

Summary of the Economic and Financial Report accompanying the 2022 Finance Bill (REF 2022)

The Finance Bill (PLF 2022) comes at a particular time for the Kingdom, marked by the elaboration of its new development model which is focused on strategic choices of transformation able to allow our country to make a significant qualitative leap in its overall development trajectory.

At the international level, the PLF 2022 is set against a backdrop of persistent uncertainty caused by the Covid-19 health crisis. The fiscal, monetary and financial support measures implemented around the world suggest a gradual recovery of economic activity. Nevertheless, the fiscal aftermath of the crisis and the profound changes it has brought about raise important issues and challenges at several levels.

At the national level, the health, economic and social responses deployed to mitigate the effects of the Covid-19 crisis have generated positive effects overall, helping to strengthen the resilience of the national economy to exogenous shocks. These responses have also enabled the Moroccan economy to prepare for the challenges of productive transformation, in the wake of the recomposition of global value chains and the challenges brought about by the ecological and digital transition.

In view of this context, the PLF 2022 puts forward priority actions of a structural nature aimed at consolidating the recovery of the national economy and strengthening the mechanisms of inclusion and human capital as well as good governance, in accordance with the Royal Instructions and the Government's commitments.

Taking into account these national and international developments, the Economic and Financial Report (REF 2022) addresses in its first part the evolution of Morocco's international and regional environment, highlighting both the risks and opportunities for the national economy. In its second part, it highlights the recommendations of the new development model (NMD), in terms of global and sectoral strategic choices as well as the transformation levers to be mobilized. The third part of the report is dedicated to the central issue of financing the NMD's transformation projects, by exploring the potential margins for expanding the State's budgetary space. This part also provides a contextualization of the PLF 2022 with a breakdown of its priorities and budgetary choices.

I. Morocco in a rapidly changing world

The Covid-19 health crisis, with its multidimensional consequences, has profoundly disrupted the functioning of the world economy, plunging it into a deep recession in 2020. In parallel with the deployment of vast vaccination programs to halt the progression of the pandemic, the fiscal, monetary and financial support measures implemented throughout the world point to a gradual recovery of economic activity, albeit at different rates from one country to another. Nevertheless, the economic recovery on the horizon is not without risks. It remains closely linked to the unpredictable evolution of the epidemiological situation and to the capacity of countries to anticipate the consequences of the epidemic on health and socio-economic levels.

Thus, in 2020, the world GDP contracted by 3.1%, according to the latest estimates of the FMI¹.

In the advanced economies, economic activity contracted by 4.5% in 2020, a steeper decline than in emerging and developing economies (-2.1%). The United States experienced a historic economic recession in 2020 after ten years of uninterrupted growth. The U.S. economy shrank by 3.4% in 2020. In Japan, GDP fell by 4.6% in 2020, its first annual decline since 2009. In the Eurozone, economic activity fell by 6.3% in 2020, following declines in German GDP of 4.6% and in French and Spanish GDP of 8% and 10.8% respectively.

As for emerging and developing countries, the pandemic has caused their GDP to contract by 2.1% in 2020. In the Asian countries, activity only fell by 0.8% in 2020. The Chinese economy has withstood the pandemic shock, recording economic growth of 2.3%. In emerging Europe, GDP fell by 2% in 2020, while in Latin America and the Caribbean, economic activity fell by 7%. In the Middle East and Central Asia, GDP contracted by 2.8% while in Sub-Saharan Africa, economic activity declined by 1.7% in 2020.

The support measures deployed to counter the effects of the pandemic and to promote a rapid exit from the crisis should help improve the outlook for economic activity in several countries, particularly the advanced ones. As a result, according to the IMF, the world economy is expected to return to economic growth of 5.9% in 2021 and 4.9% in 2022. However, the outlook remains fraught with uncertainty and will evolve according to the epidemiological situation. The IMF expects GDP growth in advanced economies to reach 5.2% in 2021 and 4.5% in 2022. The US GDP should grow by 6% in 2021 and 5.2% in 2022. In Japan, GDP growth is expected to be 2.4% in 2021 and 3.2% in 2022.

In the Eurozone, GDP is expected to grow by 5% in 2021 and 4.3% in 2022, following the expected rebound in economic activity in Germany (+3.1% in 2021 and +4.6% in 2022), France (+6.3% and +3.9%), Italy (+5.8% and +4.2%) and Spain (+5.7% and +6.4%)

As for emerging and developing economies, their GDP is expected to grow by 6.4% in 2021 and 5.1% in 2022, with very uneven performance from one country to another. In China, GDP is expected to grow by 8% in 2021 and 5.6% in 2022. The Indian economy is expected to grow by nearly 9.5% in 2021-2022. Brazil's GDP is expected to rebound by 5.2% in 2021 and 1.5% in 2022.

