Royaume du Maroc

Ministère de l'Economie et des Finances

Direction des Etudes et des Prévisions Financières

المملكة المغربية

وزارة الاقتصاد والمالية

مديرية الدراسات والتوقعات المالية

Summary of the Economic and Financial Report 2019

The drafting of the Economic and Financial Report (REF) 2019 comes in a particular national context, marked by the beginning of a comprehensive debate on the future of our country's development model, in accordance with the directives of His Majesty King Mohammed VI.

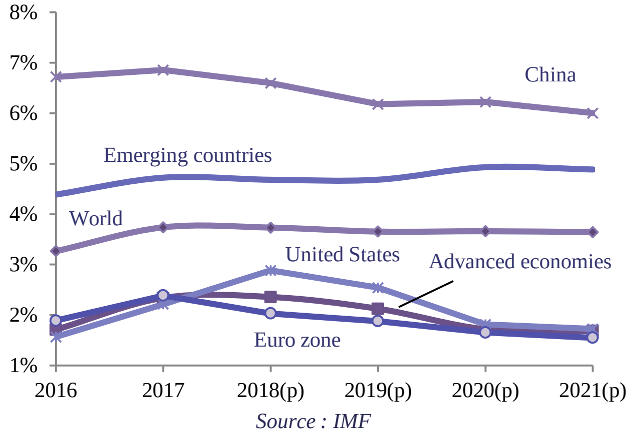
The REF 2019 takes into account this major concern, by favoring an approach based on the in-depth examination of the external and internal challenges and issues that Morocco is facing in terms of accelerating its economic, social and environmental development trajectory. To do this, the report first presents the main trends in the international and regional context of Morocco with strong impact on the Moroccan economy. The second part of the report discusses the achievements that need to be capitalized and the gaps that need to be filled in order to rehabilitate the country's development model and build it on solid foundations. The third part of the report examines the structural changes that have marked the profile of public finances and lists the main orientations and financial forecasts of the 2019 Finance Bill (PLF).

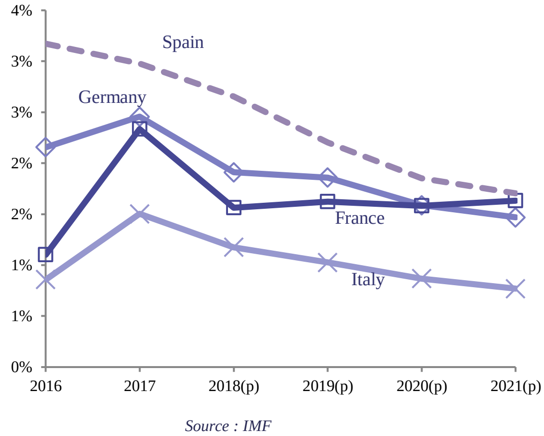
I. THE INTERNATIONAL AND REGIONAL ENVIRONMENT OF MOROCCO

Global economic activity would continue its positive recovery in 2018-2019, as in 2017, to reach 3.7% according to the latest IMF forecasts[1]. Growth in the US economy and resilient growth in emerging markets would continue to fuel the strength of the global recovery and partially offset the expected slowdown in growth in the euro zone and Japan.

In the euro zone, growth in economic activity would experience a drop, after a rebound in 2017 (2% in 2018 and 1.9% in 2019 against 2.4% in 2017), due in particular to the deceleration of GDP growth in France (1.6% in 2018 and 2019 after 2.3% in 2017) and the slower pace of growth in economic activity in Spain, which would stand at 2.7% in 2018 and 2.2% in 2019 against 3% in 2017.

[1] World Economic Outlook, IMF, October 2018





Real GDP growth in the world, in%, 2016-2021

In the United States, the strength of economic activity would continue in 2018 and 2019, with expected GDP growth of 2.9% and 2.5% respectively, against 2.2% in 2017.

In emerging countries, economic growth is expected to continue at a sustained pace of 4.7% per year in both 2018-19 as in 2017. In China, GDP growth would remain fairly high, though at moderate paces compared to past rates. It will rise to 6.6% in 2018 and 6.4% in 2019. In India, economic activity is expected to rebound sharply, with a growth rate of 7.3% in 2018 and 7.4% in 2019 against 6.7% in 2017.

