# Morocco

**2011**

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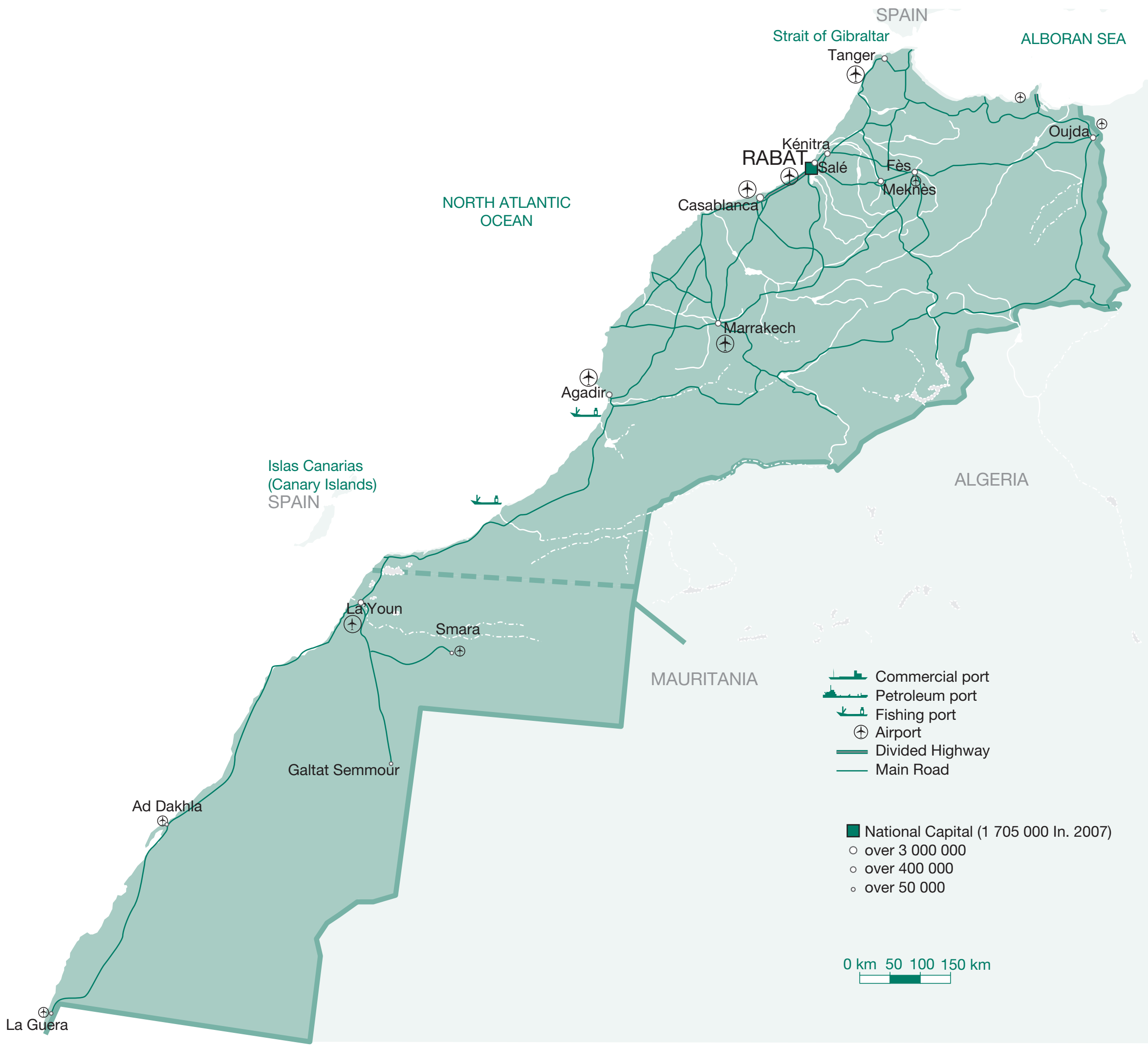


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# Morocco

## Overview

The involvement of the Moroccan economy in its regional and global environment has found expression in the signature of several free-trade agreements with its main trading partners. But it also exposed the country to the fall-out of the international crisis which hit world markets in 2008. The basics of the national economy remained stable in spite of the crisis and the country displayed a degree of resilience in the face of external shock, with a growth in gross domestic product (GDP) of 4.9% in 2009 and 3.3% in 2010. Nevertheless, the crisis has highlighted structural weaknesses, in particular in certain export-oriented sectors such as textiles and clothing.

The problems that the government has to confront were summarised by King Mohammed VI in July 2010. In a speech from the throne he identified priorities including:

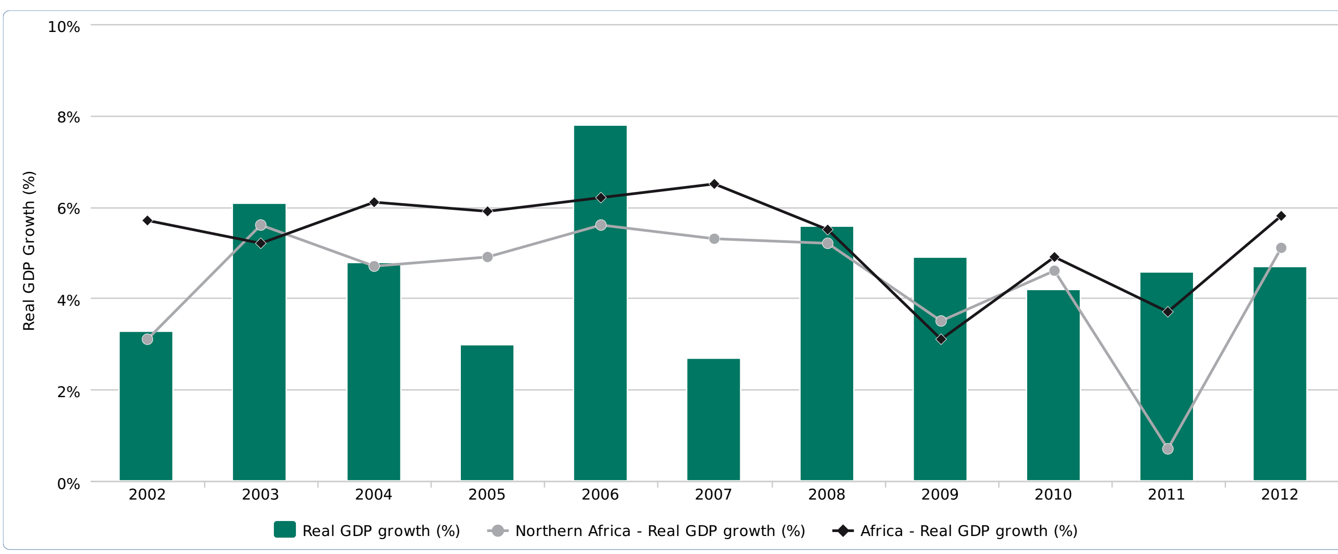
"To take up the challenges of opening-up and competitiveness by undertaking the necessary reforms to restructure the sectors whose weaknesses have been exposed by the global crisis and turn the first fruits of the pick-up in the world economy to our account."

