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 2016

The 2016 Finance Bill comes out in a troubled international economic climate in which the global economy continues to recover at an uneven pace according to regions and countries, with persistent risks of geopolitical tensions especially the relatively weak situation marking the southern and eastern Mediterranean. The outlook for the advanced economies is improving, while growth in emerging and developing countries is projected to be lower. This difficult situation will undoubtedly have varied impacts, in terms of challenges and opportunities, on the ongoing economic dynamics in Morocco ..

At the national level, the Finance Bill 2016 falls within a promising context marked mainly by the continued restoration of macroeconomic equilibriums, combined with reductions in budget deficits and current account deficit. This project is also part of the implementation of the advanced regionalization and the consolidation of modernization and the gradual and profound transformation of the national productive fabric, by accelerating the pace of the key structural reforms for a balanced and sustainable economic growth which allows reducing social, spatial and gender inequalities.

The Economic and Financial Report 2016 is thus trying, in its first part, to examine the evolution of the international and regional environment in order to identify the most important issues, the most pressing challenges and the opportunities to be taken so as to reposition the national economy in its Euro-Mediterranean and African environment with a comprehensive and integrated vision promoting the strong presence and leadership of Morocco in the field of South-South cooperation.

The second part of The Economic and Financial Report is dedicated to the structural analysis of the economy, such as the review of sector-based strategies launched over recent years, given the imperatives of a more inclusive sustainable human development. This analysis aims to highlight the progress made in this regard and to identify the structural weaknesses which could jeopardize the impetus to socioeconomic development in progress.

The third part of the 2016 EFR will focus on the changes that have occurred in recent years and on the impact of reforms on the evolution of public finances. The adoption of a new Organic Law related to the Finance Act based mainly on multi-annual programming, budget transparency and accountability, will reinforce the fiscal framework which helps strengthen the sustainability of public finances.

1. Morocco in its regional and global environment

According to the latest IMF forecasts, global economic growth will remain limited to 3.1% in 2015 from 3.4% in 2014, before recording a slight rise to 3.6% in 2016. The outlook for the advanced economies improves under the impetus of the US economy whose growth would reach 2.8% from 2.6% in 2015 and 2.4% in 2014. These rates are, however, well below the catch-up necessary to regain its pre-crisis trend.

The recovery of the European economy is, in turn, moderate and fragile. The euro area is expected to record a rate of growth of its economic activity of around 1.6% in 2016 from 1.5% in 2015 and 0.9% in 2014 benefiting, in particular, from the low levels of oil prices and interest rates and from the depreciation of the euro which improves export competitiveness. The recovery in the euro area would be generalized to the main member countries, in particular Germany (1.6% in 2016 from 1.5% in 2015), France (1.5% in 2016 from 1.2% in 2015), Italy (1.3% in 2016 from 0.8% in 2015) and Spain whose growth rate is relatively solid (2.5% in 2016 from 3.1% in 2015).

With regard to the emerging and developing countries, economic activity is expected to be less buoyant, and will register a growth rate of 4.5% in 2016 from 4% in 2015 and 4.6% in 2014. This trend is partly explained by the deterioration in the outlook of some major emerging and oil-exporting countries including, in particular, China, Brazil and Russia.

In the Middle East and North Africa, economic growth would gradually strengthen to reach 3.8% in 2016 from 2.3% in 2015 and 2.6% in 2014, according to the IMF. The low levels of oil prices hinder the growth of the producing countries but support the recovery in importing countries (4.1% in 2016 from 3.9% in 2015) such as Egypt (4.3% in 2016 from 4.2 % in 2015) and Tunisia (3.0% in 2016 from 1.0% in 2015). The importing countries are also supported by the gradual recovery of the European economy.