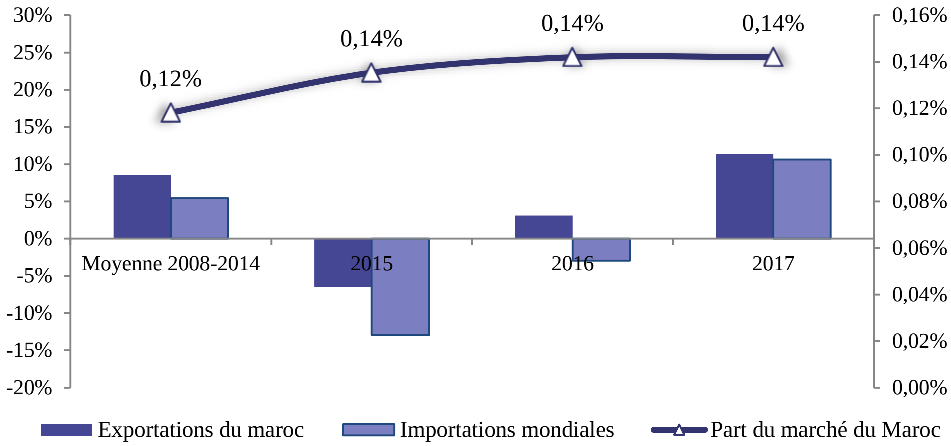
For other emerging countries, the growth of the Brazilian economy would show a positive recovery, rising to 1.4% in 2018 and 2.4% in 2019 against only 1% in 2017. The same is true for the Russian economy whose growth would rise by 1.7% in 2018 and 1.8% in 2019 against 1.5% in 2017.

In the MENA region, economic activity is expected to grow by 2.4% in 2018 and 2.7% in 2019, against 2.2% in 2017. This consolidation of activity would concern both exporting and importing countries of oil. The latter show more sustained growth rates (4.5% in 2018 and 4% in 2019 against 4.1% in 2017).

In sub-Saharan Africa, economic growth would show an upward trend, rising to 3.1% in 2018 and 3.8% in 2019 against 2.7% in 2017, benefiting mainly from the positive trend in commodity prices. This is particularly the case for Ghana (6.3% in 2018 and 7.6% in 2019) and the Ivory Coast (7.4% in 2018 and 7% in 2019).

Overall, this strengthening of global economic activity followed the recovery of trade flows in 2017, as shown by the global intensity index of world trade, which improved significantly to 1.5 in 2017 compared to 0.8 in 2016 and 1.2 on average between 2008 and 2014. According to the WTO, the growth in world trade volume would remain well oriented to 3.9% and 3.7% respectively in 2018 and 2019.

In line with the strengthening of the global trade recovery, Morocco's foreign demand (excluding phosphate products and derivatives) would remain broadly sustained (3.6% in 2018 and 3.9% in 2019, against 5.6% in 2017), though affected by the lack of economic activity in the euro zone. As a result of their sectoral and geographical diversification, Moroccan exports rose in 2017 by 10.1%, compared to an annual average of 5.2% over the 2011-2016 period. This performance has allowed Morocco to slightly improve its share in the global market, which has increased from 0.12% on an annual average over the period 2008-2014 to 0.14% in 2017.



Source : WTO data, DEPF calculations

Evolution of Morocco's global market share and by partner countries

In addition to commercial performance, Morocco is increasingly attracting foreign capital, with an increase in Foreign direct investment (FDI) of 23% in 2017, thus making the country the 5th host country of FDI at the African level, after Egypt, Ethiopia, Nigeria and Ghana... In terms of geographical breakdown, France remains the leading investor country with 27% of total foreign investment received by Morocco in 2017. It is followed by the United States (17% of total FDI in 2017), the United Arab Emirates (10%) and the United Kingdom (6%).

Morocco's external performance in terms of trade and finance is the product of the diversification of the partnership ties forged by the Kingdom with several developed, emerging and developing countries. These performances also originate in the privileged cooperation relations that Morocco has been able to develop with regional and international organizations, particularly in terms of mobilizing the necessary financing to support the process of structural transformation of the Moroccan economy.