For the MENA region, the IMF expects growth of 4.1% in 2021 and 2022. The expected recovery in this region is considered slow and uneven, due to the very disparate deployment of vaccination.

In terms of trade, the World Trade Organization (WTO) forecasts a recovery in the volume of world merchandise trade of 10.8% for the year 2021. However, this recovery is uneven from country to country. For the year 2022, the WTO forecasts a growth in merchandise trade volume of 4.7%. However, this outlook could be jeopardized by new waves of Covid-19 infection and the emergence of new variants.

As for foreign direct investment (FDI) flows in the world, they have decreased by 35% in 2020, from 1,500 billion dollars in 2019 to 1,000 billion dollars, under the effect of the containment imposed following the Covid-19 pandemic worldwide, combined with the prospects of recession that have led multinational companies to review their investment projects. North Africa, for its part, has seen the largest drop in FDI inflows (-25%), linked to the 35% decline in flows to Egypt, the main recipient of FDI in Africa. Morocco is the 8th African country to receive FDI in 2020 and the 3rd African country to send it.

In terms of outlook, UNCTAD forecasts a decline in global FDI to its lowest level in 2021, with an eventual recovery estimated at 10-15%. FDI would still be about 25% below its 2019 levels, due to continued uncertainty about access to vaccines, the emergence of virus mutations, and the reopening of economic sectors. In light of the disruption caused by the Covid-19 pandemic,

¹ Estimates dated October 2021.

UNCTAD further expects a profound, longer-term transformation of global value chains that would disrupt the global trade and investment landscape. This transformation would be the result of a new industrial revolution, a stronger focus on sustainable development and its corollary investment in green and blue economies. On the other hand, it would reflect the resurgence of economic nationalism, which would consecrate the pre-eminence of shorter production chains.

The shortening of global value chains, which is on the horizon, offers unprecedented opportunities for Morocco. The strategic position of our country, at the crossroads of major intercontinental markets, its status as a maritime hub and logistics platform for transport and storage as well as the dynamics of transformation in which its production system is involved, are all factors that place Morocco in a better position to capture part of the relocation movements in the automotive industry, aerospace, pharmaceutical sector and agribusinesses

Effects of the crisis on national economic activity

Like other countries in the world, the national economy was affected in 2020 by the effects of the Covid-19 pandemic. The sanitary restrictions have had a negative impact on business activity, reducing production capacity and leading to job losses in sectors that were severely affected by the crisis. In addition to this exogenous shock, the effects of unfavorable weather conditions for the second year in a row were also felt. Between drought and pandemic, the cost to the national economy has been estimated at nearly 9 points of GDP growth in 2020. Nevertheless, the support and recovery measures put in place have helped to mitigate the economic and social impact of this crisis at both the global and territorial levels. Without these measures, the drain on GDP growth and the widening of social and spatial inequalities would have reached alarming proportions.

In 2021, a revival of economic activity seems to be confirmed, driven by the progress made in vaccination and the dividends of the stimulus measures already initiated, as well as by the consolidation of growth among the Kingdom's main trading partners. In fact, sectoral developments in 2021 point to renewed dynamism in all sectors of the economy, based on three recovery dynamics:

- *Dynamics of a partial recovery* covering sectors that are strongly anchored in global value chains (tourism, transport, particularly its air component);
- *Dynamics of a complete recovery* including domestic activities moderately affected by the effects of the crisis, notably agriculture, construction, electricity and water, telecom and financial activities;
- *Dynamics of building resilience* which concerns the non-market administered sectors (health, education, administration), the activities of production of essential goods in the context of crisis such as the food industry and the pharmaceutical industry, as well as export activities where Morocco holds a position of major player on the world scene (extractive industry and phosphate derivatives).