Concurrently, the volume of world merchandise trade continues, according to the WTO, its moderate trend with growth of 2.5%, similar to that recorded in 2013, from 2.2% in 2012. This is explained in particular by the slowdown in the growth of emerging economies' GDP and by the uneven recovery in developed countries. In volume, exports from developing countries have grown faster than those of developed countries, that is, 3.1% against 2.0% respectively, but the gap between the two groups of countries has narrowed to 1.1 point in 2014 against 1.6 point in 2013 and 2.6 points in 2012. These exports are supported by Asia (+4.7%), including a 6.8% increase in exports from China, followed by those of North America (+4.2%), the European Union (+1.8%) and the Middle East (+1.3%).

Given this context marked particularly by the recovery in European demand, Morocco's exports grew by 8.3% in 2014, according to the Exchange Office. This evolution stems mainly from the dynamism of trade with the European Union accounting for 64% of Morocco's total shipments in 2014. Spain accounts for most of the increase in exports in 2014 (MAD 8.8 billion); Spain is followed distantly by Italy and France (MAD 1.6 and 1.2 billion respectively). It should noted, in this regard, that the structure of Moroccan exports has witnessed a significant shift towards emerging industries between 1998 and 2014. The share of transport machinery and equipment rose sharply from 8.8% in 1998 to 29,2% in 2014, linked in particular with the remarkable increase in exports in the automotive sector. Similarly, the shares of mining and chemical products grew stronger, accounting for 12.8% and 16.6% of exports in 2014, against 11.7% and 12.6% in 1998, thanks to the strong exports of phosphates and derivatives.

Morocco consolidates thus its particularity in the international arena and strengthens its relationships with key players in the global economy (EU, US) and emerging or developing countries with strong potential (Turkey, United Arab Emirates , countries of the Agadir Declaration ...) while strengthening its position in Africa. However, the regional integration necessary for a qualitative economic leap in the Mediterranean and North Africa is still weak.

In fact, the trade of southern Mediterranean countries with the countries of the EU develop according to an asymmetric relationship, and the market share of all the countries of the South Mediterranean in the EU imports represented only 9.6% in 2014 and Moroccan exports to the EU did not exceed 0.7% of the total EU imports from the world. Besides, compared to other regional groupings, intra-Maghreb trade is not sufficiently developed and is still marginal, with intra-regional trade rate which stands at about 4.3%. The potential of trade within the sub-region remains largely unexplored.

In response to these evolutions, the global positioning of the Moroccan economy in terms of attractiveness and competitiveness has improved as evidenced by the increase in FDI flows in Morocco in 2014 which recorded, according to UNCTAD, an increase of 8.6% compared to 2013. The geographical distribution of FDI shows that France remains the leading investor country in Morocco, with 32% of total revenues from foreign investment in 2014. On the African continent, Morocco is among the six recipients of foreign direct investment in 2014. The prospects of attracting new FDI remain promising, in connection with the continuation of reforms initiated for the improvement of the business climate and the development of different strategies and sectoral policies that have allowed increasing the investment opportunities in both traditional sector (such as agriculture, fisheries and mining) and innovative sector (automotive, aeronautics, logistics, renewable energy, ...).

2. ***Consolidation of the model of national development: towards an inclusive growth, creating jobs and reducing social and spatial disparities***

The national economy was marked in recent years by the continuation and deepening of reforms. This has allowed, despite the rapid changes in the international environment and in context of financial and economic crisis, to consolidate the gains without compromising the stability of the fundamental balances and to strengthen the resilience of the Moroccan economy. The macroeconomic, structural, sectoral and social reforms enabled the country to achieve rapid growth, close to its potential, that is, an increase of 4.5% on average from 2000 to 2014 from 3.2% between 1990 and 1999. The different sectoral strategies launched over recent years have gradually induced profound changes in the economic structure and a modernization of the national productive fabric.

This performance is due in part to the agricultural sector that is becoming less and less dependent on weather conditions, following the efforts made for its modernization promoted by the Green Morocco Plan (PMV), and the contribution of agriculture with high value-added at the expense of cereal farming. Agricultural value added, averaging 13% of the total value added, increased by 7.8% on average per year between 2008 and 2014.

For its part, the secondary sector, representing 28.8% on average of the total value added, has developed by 2.6% per year on average, driven mainly by the processing industries which constitute 17.2% on average of the total value added.