He also said that preserving macroeconomic balances was an absolute necessity, like the rationalisation of public spending and the updating of the legal and regulatory framework to make the country more attractive to enterprise and business.

He added that there was a further need to pay attention to a judicious use of the credibility enjoyed by the national banking and financial sector and the confidence in Morocco as a centre of attraction to international capital and investment.

In this context the continuation of the macroeconomic and structural reforms put in place over the past decade, combined with the revival of non-agricultural activities and demand from Morocco's partners, offer favourable prospects for growth and the economy should expand by 4.6% in 2011 and 5.0% in 2012.

Figure 1: Real GDP growth (N)




**Source:** IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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## Table 1: Macroeconomic indicators

| | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|
| **Real GDP growth** | 4.9 | 3.3 | 4.6 | 5 |
| **CPI inflation** | 1 | 0.9 | 2.1 | 2.7 |
| **Budget balance % GDP** | -2.2 | -4.1 | -3.5 | -3.4 |
| **Current account % GDP** | -5.1 | -4.2 | -4.5 | -5.2 |

**Source:** National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 2: GDP by sector (in percentage)

| | 2005 | 2009 |
|---|---|---|
| **Agriculture, forestry, fishing & hunting** | 14.7 | 16.4 |
| **Agriculture, livestock, fishery, forestry and logging** | - | - |
| **of which agriculture** | - | - |
| **of which food crops** | - | - |
| **Mining and quarrying** | 1.9 | 2.6 |
| **Mining, manufacturing and utilities** | - | - |
| **of which oil** | - | - |
| **Manufacturing** | 16.6 | 16.1 |
| **of which hydrocarbon** | - | - |
| **Electricity, gas and water** | 3.1 | 2.9 |
| **Electricity, water and sewerage** | - | - |
| **Construction** | 6.7 | 7 |
| **Wholesale and retail trade, hotels and restaurants** | 14.6 | 13.6 |
| **of which hotels and restaurants** | - | - |
| **Transport, storage and communication** | 7.3 | 7.5 |
| **Transport and storage, information and communication** | - | - |
| **Finance, real estate and business services** | 17.5 | 20.4 |
| **Financial intermediation, real estate services, business and other service activities** | - | - |
| **General government services** | - | - |
| **Public administration & defence; social security, education, health & social work** | - | - |
| **Public administration, education, health** | 10.1 | 9 |
| **Public administration, education, health & other social & personal services** | - | - |
| **Public administration, education, health & social work, community, social & personal services** | - | - |
| **Public administration, education, health & social work, community, social services** | - | - |
| **Other community, social & personal service activities** | - | - |
| **Other services** | 7.5 | 4.5 |
| **Gross domestic product at basic prices / factor cost** | 100 | 100 |

**Source:** AfDB Statistics Department; national authorities.

Figures for 2010 are estimates; for 2011 and later are projections.

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The Moroccan economy has been, traditionally, dependent on the agricultural sector but over the past decade has embarked upon a diversification of its structure. More and more growth comes from the secondary and tertiary sectors.

The main drivers of growth in 2010 were the good performance of non-agricultural activities and a revival of the sectors most heavily hit by the crisis in 2009. The robust health of the Moroccan economy should continue in 2011, with GDP forecast to grow by 4.6%, helped by an increase in non-farm GDP of 5.6%.

The growth of the national agricultural sector is mostly due to cereals. The year 2009 saw record production of the three main cereals grown in Morocco (hard wheat, soft wheat and barley). Production in the 2009/10 season showed a less spectacular performance but was still almost 22% higher than the average of the last five seasons.

Other non-cereal crops were hit by the bad weather from which certain regions suffered, though citrus fruit production increased compared with 2009 thanks to new plantations coming into production. On the other hand, production of leguminous plants, sugar crops and early fruits and vegetables fell in comparison to the previous year with the result that plant production fell by 10.6% in 2010 compared with the year before.

Livestock production, by contrast, enjoyed two successive good seasons, substantial rainfall which improved the quality of pasture land and a slowdown in the rate of increase of animal food costs: a rise of 5% compared with 2009, though poultry production appears to have slowed over the last two years.

Fishing is a major element in the primary sector. Fish products amount to about half of the country’s agricultural exports, or about 18% of total exports. The sector is dominated by pelagic fishing which accounts for more than two thirds of the total landings of coastal and small-scale fishing. At the end of October 2010, the value of catches had risen by 3.3% over a year, helped by increased catches of pelagic fish and shellfish in sufficient quantities to make up for the drop in catches of white fish and cephalopods.

Non-agricultural activities were affected by the 2009 international crisis but recovered in 2010 to reach their pre-crisis level. They recorded an improvement in added value of 5% and the trend is expected to continue in 2011, helped by growth rates in the secondary and tertiary sectors of 5% and 5.6% respectively.

Extractive activities (notably phosphates) were hard hit by the crisis in 2009, with a drop in their added value of 23.8% compared with the previous year. But the mining sector met expectations in 2010 as demand picked up, in particular from the United States and Brazil, and recorded growth of 10%. This trend should be confirmed in 2011 (up by 11.5%), driven by strong external demand and the major investment programme of the *Office chérifien des phosphates* (OCP) which hopes to increase its production capacity in mining, chemicals and fertilisers.

Production of thermal and hydraulic energy rose by 34.7% and 16.7% respectively during the first 10 months of 2010, compared with the same period in 2009, and contributed to electricity production, making up for the drop in imports from Spain and Algeria and the fall in production from the Tahaddart power plant.