In terms of employment, the year 2020 saw a sharp deterioration in the labor market characterized by a significant destruction of employment positions. Thus, the unemployment rate increased by 2.7 points, from 9.2% in 2019 to 11.9% in 2020. This increase is the result of a loss of 432,000 job positions in 2020 compared to a creation of 165,000 positions in 2019. Nevertheless, the employment indicators recorded, at the end of the second quarter of 2021, a clear improvement reflecting, thus, a certain recovery of the national labor market, as evidenced by the results of the National Employment Survey which shows a net creation of 405,000 jobs (creation of 414,000 in rural areas and loss of 9,000 in urban areas) compared to the same quarter of 2020 which recorded a loss of 589,000 jobs. However, the unemployment rate increased by 0.5 percentage points (from 12.3% to 12.8%) between the second quarter of 2020 and the second quarter of 2021, in relation to an increase in the number of unemployed of 9%.

These components and evolutions indicate a significant rebound in economic activity to 5,6% in 2021.

II. The Moroccan economy under the prism of the New Development Model: strategic choices and ambitions

Morocco had the opportunity, prior to the global health crisis, to engage in a process of strategic reflection on its development model, with a view to exploring the best possible ways to establish its development path on solid and sustainable foundations. The foundation of this new model is a structurally competitive and resilient economy, generating more material and immaterial wealth and offering greater access to opportunities for inclusion to the entire population, regardless of their place of residence.

Driven by this ambition, the NMD has identified, while taking into account the major transformations brought about by the pandemic crisis, the major axes of transformation centered around i) a productive, diversified economy that creates added value and jobs; ii) a strengthened human capital that is better prepared for the future; iii) opportunities for inclusion for all and a strengthened social bond; and iv) resilient territories, places where development is anchored. To achieve this, the NMD has suggested a series of recommendations and action levers of a strategic and operational nature, as follows

→ For a diversification of the sources of growth

On the agricultural side, a new agricultural strategy, the "Generation Green 2020-2030", has been set in motion in order to face the new challenges of Moroccan agriculture and consolidate its achievements. The orientations advocated in the framework of the NMD focus, in particular, on the development of agricultural production, the preservation of water resources, the maximization of the impact of the agricultural strategy on the development of the territories and the consideration of the imperatives of food sovereignty of the country in the current and future choices in the implementation of public policies dedicated to this sector.

In terms of industrial activities, in addition to improving its contribution to national value added and job creation, the industrial sector has undergone significant shifts, with the specialization profile being raised in favor of high value-added industries that are highly integrated into the MVCs. However, this industrialization momentum is called upon to face new challenges in a rapidly changing world, particularly in light of the impact of the health crisis and the disruptive transformations caused by the dual transition: digital and ecological. Thus, the NMD has proposed a new generation of reforms aimed at driving the transformation of the productive system, strengthening its diversification and accelerating its move upmarket. In order to achieve these objectives, the NMD has also set a future challenge called "Made in Morocco: diversification and upgrading" which is based on 4 components related to the implementation of taskforces to release sectoral potential, the establishment of a financing instrument specifically dedicated to productive diversification within the framework of the Mohammed VI Fund, the development of a national strategy to support businesses and the establishment of a national system of innovation

As for the tourism sector, it must meet structural challenges in order to secure its development, deeply shaken by the Covid-19 crisis, whose effects could last until 2023. In this context, the NMD has identified several guidelines to reconsider the tourism sector beyond the recovery measures and in light of global trends and the new situation dictated by the pandemic. In particular, it is a question of strengthening the animation component of the accommodation offer with an adapted training plan, social coverage for employees and diversification of the offer (ecotourism, rural tourism, etc.). In addition, the NMD has called for the strengthening of the opening of the sector to opportunities offered by specialized platforms for promotion, labeling (sustainable tourism) and the continuous adaptation of operators to market requirements. To do this, the NMD supports the establishment of a task force under the executive whose mission is to modernize and develop the sector in an eco-systemic approach.

Regarding the logistics sector, an important vector of competitiveness, attractiveness and integration into the global economic dynamics, was identified as a priority in order to mobilize its potential

and take advantage of its spillover effects on other sectors of the economy in terms of wealth creation and employment. However, several constraints hamper its development, namely the lack of regulation and weak coordination between the actors involved, the insufficient quality of the road transport services offered ... Taking into account its difficulties but also its potential, the NMD has set several objectives in the direction of the emergence of a modern and resilient logistics sector (reducing the cost of transport and logistics to reach 12% of GDP in 2035 ...). It has identified several levers of action to achieve this, namely: strengthening the governance of the logistics sector to ensure its integrated and coherent development, creating integrated national corridors, promoting the emergence of competitive private logistics players and the use of rail transport as a vector for sustainable mobility.