One of the highlights of the gradual transformation of the Moroccan economy is the process of its growing service sector with a share of 57.7% of the total value added in 2014. The service sector recorded an increase of 4% on average per year, during the period 2008-2014, in connection with the major reforms, mainly in the sectors of information technology and communication, banking, services rendered to enterprises...

Great pillar of national economic growth, domestic demand continues to support economic growth through investment and final consumption. Over the period 2008-2014, household final consumption expenditures, which represent almost 59% on average of GDP, grew in volume by 4.6% on average per year, contributing to the economic growth by 2.7 points on average. This development is attributable to the improved gross disposable income of households in terms of the purchasing power by 4.3% and to the positive effects of the measures aimed at salary increases, reduction of the income tax, boosting of the market Labour and control of the level of consumer prices. For its part, the gross fixed capital formation increased by 2.8% on average per year. It represents thus 31.4% of GDP, on average, and contributes by 0.9 points to economic growth.

The implemented sector strategies have thus allowed strengthening the dynamics of strategic sectors such as agriculture, industry (automotive, aeronautics), phosphate and derivatives ... However, some areas, which have led to the increase in the domestic economic activity, have now reached a certain maturity with signs of slowdown in their business models. The most edifying examples in this regard are those of telecommunications, financial services, real estate ... which, after a spectacular growth phase, reveal saturation signals with new outlook of growth both in terms of products and markets.

The agricultural sector, for its part, has experienced a profound change with the implementation of the structuring actions of the Green Morocco Plan that have really boosted the sector through, in particular, the sustained strengthening of agricultural investments. Therefore, domestic agriculture has managed to reduce its dependence and its vulnerability to climate hazards, particularly through an increase in plantations with high value added by around 37%, which helps strengthen the sectors that are more resilient to drought at the expense of cereals.

It is also important to mention the progressive implementation of structural projects falling within the framework of the Halieutis strategy which has helped boost the fishery sector (covering 85% of the species marketed by management measures, the gradual replenishment of fish stock, the total elimination of the use of drift nets ...).

Morocco works also on consolidating the competitive position of the national industry in the global value chain through the emergence of new industrial specializations with high value added as confirmed by the remarkable growth of the automotive and aeronautics industry. This performance is supported by strong automobile production and by the spectacular increase in the exports of the national automotive sector, which ranks first in terms of export activities in 2014. Morocco has thus become the second largest vehicle producer in Africa after South Africa with a market share of 35% in 2014 against only 5% in 2003 with automobile production exceeding 227,579 vehicles in 2014 against only 18,546 vehicles in 2003. Similarly, the national aviation sector continues its positioning in the global aeronautic value chain, with an export turnover of more than MAD 7.44 billion in 2014 against MAD 3.6 billion in 2008, that is, an average annual growth of 12.8%.

The sector of phosphate and derivatives, which is considered one of the sectors that contribute to the structural transformation of the national economy, has achieved over the last decade a remarkable growth with regard to export, investment and position on the world stage. This remarkable reinforcement of Morocco's leadership in the global market, with strong market shares, averaging 47% for phosphoric acid, 33% for fertilizers and 19% for the rock, is the result of strategic choices undertaken by the OCP Group in favour of a double diversification: product and market.

The tourism sector, for its part, has shown an average growth which has been maintained during the decade 2000 at over 5%, contributing thus to the process of structural transformation of our economy. Strategic revitalization of the tourism sector, despite economic uncertainties, would continue, especially through the implementation of major projects planned within the framework of the "Vision 2020".

Regarding the energy sector, the Moroccan model of growth is expected to gradually shift towards a cleaner model, with an acceleration in the implementation of structural projects of clean energy sources (solar and wind), combined with a better energy efficiency and exploration of the potential for creating new sources of green growth.

Alongside these sectoral transformations, it is imperative for our country to continue its process of spatially inclusive human development as part of a coherent model, required to be oriented, in its global and regional configuration, towards the access to basic rights by relying on intangible potential as a "... *a key standard in the development of public policies, so that all Moroccans may benefit from their country's wealth*.." Extract from the Royal Speech of July 30, 2014.