The international crisis and its debilitating effect on the economies of Morocco’s trading partners had a major impact on processing industries, which are strongly oriented towards exports and account, on average, for 16.5% of the total added value of the secondary sector. But the revival in industrial activity, which began in 2009, continued in 2010, with the exception of the textile and clothing sector, in particular leather, and aeronautics, which continued to show substandard performances. Processing industries recorded progress of 3.1% in 2010 and should continue to grow at a rate of 3.6% in 2011.

The fall in exports from the textile, clothing and aeronautics sectors eased, however, over the year. In the textile sector exports of ready-to-wear clothing dropped by 5.9% during the first 11 months of 2010, compared with the same period in 2009. But footwear exports remained more or less unchanged (+0.3 %) and those of hosiery products showed an increase of 4.6% over the same period in 2009. Exports from the aeronautics sector fell by 6.9% during the first eight months of 2010 compared with same period in 2009. Temporary admission imports (goods imported free of duty to be processed locally and exported) in the aeronautics sector still show a fall, unlike those in the textile sector which have risen, suggesting activity will recover in 2011.

The positive performances of the automobile sector continued in 2010, driven in particular by exports of cables. The electronics sector sustained the advance that began at the end of 2009, thanks in particular to exports of electronic components, which rose by 27.3% by the end of November 2010 compared with the first 11 months of 2009. Temporary admission imports in the two sectors are up, suggesting good performances in 2011.

The agro-alimentary industry sector occupies a strategic place in the national economy, contributing a third of added value, representing 19% of industrial jobs and accounting for 15% of industrial exports. Agro-alimentary performance had an irregular year in 2010 but displayed a recovery in the second part of the year, due in particular to the strengthening of cereal industry production. Overall, exports from the sector improved. Export sales of preserved vegetables rose by 6.5% by the end of the first 11 months of the year, while sales of flour and fish powder, and tinned fish rose by 58.1% and 2.1% respectively during the same period.

Activities in the construction and public works sector declined in 2009, reflecting the fall in demand from non-residents and foreign direct investment (FDI) in tourism and luxury buildings after the international crisis. But the sector picked up in 2010, as demonstrated by a 9.9% increase in real estate lending during the first ten months of the year compared with the same period in 2009. But sales of cement were more or less stagnant during that period. The sector should grow by 7.6% in 2011, according to the latest official estimates, driven by the strengthening of public investment and social housing programmes, and tax breaks in the 2010 budget which aim to boost public housing.

The international crisis affected the tertiary sector only moderately, which managed to maintain its 2009 growth rate in spite of a slight drop in tourism. In 2010 it recorded growth of around 5%, supported by the good performance of the primary and secondary sectors and healthy national and foreign demand. This progress should continue in 2011 and reach 5.6%.

Tourism benefited in 2010 from the recovery in global tourism. Arrivals rose by 12% in the first ten months of the year compared with the same period in 2009 with a total of 7.9 million tourists. The number of overnight stays in classified establishments also rose by 11.5%, mainly concentrated in the cities of Marrakesh, Agadir and Casablanca, which between them accounted for two thirds of the extra overnight stays. Occupancy rates rose by two points during the first ten months of the year compared with same period in 2009, reaching 45%. Receipts from tourism rose by 6.6% over the period.

The posts and telecommunications sector continued its vigorous performance in 2010, with a growth rate of 6.2% compared with 2009. The turnover of the three operators rose as did the number of subscribers to fixed, mobile and Internet services. The Internet service saw a major increase in the number of 3G subscribers. The strong performance should continue in 2011, driven by a lowering of the tariffs of interconnection between the operators envisaged by the sector's regulator and the arrival of the new operator Wana. The sector should record growth of 5.3% in 2011.

The transport sector was given a boost by a revival of world demand, recording growth of 5.5%. During the first ten months of the year, 13 million passengers passed through the country's airports, an increase of 15.8% compared with 2009. But freight traffic showed a drop of 7.8% over the same period. Road traffic showed a rise, benefiting from the opening of the autoroute between Marrakesh and Agadir. Port activity jumped by 26.9% in the first nine months of the year compared with the same period in 2009. A number of factors should contribute to maintaining the growth of the sector in 2011, in particular the recovery of foreign trade, the improvement of the activity of the port of Tanger-Med and road traffic, plus the institution of a contract between the state and the goods haulage professionals. The sector should grow by 5.9% in 2011.

Internal demand continues to play its role as an engine of growth in the national economy. It was boosted in particular by the good cereals harvest, the control of inflation, a revival in transfers from Moroccans living abroad, the availability of consumer credit (up by an annual rate of 8.7% at the end of October 2010) and steps to support household purchasing power in the 2010 budget. These include a revision of income tax rates that came into effect at the beginning of 2010 which lowered the maximum rate to 38% from 40% and raised the tax threshold from 24 000 Moroccan dirhams (MAD) to MAD 30 000. Household consumption, which accounted for an average 58% of GDP during the period 2005-09, rose by 4.1% in 2010 and should continue its strong performance in 2011, with an increase of 5.6%.

Investment benefited from the improvement in economic activity and the vitality of public and private investment. Gross fixed capital formation at current prices (GFCF) progressed by 6.9% in 2010, after falling back by 0.6% the previous year. Credits for equipment financing had advanced by 25.8% at the end of the first eight months of 2010 compared with the same period in 2009. Imports of capital goods, other than aircraft, saw a similar advance with an annual growth rate of 5.1%. GFCF should maintain its strong performance in 2011 with growth of 7.4% over 2010. At the same time its contribution to growth should rise from 2.3% in 2010 to 2.5% in 2011.