➔ *Strengthening and development of human capital*

During the last two decades, significant efforts have been made to raise the level of human development and consolidate the foundations of social cohesion. Ambitious social programs have been implemented and have contributed to improving the socio-economic conditions of the population, as shown by the positive evolution of the main social indicators, whether in the field of employment, education and health or basic infrastructure. However, the quality of public services and the related shortcomings in terms of accessibility have only been partially resolved. They were, moreover, highlighted by the Covid-19 health crisis and even exacerbated, as evidenced by the still limited capacity of the health and education system to absorb significant exogenous shocks. As a result, strengthening human capital is the foundation of the transformation carried out by the NMD, with major shifts in public policy in the areas of health, education and training, higher education and scientific research.

In the field of education, Morocco has made real progress in terms of generalizing schooling, particularly at the primary level. However, the quality of learning and the overall performance of the education system remain a major source of concern in terms of quality and performance of the national education system. The extent of wastage, linked to repetition and dropping out, continues to affect the performance of the education system and raises important questions about the quality of learning, pedagogical conduct and the attractiveness of the school environment as a whole. With a view to providing substantive responses to these shortcomings, the NMD has identified seven priority areas of reform that will form the backbone of a Moroccan educational renaissance. These areas include the creation of a support structure for existing teacher training institutions, the "Center for Excellence in Teaching," the renovation of teachers' careers, the implementation of a quality certification system for schools, the development of a support system for academic success, the organization of the student's learning path, a strong investment in early childhood, and the placement of citizenship education at the heart of the educational project.

Concerning higher education, Despite the efforts made, the higher education and scientific research system remains confronted with several constraints which refer, among others, to the inefficient mode of governance, the low quality of the training offer, the limited means dedicated to scientific research and the lack of anchoring of the university to its ecosystem. Several strategic levers have been proposed within the framework of the NMD to remedy this. These levers include placing the student at the center of the higher education system, resorting to the evaluation of the scientific research system and ensuring independent financing, establishing an attractive status for teacher-researchers, anchoring the university to a strong and autonomous governance open to the territorial ecosystem, establishing training of excellence and developing Public-Private Partnerships (PPP) as well as promoting vocational training and establishing bridges with higher education

In relation to professional training, the new roadmap adopted for the development of this sector focuses, among other things, on the launch of a new generation of training institutions called "Cities of Trades and Skills (CMC)" of multisectoral and multifunctional scope spread over the twelve regions of the Kingdom with a budget of 3.6 billion dirhams. The operationalization of the CMC program has started with the launch, in 2020/2021, of the construction of three CMC (Agadir, Nador and

Laayoune). The NMD guidelines are in line with this roadmap, while emphasizing the challenges related to the effective implementation of CMCs.

→ *Equity in access to inclusion opportunities*

Over the past two years, Morocco has embarked on a process of reform aimed at *to promote gender equality and* to lay the foundations for inclusive economic and social development. Progress to date has been encouraging, but falls short of expectations, especially in terms of women's access to economic opportunities. To remedy this situation and provide substantive responses to gender inequalities, the NMD places women's economic empowerment among the strategic priorities and establishes it as a lever for accelerating the development process in our country. In this respect, the NMD has set several targets to be reached by 2035, including increasing the participation rate of women in the labor force to 45%, increasing the number of women in senior positions to 35%, and establishing wage parity in the private sector. In order to achieve this, the NMD has set out to increase the number of women in senior positions to 35%, to establish wage parity in the private sector by reducing the wage gap by 10 percentage points to 5% by 2035, to give all women the same opportunities as men to access education, and to consolidate the fight against illiteracy among women of all ages, mainly in rural areas. To achieve this, the NMD has devoted a separate project to the economic empowerment of women, which is based on three strategic components: women's access to economic opportunities, capacity building for women in terms of training and education, and zero tolerance for violence against women.

With respect to the inclusion of youth in the workforce, and despite the efforts made in terms of integration of young people, their situation still faces many constraints that hinder the full mobilization of their potential. These constraints are mainly related to the quality of basic services intended for them, the lack of spaces (cultural spaces, sports) and opportunities (entrepreneurship in particular) conducive to their development and the difficulties of accessing employment. Indeed, the unemployment rate affects 31.2% of young workers aged 15-24 at the national level and 45.3% in urban areas, while the rate of young NEETs is among the highest in the world (in 2019, NEETs represent 28.5% of young people aged 15-24). Taking into account this context, several strategic levers have been proposed in the framework of the NMD in order to meet the expectations and aspirations of young people. These are, essentially, the development of an integrated global strategy for youth, involving all actors in its design and accompanied by a cross-sectoral governance framework, the consolidation of the availability in proximity of basic quality services for the benefit of youth, adapted to their needs, the deployment and animation of platforms and socio-cultural spaces intended for youth to promote expression, sharing and initiative taking... The NMD has proposed, in this framework, a flagship project in favor of young people "Cap'jeunes", based on action programs covering four themes: culture and arts, sports and leisure, socio-economic inclusion and social assistance.