II. MOROCCO'S ISSUES AND CHALLENGES IN REHABILITATING ITS DEVELOPMENT MODEL

The reform drive in Morocco, especially since the beginning of the 2000s, has helped, to a certain extent, to advance the economic, financial and social situation of our country, to lay the foundations of a productive system with high potential and to boost the functioning of the institutions, by promoting the integration of values of transparency and good governance. In terms of external performance, Morocco has been able, in particular, to gradually improve its attractiveness with regard to FDI and acquire a regional posture of choice, which is recognized by its role as a credible player in South-South cooperation.

Morocco's progress, no matter how encouraging, still falls short of the country's strengths and potential, and above all in relation to its legitimate ambitions to make a significant qualitative leap in development, the only way to allow it to step into the era of emergence.

A profile of growth improving but requiring a strong impetus

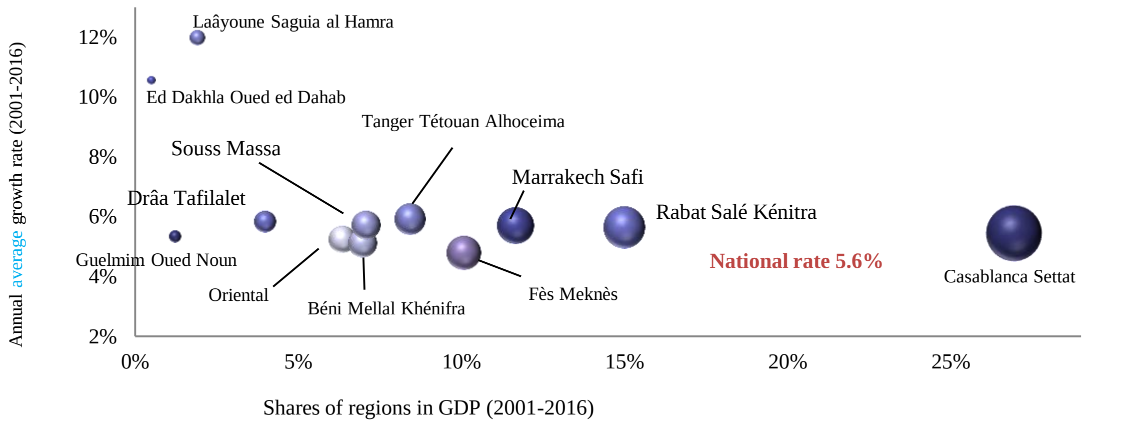
In view of the efforts made in the context of sectoral reforms and strategies aimed at strengthening the country's productive system, the Moroccan economy has seen its growth rate increase from 3% in the 1990s to around 4.4% on average per year since the beginning of the 2000s. These performances confirm the progressive improvement of the Moroccan economy’s resilience and reflect as much the improvement of the added value of the agricultural sector, which has become less sensitive to climatic hazards, as those of non-agricultural activities. Thus, the secondary sector, which represents an average of 29% of total value added between 2009 and 2017, grew by an average of 2.2% a year. As for the tertiary sector, which accounts for 57% on average of total value added, it grew by 3.4% on average over the same period.

Moroccan economy's growth continues to be supported by the elements of domestic demand. Over the period 2009-2017, household final consumption expenditure grew at an average rate of 3.7% per year, with a contribution to economic growth of 2.2 percentage points on average. For its part, Gross fixed capital formation (GFCF), representing 30.4% of GDP, grew by 1.4% on average per year between 2009 and 2017, contributing 0.4 percentage point to economic growth over the same period.

However, the contribution of foreign trade to growth remains generally limited, given the strength of imports. The sustained dynamic of imports continues to absorb the profit recorded in terms of increasing the exportable supply. Between 2009 and 2017, exports contributed 1.8 percentage points to the rate of economic growth; in return, imports pulled 1.9 percentage points off GDP growth.

In short, the relatively favorable direction of growth should not lose sight of its weakening ability to create enough jobs. Net job creation dropped sharply, to an average of 16,000 jobs between 2008 and 2017, after having reached more than 32,000 jobs on average during the period 2000-2007.