In this regard, the assessment of regions' access to fundamental rights, conducted in 2015 by the Ministry of Economy and Finance, has revealed the existence of disparities between regions, being based on an iterative scoring, through the development of a composite index of access to fundamental rights, which allows evaluating the level of regions' access to fundamental rights as defined by the United Nations system, assessing the potential inequalities between territories and bringing out a global spatial configuration of access to different rights in each region, being ready for the territorial dynamics and changes that lie ahead in order to draw the necessary lessons and establish a balanced territorial development.

Seven regions have, in 2013, more important access to fundamental rights than the national average; in the first place the region of Laayoune-Boujdour-Sakia El Hamra, followed by the regions of Rabat-Salé-Zemmour-Zaer, Guelmim-Es- Semara, Fez-Boulemane, Chaouia-Ouardigha, Grand Casablanca and the Oriental. The Tadla-Azilal region ranks last. However, this ranking is the result of uneven access according to the chapters of fundamental rights.

In the same context, the level of success of the national economic development model is determined, through the level reached of socio-economic indicators, during the last decade, in connection with the rate of access to employment, education, vocational training and health services...

the unemployment rate was gradually reduced going down from 10.8% in 2004 to 9.9% in 2014. However, despite the implementation of a number of initiatives to promote employment, youth unemployment persists, particularly among graduates and young people. In this regard, a comprehensive national employment strategy with the objective to meet the demand for employment, while promoting job offer in sufficient number and quality, in a perspective of short, medium and long term, was developed. In the same vein, new conventions on the promotion of employment were signed in 2015, namely the "TAHFIZ" program, the Convention of the state's management of Social Coverage, the Convention on procedures for the assumption by the state of compulsory health insurance and Compensation for Loss of Employment.

In education, a remarkable improvement in school enrolment was recorded at the primary level, as evidenced by the level recorded, in 2014-2015, of the specific rates of schooling stood at 99.1% at the national level and 98,5% for girls. In rural areas, this rate reached 98.3% overall and 98.4% for females in the same period. Similarly, a continuous improvement of the specific rate of enrolment in lower secondary level was recorded, reaching 90.4% overall and 86.7% for girls in 2014-2015 against 60.3% and 52.7% respectively in 2000-2001. In turn, the specific rate of enrolment in the upper secondary level has shown a remarkable increase, going up generally from 37.2% in 2000-2001 to 70.1% in 2014-2015 and from 32.2% to 63.4% for girls during the same period. In respect of staff trained by the Office of Vocational Training and Employment Promotion, for the year 2014-2015, they increased by 16% year on year to reach a cumulative total of nearly 722.000 young people trained.

In the same context, the literacy rate rose by 11 points between 2004 and 2014, going up from 57% to 68%. However, significant efforts are undertaken to fight against illiteracy, particularly in rural areas and among women.

In terms of access to health care, the generalization of the Medical Assistance Scheme for poor people (RAMED), has helped attain a number of beneficiaries exceeding the target population, that is, 8.78 million people until July 10, 2015. In addition, access to medicines has improved, thanks to falling prices of 2,000 drugs intended mainly to the treatment of chronic diseases and the addition of 32 new medicines to the list of reimbursable medicines. In addition, it should be noted, in this regard, more than half of the maternal mortality rate has declined in 2009-2010 compared to 2003-2004, to stand at 112 per 100,000 live births, that is, a decrease of 50.7%, and the infant mortality rate has also declined reaching 28.8 per 1,000 live births for children under one year in 2011 against 40 per 1,000 births in 2003-2004.