## Table 3: Demand composition

| | Percentage of GDP (current price) | | Percentage changes, volume | | | Contribution to real GDP growth | | |
|---|---|---|---|---|---|---|---|---|
| | 2002 | 2009 | 2010 | 2011 | 2012 | 2010 | 2011 | 2012 |
| **Gross capital formation** | 25.9 | 36 | 6.4 | 6.7 | 7.6 | 2.1 | 2.3 | 2.7 |
| Public | 3.2 | 5.3 | 7 | 4 | 5 | 0.3 | 0.2 | 0.3 |
| Private | 22.8 | 30.7 | 6.3 | 7.2 | 8 | 1.8 | 2.1 | 2.4 |
| **Consumption** | 76.3 | 74.9 | 3.6 | 5.4 | 5.1 | 2.8 | 4.1 | 3.9 |
| Public | 18.3 | 18 | 4.9 | 5 | 3.4 | 0.8 | 0.8 | 0.6 |
| Private | 57.9 | 57 | 3.3 | 5.5 | 5.5 | 2 | 3.3 | 3.4 |
| **External sector** | -2.2 | -10.9 | - | - | - | -1.6 | -1.9 | -1.6 |
| Exports | 29.9 | 28.6 | 1.8 | 2.4 | 3.1 | 0.5 | 0.7 | 0.9 |
| Imports | -32.1 | -39.5 | 5.5 | 6.4 | 6.1 | -2.2 | -2.5 | -2.5 |
| **Real GDP growth rate** | - | - | - | - | - | 3.3 | 4.6 | 5 |

**Source:** Data from national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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## *Fiscal Policy*

For some years the key elements of Moroccan fiscal policy have been rationalisation of expenditure, promotion of public investment and reform of social welfare and subsidy funds to better target the most disadvantaged parts of the community. The budget deficit increased in 2010 due to higher spending. Estimates for 2011 suggest a moderate decline due to lower spending growth which will be mainly financed by internal resources, unlike the 2010 deficit which took advantage of favourable financing on the international market. In September 2010, Morocco placed a EUR 1 billion bond issue on the international financial market at a rate of 4.5%, thereby benefiting from a markedly lower rate than those of borrowings made in 2003 and 2007. The country has also initiated a major budget reform which seeks to simplify and harmonise the tax system. Among the measures introduced are the reform of the local authority tax system implemented in 2008, the introduction of declarations on-line and payment on-line by companies with a turnover of more than MAD 100 million from 2010 and those with a turnover of more than MAD 50 million from 2011. The exemption from Valued Added Tax (VAT) will be replaced by a budgetary grant to agencies for economic and social development and a limit of 24 months of VAT exemption (which was previously permanent) to businesses for capital assets acquisition.

Current expenditure, which had dropped in 2009, increased again in 2010 following a significant increase of subsidy spending which generated a budgetary overspend of 126% compared with initial projections. This explosion in compensation expenditure was linked to the rise in prices of energy products and staples such as sugar and wheat. Spending on goods and services increased slightly compared with 2009, spending on staff and other goods and services having risen moderately over the previous year. Projections for 2011 suggest that current expenditure should remain at around the same level as in 2010. Investment should continue its upward trend in line with the government's determination to give support to the economy.

Table 4: Public finances (percentage of GDP)

| | 2002 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants** | 22 | 27.3 | 30.7 | 25.9 | 26.4 | 26.5 | 26.1 |
| Tax revenue | 20.4 | 24.4 | 27 | 23 | 23.5 | 23.5 | 23.3 |
| Oil revenue | - | - | - | - | - | - | - |
| Grants | 0.1 | 0.5 | 1.4 | 0.4 | 0.4 | 0.5 | 0.3 |
| Other revenues | 1.5 | 2.5 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| **Total expenditure and net lending (a)** | 26.6 | 28.7 | 30.8 | 28 | 30.5 | 30 | 29.5 |
| Current expenditure | 21.3 | 23.2 | 24.2 | 21.1 | 23.1 | 22.7 | 22.4 |
| Excluding interest | 17.4 | 20.1 | 21.6 | 18.7 | 20.1 | 20.4 | 20 |
| Wages and salaries | 10.9 | 10.7 | 10.2 | 10.2 | 10.9 | 11 | 10.7 |
| Goods and services | 0.9 | 5.3 | 5.5 | 6.3 | 6.9 | 7 | 7 |
| Interest | 3.9 | 3.1 | 2.6 | 2.4 | 3 | 2.4 | 2.4 |
| Capital expenditure | 5.4 | 4.3 | 5.5 | 6.3 | 6.7 | 6.8 | 6.8 |
| **Primary balance** | -0.6 | 1.7 | 2.5 | 0.2 | -1.1 | -1.2 | -1 |
| **Overall balance** | -4.6 | -1.4 | -0.1 | -2.2 | -4.1 | -3.5 | -3.4 |

a. Only major items are reported.
**Source:** Data from National Authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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## Monetary Policy

Inflation as measured by the variation in the cost of living index continued to be very moderate in 2010, remaining at under 1%. The prices of food and non-food goods rose respectively by 0.4 % and 0.9 %. The maintaining of inflation at this level is chiefly the result of a prudent monetary policy of targeting inflation anc state intervention through the social welfare fund. Under these circumstances, and in the absence of inflationary pressures resulting from internal demand, together with low inflation in Morocco's partners, the Moroccan central bank the Bank Al Maghrib (BAM) decided to keep its intervention rate at 3.25% in December 2010. However, due to higher food and fuel prices, inflation is projected to increase to above 2%.

The rate of growth of the money supply, measured by M3 aggregate, slowed at the end of October 2010 compared with the same period a year earlier, recording annual growth of 5.7% as against 7.4% the previous year. This is due both to a fall in net exterior assets and a slowdown in the rate of growth of credits to the economy. The value of the dirham is indexed to a basket of currencies dominated by the euro (EUR) and was set at EUR 1= MAD 11.25 in November 2010, showing an appreciation of 1.5% compared with 12 months earlier. By contrast the US dollar (USD) appreciated by 7.5% against the dirham, from USD 1= MAD 7.65 at the end of November 2009 to USD 1= MAD 8.23 a year later.

## External Position

The year 2009 was marked by a contraction in external demand, especially from the European Union, and a fall in the price of phosphates and other raw materials. In 2010, however, foreign trade picked up, recording a rise of 19.2% in exports of goods and services after a drop of 28.1% the previous year. Earnings from tourism, transfers from Moroccan residents abroad and exports of phosphates and derived products, which showed an upward trend, once again helped shrink the deficit in the country's balance of payments account. Imports also rose after a drop in 2009, showing growth of 12.9%. The faster rate of exports in comparison with imports of goods and services meant that the rate of coverage rose from 72.7% in October 2009 to 74.6% a year later. The commercial goods and services deficit was MAD 76.2 billion, a 1.2% improvement over the same period in 2009. The external current account recorded a deficit of 4.2% of GDP in 2010 and is expected to gradually increase to above 5% of GDP in 2012.