In addition, despite the efforts made in recent years, especially in terms of sectoral strategies, with a view to introducing more dynamism into the territories, interregional disparities in terms of growth persist. In fact, 4 out of 12 regions account for more than 60% of GDP. It's the region of Casablanca Settat that achieved the highest average share of GDP (26.9%), at current prices, during the period 2001-2016 followed by the regions of Rabat Salé Kenitra (15%), Marrakech Safi (11.6%) and Fez Meknes (10.1%).



Soure : DEPF

In terms of activity upturn at the regional level, it should be noted that five regions, accounting for 51.5% of national GDP (5.6%), experienced below-average growth rates over the period 2001-2016 (Beni Mellal Khenifra (+ 3.5%), Fez Meknes (+ 3.6%), Casablanca Settat (+ 3.9%), Oriental region and Guelmim Oued Noun (+4, 1% each)).

Financing conditions for the national economy whose improvement should still be continued

The positive upturn in domestic economic activity and government reforms have had a positive impact on the performance of the financial sector in terms of mobilizing savings and their allocation in the economy. In 2017, the added value of financial and insurance activities increased from 1.2% in 2016 to 2.4% in 2017, together with a reduction in the financing requirement of 0,6 point of GDP to reach 3.6% in 2017. This improvement in value added occurred despite the decline in net external assets of Bank Al-Maghrib at the end of 2017 and the sharp increase in banks' need for liquidity which amounted to 42.2 billion dirhams instead of 14.7 billion dirhams at the end of 2016. Note that the year 2017 was marked by a slowdown in outstanding bank loans which reached 843.1 billion dirhams against 818 billion dirhams in 2016, an increase of 3.1% against 4.2% in 2016.

The increase in bank loans was mainly driven by the acceleration of growth of equipment loans, which amounted to 170.6 billion dirhams in 2017, an increase of 11.6% compared to 2016. Mortgages, for their part, rose by 4.4% to 257.6 billion dirhams.

A process of structural transformation to accelerate the completion of the building of a modern and competitive economy

By means of a dense process of sectoral reforms, the national productivity has undergone favorable developments, the consolidation of which would favor the gradual improvement of the economic specialization profile of our country and the strengthening of its overall competitiveness. In addition to the traditional sectors, this situation concerns, in particular, some emerging sectors with high potential in view of their positive impacts in terms of creating added value and jobs.

Since its launch in 2009, the Halieutis plan has had several structuring projects affecting the entire value chain of the fishing sector. These projects include the adoption of mechanisms for the rational management of the resource, the reinforcement of the landing (ports, Landing Points (PDA) and Fishermen's Villages (VDP)) and market infrastructures (fish markets and markets), support for enhancement of fish products and improvement of the competitiveness of seafood products. In addition to this, there are dedicated actions for small-scale fisheries aimed, in particular, at promoting the quality of the catches and at improving the living, working and safety conditions of the professionals involved in this activity.

As for Plan Maroc Vert (PMV), it initiated a structural transformation of the Moroccan agricultural sector. This strategy is poised to meet the challenge of strengthening the resilience of agricultural value added by strengthening the weight of sectors with high added value and improving the productivity of the cereals sector. These achievements were made possible thanks to the reorientation of public support towards agricultural products with high added value and perfectly resilient to climatic hazards. Thus, overall investment in the agricultural sector doubled between 2008 and 2017, from nearly 7 to 13.3 billion dirhams. The same trend is observed at the level of the "support for private investment" component, which rose from 1.5 to 3 billion dirhams over the same period. This performance has allowed the agricultural sector to achieve sustained and less erratic growth in its value added, with an average annual growth rate (AAGR) of 7.3% over the period 2008-2017, attesting to the good performance of the various agricultural sectors.