The generalization of social protection is one of the cornerstones of the efforts made and in prospect for the consolidation of human capital at the national level. Indeed, given the extent of the social protection deficit that needs to be filled, which the Covid-19 health crisis has only exacerbated, Morocco has just launched, at the instigation of His Majesty King Mohammed VI, a fundamental reform of its social protection system. The Framework Law 09-21 on social protection sets out the guiding principles for this reform. The objectives of this reform, which will be implemented progressively over five years, are to generalize the AMO by 2022 to enable 22 million additional people to benefit from it, to generalize family allowances over the period 2023-2024, to broaden the base of members of retirement schemes by integrating nearly 5 million active people who do not benefit from any coverage, and to generalize compensation for loss of employment for people who have a stable job by 2025. The operationalization of the said reform was launched by the signing, on April 14th 2021, of 3 framework agreements for the generalization of the AMO to the categories of professionals, independent workers and self-employed persons exercising a liberal activity.

In order to accompany the generalization of social protection in Morocco, *a major health system reform project has been launched*. This project establishes a new governance of the health sector through the creation of management and governance bodies (the Higher Authority for Integrated Health Legislation, the regional health agencies and the territorial health groups). This reform also aims to strengthen foreign investment and attract foreign medical expertise and skills, which will make it possible, on the one hand, to develop the health infrastructure and, on the other hand, to encourage the attraction of Moroccan medical skills resident abroad. The rehabilitation of health care provision, particularly at the regional level, through the implementation of the regional health program and the enforcement of the obligation to respect the health care circuit and the rehabilitation of health institutions is also one of the objectives of the said reform. The establishment of an integrated information system that allows the collection, processing and use of all basic information relating to the health system, including the private sector, is another pillar of this project.

In addition, the success of the ongoing reform of the social protection system remains dependent on the completion of the Single Social Register (RSU) project and the National Population Register (RNP). In this context, the Government Council, held on April 20th 2021, approved the draft decree n°2.20.792 implementing law n°72.18 relating to the system of targeting the beneficiaries of social support programs and creating the National Registry Agency (ANR) whose missions will concern the management and updating of the RNP and RSU.

➔ *Strengthening territorial resilience and sustainability*

The effective implementation of advanced regionalization remains a major challenge that Morocco must meet in order to make its territories the basis for wealth creation and the vector of inclusive, balanced and sustainable development. It should be noted that the current growth dynamic observed at the territorial level has not been sufficient to correct territorial disparities, given the persistent concentration of national wealth in a small number of regions (4 regions out of 12 account for more than 68.4% of GDP between 2001 and 2019, namely: the region of Casablanca Settat, followed by the regions of Rabat Salé Kénitra, Tangier Tétouan Al Hoceima and Fez Meknes). This finding suggests the need to enhance the competitive advantages of the regions by establishing the territories as spaces for the design and implementation of effective and integrated public policies. With a view to strengthening the capacity for action of territorial actors and making it a lever for accelerating the structural transformation carried out by the NMD, strategic levers have been identified for this purpose. These include guaranteeing territorial governance that offers a wide margin of action at the regional level, diversifying and making sustainable the financial resources of territorial authorities, strengthening human skills for the benefit of the territories, etc.

In the same vein, the NMD incorporates recommendations and strategic and operational guidelines to ensure the establishment of resilient cities, inclusive and responsive to the needs of citizens, strengthen the resilience of territories to climate change through the consolidation of environmental sustainability and protection of natural resources, support the energy security of the country by establishing it as a global player in the field of renewable energy and improve the water security of the country and establish it on a sustainable basis ...