Table 5: Current account (percentage of GDP)

| | 2002 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|
| **Trade balance** | -7.6 | -18.7 | -21.5 | -18.1 | -21.7 | -23.5 | -24.2 |
| Exports of goods (f.o.b.) | 19.4 | 20.1 | 22.6 | 15.2 | 15.2 | 14.7 | 14.5 |
| Imports of goods (f.o.b.) | 26.9 | 38.8 | 44.2 | 33.3 | 36.8 | 38.2 | 38.7 |
| **Services** | 4.8 | 9 | 7.1 | 6.2 | 8.2 | 10 | 10.7 |
| **Factor income** | -1.8 | -0.6 | -0.8 | -1.1 | -0.6 | -0.6 | -0.5 |
| **Current transfers** | 8.2 | 10.2 | 9.9 | 7.9 | 9.9 | 9.6 | 8.9 |
| **Current account balance** | 3.6 | -0.1 | -5.4 | -5.1 | -4.2 | -4.5 | -5.2 |

**Source:** Data from Central Bank & national authorities; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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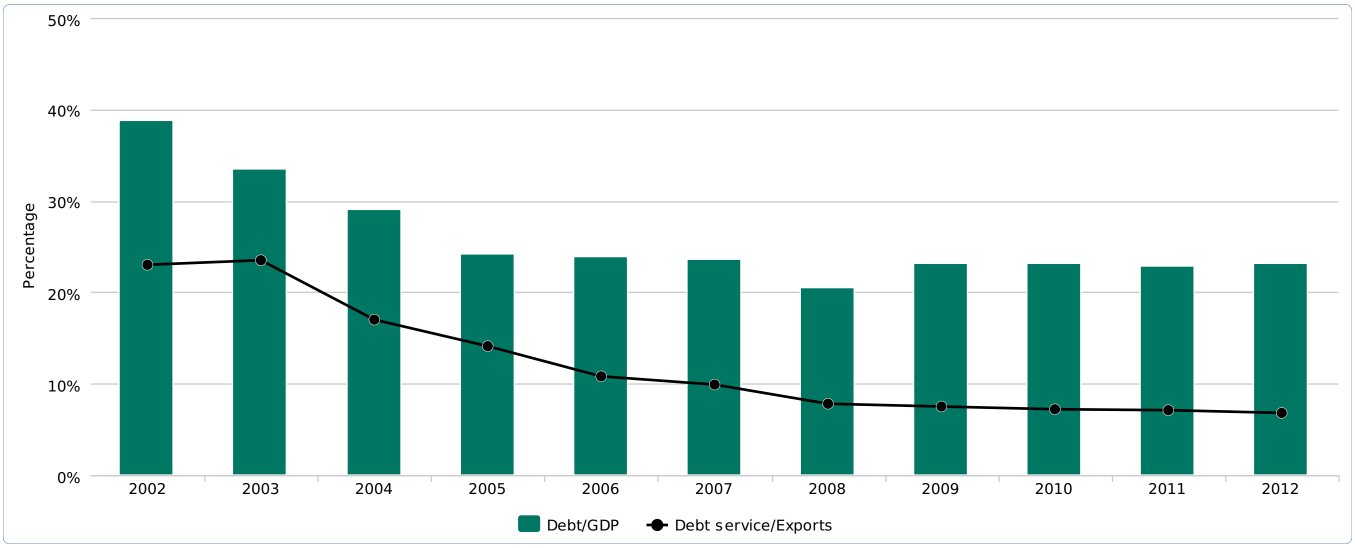
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)




**Source:** IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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## Structural Issues

### *Private Sector Development*

In spite of the major advances recorded it emerges from the 2011 *Doing Business* report from the World Bank that Morocco still faces substantial challenges if it is to make lasting improvements to its business climate. It remains at 114th place out of 183, with poor performances under the "starting a business", "paying taxes", "registering property" and "getting credit" headings. On the other hand advances have been made under the "protecting investors" and "closing a business" headings.

After the reforms undertaken over the past decades and the policy of grand structural projects launched recently, the economy was able to show resilience in the face of the 2009 world crisis. Steps were taken to improve access to finance, in particular for small- and medium-sized enterprises (SMEs). These include the implementation of the development plan of the Central Guarantee Fund (*Caisse centrale de garantie*: CCG) for the period 2009-12; the institution of several guarantee and/or co-financing instruments to accompany sectorial development programmes; and, the creation of the *Emergence Invest* fund aimed at financing the equity or quasi-equity of businesses in the framework of the National Pact for Industrial Emergence (PNEI).

In addition, in order to enable the financial sector to continue to support economic growth, the authorities undertook major interventions to meet the growing needs of the banks for liquidity and the increase in investment financing needs. These interventions took the form, in particular, of recurrent injections of liquidity by the Bank Al Maghrib, mainly in the form of seven-day advances, and by a lowering of the obligatory reserve rate to 6% in April 2010, which made it possible to provide the banks with financing of MAD 8 billion. The Moroccan financial sector remains healthy and showed solidity in the face of the international financial crisis thanks to the progress made in the area of respect of prudential regulations and to its limited integration into the international financial system.

Furthermore, in 2009, Morocco established the Competition Council to improve the business climate, stimulate economic development and guarantee consumer protection.

In February 2009, the authorities established the Strategic Watch Committee (CVS) to support the sectors hardest hit by the crisis, in particular textiles, leather, and automobile and electronics equipment. This bore fruit, as witnessed by the recovery of these sectors in 2010. The measures taken by the CVS which made it possible to soften the impact of the crisis on these sectors and on employment and also to prepare businesses for the post-crisis period took a number of forms: *i)* a social component devoted to saving jobs with the state taking over employers' contributions and charges for a renewable six-month period; *ii)* a financial dimension involving a reinforcement of the guarantees provided by the state to banks for financing working capital needs; *iii)* a commercial dimension to support the diversification of outlets and markets through taking on board investigation costs and the institution of preferential conditions for export insurance; and, *iv)* a training dimension designed to help businesses shift to products with high added value.

At the end of June 2010, MAD 505 million was made available by the National Social Security Fund (*Caisse nationale de la sécurité sociale*, CNSS), MAD 725 million was approved by the CCG, MAD 27.8 million was reimbursed under support measures relating to the commercial dispositions and 163 certificates of eligibility for the training aid measures were issued in the framework of the training dimension.