At the level of the industrial sector, the options adopted by Morocco in terms of industrialization, during the last two decades have triggered a dynamic that has improved the attractiveness of the country to foreign investment and has favored the emergence of global trades in Morocco. Since the launch of the Industrial Acceleration Plan in 2014, the industrial sector has continued to consolidate its performance with positive effects on the jobs created, for a total of 288.126[2] jobs between 2014 and 2017 according to the Department of Industry; which represents 57% of the target of jobs expected by 2020. As for industries, the car industry has created the most jobs, with 29% of the total (almost 84,000 jobs). Agribusiness and textile-clothing created 16% and 13% respectively. Over the same period[3], foreign direct investment of an industrial nature totaled more than 13 billion dirhams, an increase of 1.7 billion dirhams, compared to the period 2010-2013. The performance of the industrial sector is also established with exports which totaled 149.4 billion dirhams[4], an average annual increase of + 10.3% over the period 2014-2017.

For its part, the Offshoring sector experienced a steady increase in its exports, estimated at 8% on average over the period 2009-2017, rising from 4.9 billion dirhams to 9.1 billion dirhams. This

[2] Including offshoring.
[3] The figures for the year 2017 are provisional according to the Foreign Exchange Office.
[4] Excluding phosphate derivatives.

increase in export revenue was accompanied by a sustained creation of jobs, which grew by an annual average of 11% between 2008 and 2016, from 27,367 to 63,000 jobs.

And to maximize the benefits of the industrial strategy, 54 industrial ecosystems have been created whose operationalization is supported by several types of public support, in particular, allocations from the Industrial Development Fund with a total commitment of 20 billion dirhams by 2020.

In the phosphate and derivatives sector, OCP Group continues its firm global repositioning strategy, through increased production capacity and cost reduction, as a result of an extensive investment program that mobilized, during its first phase 2008-2017, an investment of 75 billion dirhams of which 50 billion dirhams for the benefit of the local companies. The OCP Group has also adopted the second phase of this investment program for the period 2018-2028 which calls for the mobilization of 100 billion dirhams and which will concern, mainly, three zones: the central axis (Youssoufia-Benguerir-Safi), the southern axis (Laayoune) and Africa (Ethiopia and Nigeria).

In the same vein, and to have modern infrastructure and consolidate its logistics, Morocco has put in place a strategy for the development of logistics competitiveness by 2030. This is part of the objective of developing an integrated national network of 3,300-hectare Multi-Flow Logistic Zones and promoting the emergence of integrated and efficient logistic actors through the incitement of operators to resort to logistics subcontracting and the restructuring of the road freight transport sector.

The major changes taking place in the industrial sector call for the reinforcement of the integration of digitization through the impetus of the national effort in digital R&D. The aim is to increase productivity in the various branches of industry and services, while improving the competitiveness of exports and the profitability of companies.

Social policies whose efficiency deserves to be strengthened to consolidate the foundations of a harmonious "living together"

Despite the increase of social policies deployed by Morocco on the social level, the progress made in this area has yet to cope with the widening of social inequalities. This situation raises important challenges in terms of enhancing the inclusiveness of the national development model, with a particular focus on the effectiveness and efficiency of the policies implemented for this purpose.

While Morocco has managed to generalize access to primary education and to improve the enrollment rate at the secondary school and high school levels, the performance of the education system suffers from several shortcomings, as evidenced by the school drop-out rate and the large share of unemployed graduates.

The change of this situation is dependent on the successful implementation of the priority projects launched in the framework of the 2015-2030 strategic vision, in particular the preschool education projects, the renovation of the pedagogical model, the training of teachers, governance of the education system and social support for schooling. In the health sector, additional efforts should be made. Admittedly, efforts to improve maternal and child health and to combat maternal and infant mortality have led to an overall improvement in the main indicators of supply and demand for care. The maternal mortality rate declined by over 68% during the 2004-2017 period to attain 72.6 per 100,000 live births. With regard to child mortality, it also recorded a significant decline to reach 18 per 1,000 live births for children under one year of age in 2017 (28.8 per 1,000 in 2011 and 40 in 2003-2004). However, this progress has been insufficient to eliminate health inequalities by place of residence or region. It is in this context that a "2025 health plan" was designed in consultation with the various stakeholders with the aim of building a homogenous health system characterized by an organized, quality and accessible health care service.