The levers of transformation to achieve the ambitions of the NMD

As reiterated in several Royal Speeches, one of the problems hindering Morocco's progress is the poor performance of the public administration, in terms of governance and quality of public services. In order to provide substantive responses to these dysfunctions, the NMD advocates substantive actions that aim to *an efficient, honest and transparent administration, at the service of the citizen and the company, offering quality and proximity services, and with an effective remedy against abuse*. This will require a renewed administrative apparatus, particularly in the senior administration and in strategic public enterprises and establishments, and motivated and competent human resources within a civil service capable of implementing public policies and carrying out the deconcentration process. To achieve this, strategic orientations have been developed within the framework of the NMD. These relate to the strengthening of the administration and its

autonomy, the establishment of an administration that is competent and proactive, accountable and oriented towards performance and results, with integrity and quality at the service of the citizen, the application of simplified internal management procedures in the administration and in public establishments, and the increased use of a digitized and transparent administration, with simplified administrative procedures...

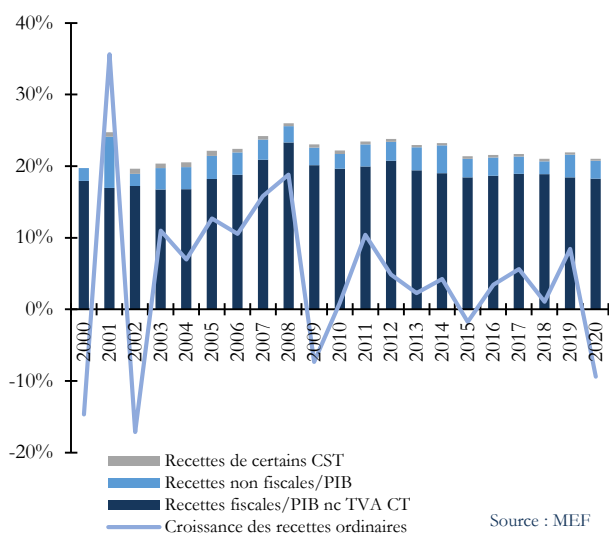
At the same time, Morocco made the choice, very early on, to tie up with digital technologies to make them a lever for development and economic competitiveness and has adopted during the last decade several strategies and programs in this sense. The importance of digital has been reaffirmed in the context of the health crisis with the massive use of teleworking, distance learning, e-commerce and the important flows of direct cash transfers paid by the State in favor of vulnerable social strata. Aware of this importance, the NMD has devoted a special place to digital technology as a lever of change to accelerate the implementation of many transformational projects, in particular, those in favor of equitable access to government services (e-services) and to education and health services on the one hand, and economic and financial inclusion of the rural and disadvantaged population on the other. In order to lay the foundations for a successful digital transition, it is important to put in place a new digital strategy, supported by an efficient regulatory framework, to work on upgrading the regulatory and legal framework for digital development and to consolidate data protection and cyber security, to accelerate the deployment of digital infrastructure and ensure the implementation of a digital development plan, to develop the required digital skills and accelerate the digital transition of companies and the administration and to develop new services and digital content tailored to national specificities and promote the emergence of startups.

III. Budgetary space for the new development model

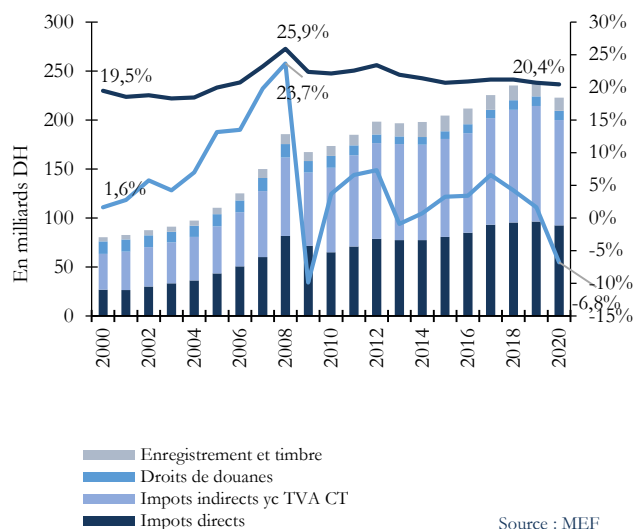
The implementation of the NMD requires the mobilization of substantial financial resources and the exploration of potential margins related to the expansion of the State's fiscal space. In light of the many challenges facing Morocco, both in terms of laying the groundwork for a healthy economic recovery and beginning the process of deploying its NMD, the 2022 Financial Plan proposes to put forward priority actions to meet these challenges, while taking into account a difficult macroeconomic context marked by strong tensions on public finances that the health crisis has only accentuated.