### *Other Recent Developments*

Morocco has embarked on a process of redefining the regulatory framework within which public authorities operate as part of the administration reform programme. This programme has two broad thrusts: a review of the missions of central authorities and putting into effect the role of devolved services. The reform was initially implemented on an experimental basis in a number of ministries but has subsequently widened the range of ministries concerned and continued to diminish the weight of the overall wage bill.

In addition, the country has initiated a major project of "advanced regionalisation" as part of a more inclusive system of governance based on proximity. This seeks to make public action more effective, targeted and co-ordinated. To this end a form of decentralisation that transfers to the region's administrative, economic and political powers will be implemented.

From 2001 onwards, a reform of the budgetary process was launched to improve the governance of the public finances. It is now well-advanced but still faces many challenges, in particular that the implementation of the various aspects of the reform are extended to all ministerial departments, which requires that all those involved appropriate the reform as their own and must include the devolved services and additional training.

Although there has been progress in public service reform, some black spots remain, and in particular reform of the justice system. The overall reform announced in 2009 had six major components. These were: *i)* a strengthening of the guarantees of the independence of the justice system; *ii)* modernisation of its normative framework; *iii)* upgrading of its structures and human resources; *iv)* improvement in judicial efficiency; *v)* establishment of firm rules governing the morality of justice; and *vi)* optimal implementation of the reform. In light of the importance of this project it has been prioritised in the 2011 budget to speed up its implementation.

*Infrastructure development*

To reduce its dependence on energy supplies from abroad Morocco has launched a strategy of diversification of its energy sources with an emphasis on renewables. The aim is to increase the share of renewables (solar, wind, hydraulic) to 42% of electricity production by 2020. Several projects have been initiated, not least the plan to produce solar energy, launched in November 2009 with a budget of USD 9 billion. The integrated wind farm programme has a budget of MAD 31.5 billion. In June 2010 the wind farm Tangier 1, the biggest in Africa, was inaugurated. Legislation on renewables was adopted in January 2010 and the Moroccan National Solar Energy Agency (Agence marocaine de l'énergie solaire, MASEN) set up.

In April 2010, the country launched its national strategy for the development of logistics competitiveness, to complement the on-going sectoral strategies. The aim is to cut logistics costs from 20% of GDP to 15% by 2015.

Strengthening and developing transport infrastructure is a key aspect of the country’s development. Over ten years, investment in transport infrastructure has increased fourfold to reach a budget of EUR 11 billion for the period 2008-12. The autoroute network which covers more than 1 000 kilometres today should reach 1 420 km by 2011 and 1 800 km by 2015. In addition, with the aim of reinforcing rail traffic, the country has embarked upon its high-speed line. The first phase will connect Casablanca and Tangier and will be finished in 2013 at a total cost of EUR 1.8 billion. The Rabat tramway should enter service during 2011. Work on the Casablanca tramway began in 2009. Port infrastructure is also making progress with an ambitious investment programme put at MAD 1.9 billion over the 2008-12 period. Morocco was granted two European Investment Bank (EIB) loans in 2010, one of EUR 220 million for the building of 172 kilometres of autoroute between Casablanca and the south-eastern region of Tadla-Azilal with opening planned for June 2013, the other of EUR 200 million for the extension of the port of Tanger-Med with a view to increasing its capacity to 8 million twenty feet equivalents (TEUs).

While the development of water purification infrastructure has fallen well behind the needs of the country, in spite of the efforts made, access to drinking water and electricity has improved substantially, especially in the countryside. The rate of access to potable water rose from 14% in 2005 to 90% in 2009. At the national level, the rate of individual connections rose from 81% to 96.2% over the same period. Rural electrification was close to 96% in 2009 compared with 22% in 1996.

In the area of information technologies Morocco launched in 2009 a national strategy for the information society and the digital economy called “Maroc Numeric 2013”, with a budget of MAD 5.2 billion for the period 2009-13. The strategy aims to speed up the deployment of broadband Internet infrastructures to guarantee access to the largest number, easier Internet access and the use of information technologies outside the home through the establishment of community access points. Previously, in 2005, the country had initiated the “e-Maroc 2010” strategy which made it possible to modernise, diversify and extend telephony and Internet networks and to improve significantly the degree of fixed and mobile telephony penetration and the proportion of households equipped with computers and of households with Internet access.

*Natural resources and the environment*

Morocco is engaged in a process of environmental preservation and management of natural resources which aims to favour “green” growth of the economy, in particular through the adoption of the national Charter of the Environment and Sustainable Development (CEDD) and the installation of 16 regional environmental observatories. It has also adopted an institutional, regulatory and financial framework that promotes ecology through a strengthening of its legal arsenal with the promulgation in 1995 of the law on water, legislation on the protection and enhancement of the environment, the law on impact studies, the law relating to combating air pollution and the law on the management and elimination of waste.

Morocco has adopted since 2005 a wide range of environmental and sustainable development programmes, including the national programme for drainage and purification of waste water, the national programme of management of household and related waste, the national programme for environmental improvement of rural schools and the Sebou basin depollution programme.

The country also has an element devoted to sustainable management of resources in the framework of its agricultural strategy called "Plan Maroc Vert" (PMV), dealing with the improvement of the irrigation system, the encouragement of thrifty irrigation techniques and cultivation systems that use water more resourcefully.

At the end of the 1990s it put in place several financial instruments designed to encourage businesses to sign up to take steps to preserve the environment. These include the national environmental fund (FNE), the industrial depollution fund (Fodep) and the mechanism for clean development (MDP).

*Agricultural reform*

Given the strategic importance of the agricultural sector in terms of GDP, jobs and impact on downstream processing; the country instituted in 2008 the ambitious PMV strategy which seeks to encourage a modern and competitive agriculture over a 10- to 15-year period. It has two chief constituents. The first relates to the development of a modern agriculture with high added value (milk, meat and poultry, citrus fruits, early fruit and vegetables, olives and cereals in particular) relying on private investment through the financing of 700 to 900 projects for a total annual cost of MAD 10 billion to MAD 15 billion. The second focuses on supporting and improving small-scale farming, targeting 600 000 to 800 000 farmers for an overall investment of MAD 15 billion to MAD 20 billion. The announced aim of the PMV is to generate eventually an annual GDP estimated at between MAD 70 billion and MAD 100 billion. For financing the PMV is able to draw on the continuing mobilisation of national and international funds (EU, International Agriculture Development Fund, Millennium Development Goals, African Development Bank [AfDB] etc.).