In terms of employment, the insufficient job creation aspect of economic growth continues to fuel the rise in the unemployment rate in Morocco which reached 10.2% in 2017 (14.7% in urban areas and a stagnation at 4% in rural areas) and that of young people has increased, representing 2.5 times the national rate (25.8% overall and 41.8% for urban youth in 2016). Taking into account this situation, and to guarantee productive and decent employment, the 2017-2021 National

Employment Strategy has set four strategic axes. The aim is to promote job creation, enhance human capital, improve the effectiveness of active employment programs and strengthen intermediation and develop the framework of labor market governance.

As for social protection, major efforts have been made to develop the social protection system in Morocco through a number of major initiatives (INDH, AMO, RAMED, FACS). However, this system still faces many challenges related to program fragmentation and governance. Hence the importance of using an integrated approach to social protection, that can enhance the fairness and efficiency of this system. The realization of this approach raises the question of the targeting of beneficiary populations. In this sense, the establishment of a National Population Register (RNP) with a unique identification number; and a Unique Social Register (RSU) would be timely to maximize the impact of State action in this area.

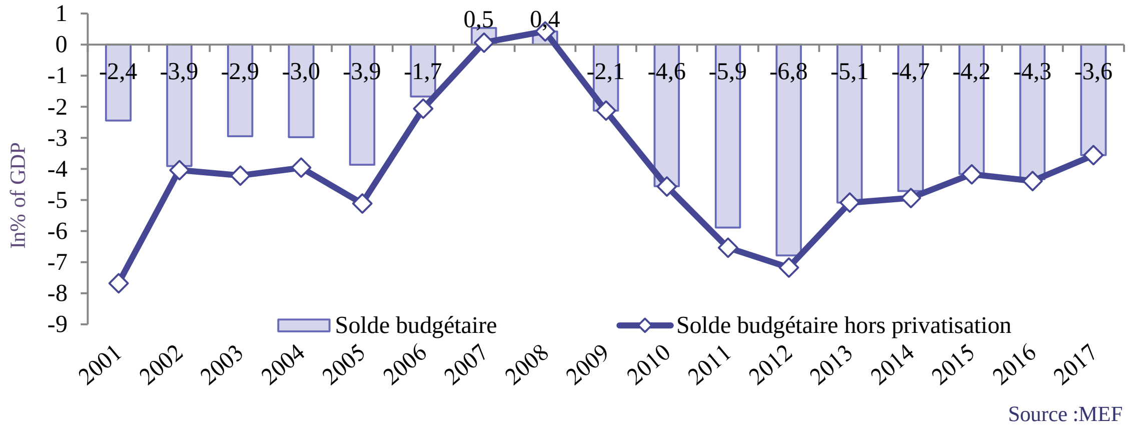
Moreover, in order to promote the actions of the National Initiative for Human Development (INDH), the third phase of the INDH (2019-2023) will mobilize investments of 18 billion dirhams. This new phase, while strengthening the achievements, will be marked by the refocusing of the initiative's programs on the reduction of social and territorial disparities, the development of human capital, the support for categories in difficult circumstances, and the launch of a new generation of initiatives generating income and employment.

In the light of the foregoing, maximizing the impact of the country's reform drive poses the question of the deepening of the governance to focus on the practices of transparency and efficiency of public action. To this end, a strong impetus has been given to the action of institutional players, mainly justice and public administration with the aim of substantially enhancing the quality of their operation. No less important is the promotion of decentralization, which is seen as a prerequisite for the successful implementation of advanced regionalization. Similarly, the development of the role of the Regional Investment Centers (Bill 47-18) marks an important step in the territorialization of the investment incentive policy and the development of territories.

III. CONTINUED SUSTAINABLE BUDGET POLICY IN LINE WITH THE COUNTRY'S ECONOMIC AND SOCIAL PRIORITIES

Structural reforms implemented by Morocco in recent years have been accompanied by commendable economic, financial and social progress. This progress was made possible thanks to the conduct of a budget policy based as much on the requirements of sustainability as on the priorities of the economic and social development of the country. Alongside the reform of the tax system and the subsidy system, the coming into force of the Organic Law n ° 130-13 relating to the Finance Law, has given an impetus to the budget reform, since it prescribes a new way of managing public finances, focused on performance and results.

