succeed and sustain action-taking, through the initiation of several actions and measures aiming, in particular, at the consolidation of governance and transparency of the business world, the reduction of the procedures related to land property and town planning, the facilitation of access to funding and the encouragement of entrepreneurship and young companies.

Also, the approval of the charter of justice reform, in July 2013, constitutes a considerable step forward towards the improvement of public action. Such charter aims at the consolidation of the independence of the judicial power, the moralization of the justice system, the reinforcement of the protection of human rights and freedoms, the upgrade of the effectiveness and efficiency of the legal framework, extension of the institutional capacities of the legal system and the modernization of legal administration.

In the same spirit, the reform of the Organic Law on Finance Act (OLFA) remains also an objective to be achieved with a view to reinforcing the performance of public administration, strengthening transparency of public finance and increasing the role of the Parliament in the budget debate. It should be noted, within this framework, the launching of the experimentation of the provisions stipulated under the bill of the new OLFA, through the prefiguration of the budgetary new approach based on the programs for four pilot departments: Education, Agriculture and Maritime fishing, High Commissioner's Office of Water and Forestry and the Fight against Desertification as well as Economy and Finance.

Public finance

The budget policy adopted by Morocco in recent years resulted in changes of the profile of public finance. After an expansion of tax revenues until 2008, the latter underwent the effect, on the one hand, of the unfavorable economic condition at the national and international levels and, on the other hand, the various tax measures introduced to the last Finance laws, along with the effects of tariff dismantling and various agreements of free trade.

The tax revenues, as a share of GDP, edged up from 20, 6% in 2009 to 21% in 2012. Their structure witnessed transformations in favor of direct taxation. Indeed, the share of direct taxes in tax revenues significantly improved, amounting to 44, 8% on average between 2005 and 2012 compared with 38, 8% between 2001 and 2004. This indicates the efforts made in order to improve the distribution of the tax burden among taxpayers.

Furthermore, expenditure underwent structural and cyclical pressures resulting in heavy costs of compensation and the wage bill. The budgetary expenditure posted an average annual rise of 10% between 2009 and 2012. This policy, which aims at supporting the purchase power of citizens and reinforcing investment, resulted in a degradation of the budget balance, which declined from a surplus of 0, 4% of GDP in 2008 to deficits of 6% in 2011 and 7, 3% in 2012. Consequently, debt ratio rose from 47, 1% of GDP in 2009 to nearly 59, 6% in 2012.

Taking account of these elements, Finance Act 2014, which coincides with a global and regional environment in flux, set as one of its objectives the reinforcement of the construction of constitutional institutions and the acceleration of structural reforms. It is a question of finalizing the reinforcement of the texts on the organic laws provided under the Constitution. As for structural reforms, special attention is granted to the reform of justice, the materialization of advanced regionalization, tax reform in the light of the recommendations resulting from the taxation forums organized in April 2013, the reform of retirement scheme and the reform of the Organic Law on Finance Act.

In addition, the Finance Act aims also at the stimulation of a sustainable economic growth, the support for investment, entrepreneurship and the promotion of employment. The major actions adopted in this connection aim at supporting public and private investment, in line with an integrated and participative approach, while supporting the upgrade of infrastructures, the diversification of growth sources and the development of the sectors with strong added value and job-creating ones.

Reinforcement of the mechanisms of cohesion as well as social and spatial solidarity constitute a priority of the government, aiming at meeting the needs of male and female citizens as regards social services, including the generalization of education and the improvement of the quality of education and vocational training, the facilitation of access to health care services by accelerating the generalization of RAMEC program and the continuation of the improvement of hospitalization treatments at emergency sections.

The re-establishment of macro-economic balances is a major concern among the priorities of the Government within the framework of Finance Act 2014, in order to support a healthy and sustainable environment for the financing of growth and the development of the country. For this purpose, Finance Act provides for a set of measures aiming at supporting the stability of foreign assets, by means of promoting exports and regulating imports, in addition to the mobilization of foreign exchange revenues and the control of budget deficit.

Finance Act 2014 counts on achieving a growth rate of the national economic activity, at constant prices, of 4, 2% in 2014, pulled by the constant increase of non-agricultural GDP, which should grow by 4, 8%. This trend takes account of an oil price (Brent) of 105 dollars a barrel in 2014, a foreign exchange rate of the euro against the dollar of 1,3 in 2014 and a foreign demand addressed to Morocco which should gradually recover to increase by 3,4% in 2014 after +0,5 in 2013.

Similarly, Finance Act 2014 provides for measures to bring back the budget deficit to 4, 9% of GDP in 2014. To this end, the orientations of the Government relate to the need for securing sufficient leeway with regard to both revenues and expenditure. It should be noted that the materialization of the objectives of Finance Act 2014 requires, ineluctably, increased participation of all the driving forces of the nation in the effort of modernization as well as economic and social transformation on the basis of shared strategic choices, which establishes a common ambition of democracy, modernization and inclusive sustainable development, ensuring equality and solidarity.