## Emerging Economic Partnerships

Over the past 20 years, Morocco has been engaged in moves to liberalise and open up its economy, culminating in a series of free trade agreements with a number of partners, including the European Union and the United States. Beyond its traditional partners the country has strengthened its relationships with other so-called “emerging” partners. The most important of these are Arab countries (especially Saudi Arabia and the United Arab Emirates), Asian countries (China, and South Korea), countries of Latin America (Brazil and Mexico) and Turkey. The partnerships signed by Morocco and these emerging countries are generally initiated by the emerging countries wanting to take advantage of access not only to the Moroccan market but also to the African market, given Morocco’s strategic position at the tip of Africa. But Morocco has also seen these partnerships as a means to diversify its partners, well aware of its strong dependence on Europe. The way in which these partnerships operate is usually discussed at the very highest level of the state, the king and/or the government being the chief interlocutors of the partner countries. The interest of the emergent partners usually focuses on the agricultural sector, extractive activities, the production and distribution of electricity, the distribution of water, hotels and restaurants, commerce, and the financial and insurance sector.

Over the last five years the United Arab Emirates (UAE), Saudi Arabia, Kuwait and Turkey have substantially strengthened their ties with Morocco. In particular Morocco signed a free trade agreement with Turkey which came into force in 2006 and gives immediate access to the Turkish market to industrial products of Moroccan origin while duty and import taxes on the import of Turkish products will be progressively scrapped over a 10-year period. The partnership aims to stimulate trade between the two countries but has been accompanied by a vigorous flow of direct Turkish investment into Morocco. Four years after the agreement came into effect the presence of Turkish operations in Morocco is obvious with, in particular, the involvement of Turkish construction interests in the building of the autoroute between Marrakesh and Agadir, in the extension of part of the high tension network of the National Electricity Office (*Office national de l'électricité*, ONE), and in the modernisation of the refinery company SAMIR. In August 2010, the Turkish company Yapi Markazi won a contract to build the first platform and lay the track for the Casablanca tramway.

Morocco also signed a free trade agreement with the UAE in 2001 which came into effect in September 2003. It provides for a complete exemption from customs duties from 1 January 2005 on all products originating in and directly arriving from the two countries, with the particular exception of manufactures coming from free zones in the two countries.

Since the agreement came into effect, trade between Morocco and the UAE has increased. FDI in Morocco from the Emirates has also risen, though it suffered from the 2009 financial crisis. The UAE were the second biggest investors in Morocco in 2010 after France. For example, the UAE signed a financing agreement with Morocco in the context of the establishment of the Moroccan Fund for Tourism Development (FMDT) which aims to sustain a new tourism strategy called “Vision 2020”. Several groups from the Emirates are involved in large construction and tourism projects, such as the *Saphira* scheme to redevelop the Rabat waterfront, the *Tinja* project to build one of northern Morocco’s biggest tourist resorts, and the *Amwaj* scheme to develop the Bouregreg valley. In the electricity production sector, Abu Dhabi’s Taqa group announced in 2009 that it was investing MAD 10 billion to create two extra power plants at Jorf Lasfar. The operation of the free zone adjoining the new Tanger-Med port complex has been handed to Jbel Ali Free Zone.

The relationship between Morocco and Saudi Arabia has historically been close. Saudi investments in Morocco are much diversified even if they are a little less substantial than those of their Gulf counterparts. There are various Saudi investments in the property and tourism field, the latest being that of Al Mamlaka Holding which plans to build a Four Seasons hotel at Marrakesh for an overall investment of MAD 1.4 billion. The Corral group has a 67.3% holding in the capital of SAMIR. Saudi operators are also present in the area of commerce, in particular through the Moroccan subsidiary of Nesk, the Saudi franchise specialist, which recently joined with the Moroccan group Aksal to build North Africa’s biggest commercial centre, the Morocco Mall in Casablanca, for an investment announced to be worth MAD 2 billion.

Kuwaiti investment in Morocco has greatly increased since the creation in 1976 of the Moroccan/Kuwait Development Consortium (CMDK), which has carried out a number of projects, in particular in the tourism, real estate and industry sectors. Kuwaiti investment boomed in 2010, rising from MAD 115 million in 2009 to MAD 3 billion a year later, thanks largely to the participation by the Kuwaiti telephone company Zain in the capital of the Moroccan telephony company Wana at the level of MAD 2.2 billion. The Kuwait Fund for Arab Economic Development increased to MAD 1.2 billion its overall contribution to development projects in Morocco with the signing of an agreement relating to the building of a high-speed train track between Tangier and Casablanca and the development of an electricity grid in the south of the country. The fund had previously been involved in more than 30 development projects in Morocco.

Interest in Morocco on the part of Asian countries has become increasingly evident. South Korea would like to sign a free trade agreement with Morocco but Rabat prefers the implementation of a preferential access agreement. In the case of China, the Moroccan authorities have opted for a strategy that entails encouraging Chinese operators to invest in their country to counter the wave of Chinese products entering the Moroccan market and to try to contain the commercial deficit with China. To this end, a Chinese delegation visited Morocco at the end of 2010 to look at the investment opportunities the country offers, especially the automobile, renewable energy and tourism sectors. A project for a Chinese industrial platform is being studied with a view to attracting Chinese investors.

At this stage, it is hard to evaluate the exact consequences of these partnerships for Morocco, except at the level of trade, which is rather to the partners' advantage, and ever growing inflows of FDI. To give one illustration, FDI from the UAE rose from MAD 9.3 million in 2001 to MAD 2 billion in the first nine months of 2010. Similarly, Turkish FDI reached MAD 103.6 million in the first nine months of 2010, compared with MAD 11.7 million in 2006. Furthermore, Kuwait's contribution to the country's economic development through the Kuwait Fund for Arab Economic Development is undeniable. It has contributed to the financing of more than 30 development projects in areas as diverse as dam-building, agriculture, irrigation, drinking water, rural electrification, airports, highways and the Tanger-Med port. The same is true for other Gulf states which have made it possible to diversify the supply of goods and services on the local market and to contribute to various sectoral strategies (Emergence, Vision 2010 then 2020, Plan Maroc Vert…) being implemented. On the other hand, the investments by these countries in Morocco have inevitably increased the degree of competition in the market, sometimes creating conflicts with local businesses. This was the case with the Saudi edible oil giant Savola which started business in Morocco in 2004, causing trouble with its competitors who accused it of a policy of dumping which led to significant losses of their market share to the advantage of the Saudi company.