Thanks to this reform movement, the profile of public finances has been substantially improved, as evidenced by the strong reduction of the budget deficit, which has been reduced by 3 points of GDP between 2012 and 2017.



Evolution of the budget balance

A reading of the evolution of public finances, between 2015 and 2017, shows a positive rebound of tax revenues. The latter showed an increase of 6.1% in 2017. The weight of direct taxes has significantly increased, driven in particular by the good performance of tax revenues which grew by 6.4% on average per year during the period 2015-2017. Regarding Income Tax revenues, they recorded an average annual increase of 5% between 2015 and 2017. This average increase conceals, however, a slight slowdown of 0.7% of these revenues in 2017, affected by the decrease in income tax revenues on real estate profits and that of the income tax collected by the Staff Expenditure Department (DDP), respectively by 5.6% and 6.9%.

Regarding domestic Value Added Tax (VAT) revenues, their growth rate improved significantly in 2017 (+ 8.1%) after having fallen in 2016 (-4.3%), in line with the large amounts reimbursed (14.4 billion dirhams between 2015 and 2017). On the other hand, VAT imports revenues have clearly increased over the last two years (+ 4.6% in 2016 and 7.4% in 2017) after having decreased in 2015 (-1, 4%), and this is due to the sustained growth of imports.

Domestic consumption tax (ICT) revenues are still on the upward trend, benefiting in particular from the rise in the consumption of energy products. At the same time, revenue from customs duties rebounded sharply in 2016 (+ 17.6%), after a near-stagnation in 2015 (+ 0.3%). This situation was reversed in 2017, as revenues fell sharply by -5.1%, mainly due to lower import duties on wheat.

In the light of the above, the level of the tax burden has fallen significantly from 22.4% in 2009 to 21.2% in 2017. This change reflects, on the one hand, the effort made by the public authorities in terms of reducing the rates of the Corporation Tax and the Income Tax and, on the other, the impact of the economic situation on the revenue of the various taxes.

As for public spending, examining its structure reveals the significant weight of ordinary expenses (78.4% on average between 2012 and 2017) compared to investment spending.

To fix this situation, the measures adopted by the public authorities have made it possible to reduce the ratio of payroll to GDP to 9.8% in 2017. Keeping in mind that the introduction of the restrictive nature of staff loans from the 2017 finance law; as part of the roll-out of the new Organic Law on the Finance Law, will further contribute to imposing budgetary discipline in the management of the State's staff costs.

When it comes to compensation expenses, their weight in the State's General Budget fell by 15 points between 2012 and 2017. It should be noted that these expenses had reached their highest level in 2011 and 2012 to represent 25.1% of ordinary expenses.

As for investment spending, it reached almost 6% of GDP on average over the period 2008-2017 compared to 4% between 2001 and 2007, reflecting the government's unwavering commitment to support the economic activity.

Under these conditions, the budget deficit has gradually decreased, from 6.8% of GDP in 2012 to 3.6% in 2017. In addition, the ordinary balance has become positive from 2014, thereby maintaining the performance of investment spending and limiting the need for Treasury debt.

In line with the Royal Guidelines and the Government's commitments, the priorities of the 2019 Draft Finance Law (PLF) focus on strengthening the effectiveness of social policies, supporting national investment as well as the continuation of major reform projects and sector strategies and the preservation of macroeconomic balances.

The 2019 Draft Finance Law (PLF) calls for continued efforts to contain the budget deficit in sustainable proportions. Thus, the revenue and expenditure forecasts for 2019 should result in a budget deficit of around 3.7% of GDP excluding privatization.

The real growth rate of the Moroccan economy is expected to be 3.2% in 2019, down from 3.5% in 2018. Excluding agriculture, GDP would grow by 3.3% in 2018 and by 3,8% in 2019. Forecasts are based on the assumption of a cereal production of 70 million quintals in 2019 against 103 million quintals in 2018. These forecasts assume an average price of Brent of 70 dollars per barrel in 2018 and 2019, and a euro-dollar exchange rates of around 1.16 in 2019 and 1.17 in 2018. As for foreign demand by volume addressed to Morocco (excluding phosphates and derivatives products); it would remain strong overall (3.9% in 2019 against 3.6% in 2018 and 5.6% in 2017).