Indeed, the behavior of public finances over the past two decades has undergone contrasting changes, marked overall by a reduction in the budget deficit. However, the contraction of economic activity in 2020 as a result of the health crisis linked to the Covid-19 pandemic interrupted this momentum. Thus, an analysis of the evolution of ordinary revenue over the last 20 years shows a certain fluctuation according to the economic situation, with a slowdown in the last decade. In this respect, these revenues have developed in a sustained manner over the first decade, rising from 19.7% of GDP in 2000 to 26% in 2008, due to a favorable economic context. However, and despite the adjustment effort made by the government since 2013, ordinary revenue has shown a downward trend to 21% of GDP in 2020, due to the effects of the health crisis.

As for tax revenues (excluding local authorities), they fell by 6.5% in 2020. In fact, the receipts of income tax fell by 6.5%, VAT revenues by 8.9% and ICT revenues by 8.4%. corporate tax incomes, which are mainly based on corporate profits made in 2019, fell slightly by 0.2% in 2020. At the same time, customs duties recorded a decline of 2.9% compared to 2019, attributable in particular to the decline in taxable imports. Similarly, registration and stamp duty receipts fell by 11.4%. At the same time, non-tax revenues fell by 25.2% in 2020, representing 2.5% of GDP, compared with an annual average of 2.9% of GDP since 2000. This decline is mainly due to the fall in income from public enterprises and establishments (PEE) and exceptional payments linked to assistance funds, including donations, combined with the absence of privatization operations in 2020.



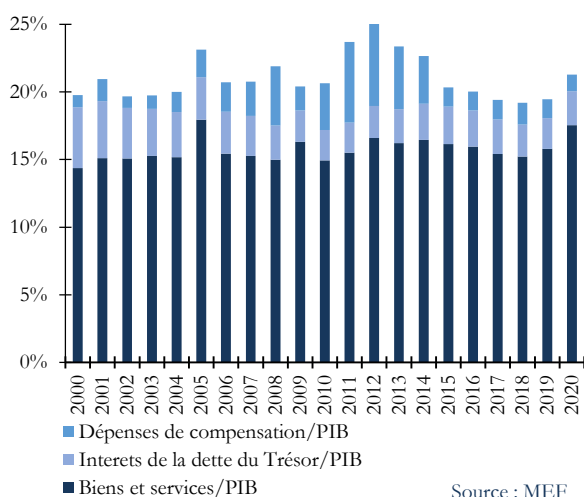
Graph 1: Evolution of ordinary income between 2000 and 2020



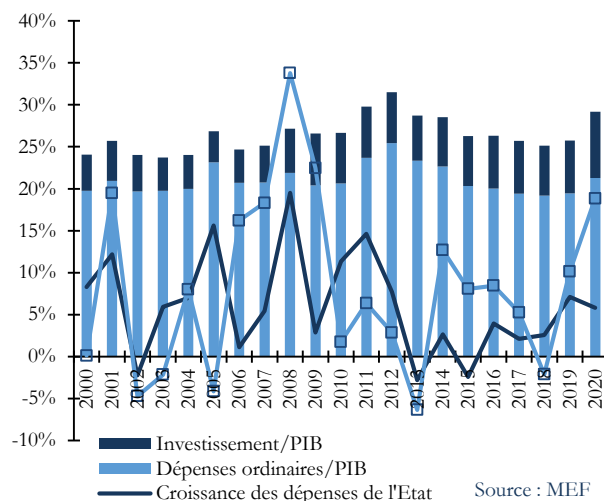
Graph 2: Evolution of tax revenues between 2000 and 2020

With respect to expenditures, an analysis of their evolution over the last two decades reveals a continuous increase. Ordinary expenditure rose by an average of 8.4% over the period 2000-2012, due to one-off expenditure on transfers and subsidies, compensation, social dialogue and anti-drought programs. The measures adopted by the government in 2013 to reduce compensation expenditure and rationalize transfers to the public enterprises have made it possible to reduce the average rate of increase in ordinary expenditure to 1.1% over the period 2013-2019. In view of the particular context that marked 2020, ordinary expenditure showed an increase of 3.4% over 2019, resulting from the 5.1% increase in expenditure on goods and services (representing 82.4% of ordinary expenditure) and the 15.8% decline in compensation expenses. The debt service of the Treasury in relation to GDP has shown, for its part, a decline in 2020 to be 2.5% against 4.5% in 2000 and this, despite the increase in the debt ratio over the last decade.