## Political Context

Morocco enjoys political stability and King Mohammed VI, in power for the last 11 years, continues to benefit from a positive image among the Moroccan people. The country has seen major advances thanks to the process of democratisation embarked upon since the king came to power and the institution of decisive reforms such as the putting into place of the new *Moudawana* (family code) which significantly improves women's rights and the National Initiative for Human Development (INDH) which aims to improve the living conditions of the most disadvantaged. In terms of political governance, Morocco has modern political structures, a free and transparent electoral system and an increasingly active civil society, even if the balance of power remains strongly tilted in favour of the king at the expense of political parties and corruption continues to eat away at the country in spite of the efforts undertaken, including the establishment in 2008 of a central body for the prevention of corruption.

For a time, Morocco was unaffected by the wave of contestation that swept several Arab countries at the start of 2011, but the country had its turn with the demonstrations of February 2011 called by young people and several non-governmental organisations through Internet social networks. Even if they did not draw the numbers hoped for by the organisers (37 000 took part, according to official sources) the demonstrations took place in several cities and called for urgent political reforms, more democracy, less corruption and a more equitable distribution of wealth among the people.

However, on 9 March 2011, King Mohammed VI announced a "global constitutional reform" of unprecedented scale. An *ad hoc* commission to revise the constitution will present the king with a proposal by June 2011 to reform the basic law last modified in 1996. This reform will then be put to popular referendum. The king has already announced that the powers of the Prime Minister will be boosted, as the head of an effective executive power responsible to the government and in a system in which the role of parties will be reinforced by the constitution. The king of Morocco has also announced constitutional measures to strengthen pluralism, human rights and individual liberty.

At the regional level the problem of the Western Sahara continues to weigh heavily on relations between Morocco and Algeria, calling into question the future of the Arab Maghreb Union (UMA) and regional integration projects. Morocco has suggested a plan for self-rule of Western Sahara under Moroccan tutelage in the context of a wider regionalisation, thereby affirming its wish to resolve this decades-long conflict. Several rounds of talks were organised under the aegis of the United Nations at Manhasset in New York state without much progress being made.

## Social Context and Human Resource Development

Since it was launched in May 2005, the INDH has made possible major advances in human development as evidenced by the results of the national inquiry into household living standards in 2006/07, which showed a drop in poverty in the rural communities targeted by the initiative. The projects financed by the INDH fall into three main groups. The first involves equipment (health, educational, social, sport etc.). The second deals with economic development (agriculture, production and services, transport and professional training in particular). The third covers infrastructure projects, the environment and the strengthening of local communities. At the end of its first phase 2005-10, the INDH had impacted more than 5 million people who had benefited from 22 034 projects worth more than MAD 13 billion. Furthermore Morocco is on track to achieve the Millennium Development Goals (MDGs), in particular those relating to the reduction of extreme poverty and hunger. The national MDG report of 2009 showed that poverty and vulnerability, measured at national thresholds, fell significantly between 2001 and 2008 in both town and country. Absolute poverty dropped from 6.7% to 3.6% over the period. Similarly the rates of relative poverty and vulnerability fell respectively from 15.3% to 8.8% and from 22.8% to 15.9%.

The other major task is the development and modernisation of the health system. A good start has been made, with a perceptible improvement in a number of indicators, in particular those relating to maternal and infant mortality. The mortality rate among children under five fell from 20% in 1987 to 13% in 2009. The maternal mortality rate has dropped by almost 42%. Even given these advances work remains to be done if the MDGs are to be achieved. The same is the case with the objectives set out in the strategic action programme 2008-12 of the health ministry. This is supported by the African Development Bank (AfDB) and the EU and aims to strengthen the effectiveness of the health system, eliminate inequalities and respond better to the expectations of the people, health professionals and other stakeholders active in this area.

The introduction of compulsory medical insurance (AMO) has enabled a larger part of the population to benefit from medical coverage. In 2010 the coverage was extended to cover out-patient care and the basket of reimbursable medical products increased from the initial 1 000 to 2 616 at present. In addition the reimbursement rate has improved, rising from 31% to 65%. The medical assistance regime for the most disadvantaged (Ramed), aimed at 8.5 million Moroccans, is still in its pilot phase and has to deal with the problem of identifying eligible people. This has pushed back the extension of the programme to the whole country, originally planned for the end of 2010.

Major structural legislative and organisational reforms have been undertaken by Morocco over the last decade to encourage employment. The country had an unemployment rate of close to 9% in 2010 and has undertaken deep reforms of labour law and instituted the national education and training charter. Several bodies have come into being, among them the National Agency for the Promotion of Employment and Skills (*l'Agence nationale de promotion de l'emploi et des compétences*, or Anapec); the Agency for Social Development; the Economic and Social Council; and the Higher Council for the Promotion of Employment (*Conseil supérieur pour la promotion de l'emploi*, or CSPE) to accompany the sectoral strategies being implemented and to strengthen capacities for job creation. The measures undertaken should contribute to achieving the government objective of reducing unemployment among young graduates to 7% by 2012, through the *Taehil* programme, the encouragement of salaried employment through the *Idmaj* programme and support for the creation of small businesses through the *Moukawalati* programme. In addition the authorities are drawing up a national strategy to promote micro-enterprises (*Très petites entreprises*, or TPEs) with a view to encouraging and facilitating self-employment to cut joblessness. The strategy has four elements: tax, access to finance, social coverage and support.

In respect of education, the Moroccan authorities have put into effect an emergency plan designed to speed up the implementation of reform of education and training. The aims of this plan include the generalisation of preschool by 2015 and the extension of compulsory education until the age of 15. The plan has the backing of the AfDB, the World Bank, the EU, the *Agence française de développement* (AFD) and the EIB and will require an overall budget put at MAD 43.7 billion between 2009-12.