In terms of the fight against poverty, the progress made is considerable and the rates of implementation of some targets even exceed the goal set in 2015 within the framework of the MDGs. The relative poverty rate has gone down from 16.3% in 1998 to 6.2% in 2011. Similarly, the vulnerability rate has gone down from 22.8% in 2001 to 13.3% in 2011, while the Human Development Index of the country has gone up from 0.54 during the period 2000-2010, to 0.61 in

2013. In 2014, Morocco has eradicated poverty, as it is determined by an income less than $ 1 per day per person. In addition, a significant increase was recorded in the level of gross national income per capita which has improved by about 4.8% on average per year over the period 2000-2014, rising from MAD 15,141 in 2000 to MAD 29.146 in 2014.

Since its launch in 2005, INDH (National Initiative for Human Development) pursues its objective with regard to the fight against poverty, vulnerability and fragility and social exclusion, and, over the period from 2005 to 2014, more than 9.7 million direct and indirect beneficiaries were involved in the execution of more than 38.341 projects and 8294 development actions, including 7432 income generating activities. The realization of these projects has required investment of MAD 29.1 billion, including MAD 17.2 billion as a contribution from INDH, that is, a leverage of 41%.

3. Fiscal stance in favour of sustainability of public finances

The implementation of the various sectoral and social strategies aiming at the socio-economic development of our countries requires the mobilization of significant financial resources and, therefore, the search for comfortable fiscal space to fund the development programs which aims at reducing the social and spatial inequalities.

Therefore, the reform of public finances constitutes a major priority for governments in recent years. The fiscal policy pursued, within the framework of this reform, focused on rebuilding fiscal space of the state through revenue optimization and rationalization of public expenditure. Recent evolution of public finances indicates that major efforts have been made since 2013 to contain the compensation expenditures and impose strictness on the execution of investment expenditure, in a context of poor performance of tax revenues.

To this end, key actions have focused on improving the tax revenue collection and the mobilization of donations and revenues derived from the Public Establishments and Enterprises (PEE). And in order to establish a fair and equitable tax policy, the tax reform undertaken, since 2014, has focused more on revising the VAT system and reducing tax expenditures.

The efforts made, at the level of expenditures, focused on further reform of the subsidy system, through lifting subsidies on gasoline and fuel N2 and the fuel for electricity production in 2014 and diesel in 2015, as well as the rationalization of expenditures of operating and transfers to the PEE.

Through these actions, the financial situation of the state has improved, as evidenced by the reduction in the budget deficit from 6.8% of GDP in 2012 to 5.1% in 2013 and then to 4.6 % of GDP in 2014, despite the persistence of a troubled international economic climate. The fiscal effort of the State should be maintained in 2016. The adoption of the Organic Law on the Finance Act would mark thus a decisive step in this regard. The entry into force of the new Organic Law on Finance Acts is an important step in improving the framework governing the budgetary management. It ensures, on the one hand, the compliance with the provisions of the new Constitution and, on the other hand, the strengthening of the role of law as a vital tool for implementing public policies and sectoral strategies, taking into account the imperatives of efficiency, transparency and performance.

To consolidate this progress, the 2016 Finance Bill highlights the priorities arising from the High Royal Guidance and the government program. The action taken by the Government, within this framework, aims at consolidating the foundations of a balanced economic development, stimulating industrialization and supporting investment and business; the creation of an inclusive economy reducing social and spatial disparities and the promotion of employment; the implementation of regionalization and the acceleration of the pace of major structural reforms and the implementation of the reform of the Organic Law on the Finance Act with continued efforts for the gradual restoration of macroeconomic balances.

Moreover, the 2016 Finance Bill aims at achieving an economic growth rate of 3% due in particular to the decline in agricultural value added by 1.8%, offset by the increase in non-agricultural value added by 3.5%, based on an oil price (Brent) standing at 61 dollars per barrel and on a euro-dollar exchange rate reaching a 1.11 threshold in 2016. The 2016 Finance Bill also targets a fiscal deficit of 3.5% of GDP, a gross national savings rate would be around 27.4% of GDP in 2016 against 28.4% of GDP in 2015 and an investment rate that would reach the threshold of 29.7% of GDP against 29.6% of GDP in 2015. The 2016 Finance Bill also provides for the mobilization of MAD 189 billion of investment of which MAD 61 billion from the General State Budget, and that should be in line with continued public investment effort.