Investment expenditure grew steadily between 2000 and 2009, reaching 6.2% of GDP in 2009. From 2010, they stabilized at around 6% of GDP on average over the 2010-2019 period. In 2020, they increased by 18.8% to reach 85.9 billion dirhams (or 7.9% of GDP). This amount covers, in addition to traditional state investments, the planned allocation of 15 billion dirhams to the Mohammed VI Fund for Investment, which is expected to play a leading role in the financing strategy of the post-crisis economic recovery.

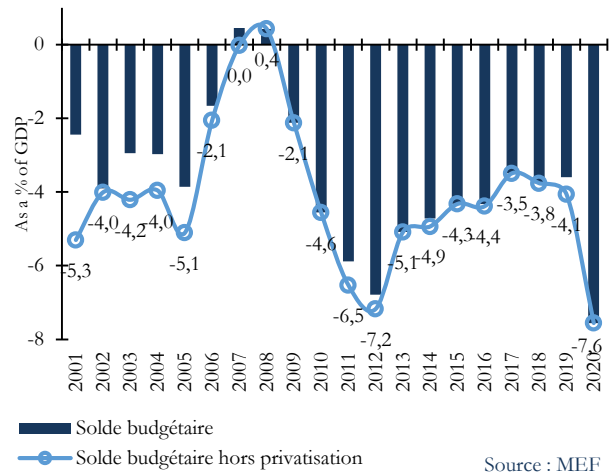


Source : MEF



Source : MEF

These developments resulted in an overall deficit that deteriorated to 7.6 percent of GDP in 2020 as a result of the counter-cyclical fiscal policy pursued by the government to deal with the effects of the health crisis related to the Covid-19 pandemic.



Graph 5: Evolution of the budget balance as a % of GDP

Thus, recent developments in public finances have their impact on the margins of maneuver of the General State Budget, which remain necessary, in the short term, to support the economic recovery and implement the recovery plan. In the medium and long term, additional budgetary leeway should be made available to ensure the consolidation of macroeconomic balances, but above all to meet the financing requirements of the NMD implementation.

In this respect, and in view of the tax potential that can be mobilized to finance the NMD, the tax reform process has been initiated through the introduction in the 2020 and 2021 Finance Acts of some of the recommendations of the National Tax Conference held in 2019. In the same vein and in application of the high Royal instructions, the framework law n°69-19 relating to the tax reform was adopted in 2021. The purpose of this law is to define the frame of reference for the State's policy on tax reform and it aims at establishing an efficient, fair, equitable and balanced tax system, which allows mobilizing all tax potentials to finance public policies, promote economic development and achieve social inclusion and cohesion.

In addition, our country has embarked on the pursuit of a multiplicity of reforms in order to free up more budgetary space for the implementation of the NMD. This is essentially the continuation of the operationalization of the provisions of the organic budget law “LOF” and the reform of the compensation, the optimization of the role of the State through the reform of the PEE and the creation of the national agency of strategic management of the State's participations and the performance of the PEE...

While taking into account this context, the finance bill “PLF” 2022, in accordance with the Royal guidelines and the Government's commitments, puts forward priority actions aimed at consolidating the fundamentals of the national economic recovery, strengthening inclusion mechanisms and advancing the generalization of social protection, enhancing human capital, reforming the public sector and consolidating governance mechanisms.

In terms of the outlook underlying the PLF 2022, economic activity is expected to end 2021 with a rebound in real GDP of 5.6%. Such an increase would allow GDP to recover its pre-Covid 19 level to 99%, but would remain below the level corresponding to its pre-crisis trajectory. In 2022, the growth rate of the national economy is expected to consolidate, albeit at a slower pace than in 2021. On the basis of assumptions based on an average Brent crude oil price of 68 dollars per barrel in 2021 and 2022, a euro-dollar parity of 1.21 in 2021 and 2022, and an increase in foreign demand for Morocco (excluding phosphate products and derivatives) of 7.7% in 2021 and 6.7% in 2022, the national economy is expected to grow by 3.2% in 2022. This increase in economic activity will be driven mainly by the consolidation of the 3.7% growth rate in non-agricultural value added.

The agricultural value added, for its part, should show a slight decrease of 0.7%, under the assumption of an average cereal production of 80 million quintals after the realization of a harvest of 103.2 million quintals a year earlier.

The forecasts for government revenue and expenditure for the year 2022 should result in a budget deficit of nearly MAD 72.6 billion, i.e. 5.9% of GDP, down 0.3 percentage points of GDP compared with the forecasts in the 2021 Finance Act.