

## **I- Introduction :**

### **1. The making of modern Morocco:**

Situated in the extreme northwest corner of Africa, Morocco is the farthest western outpost of the Islamic and arab culture. It is perhaps because of this isolation that it has remained so faithful to that culture .Although geographically close to western Europe, which starts a few miles away across the straits of Gibraltar, Morocco has until quite recently remained peculiarly immune to its influences.

There are significant facets of Moroccan life which have exhibited a kind of timeless continuity strongly resistant to the western culture of which the French and Spanish protectorates were such important representatives .It must be remembered that , in the long history of Morocco ,French and Spanish suzerainty is but a comparatively short episode lasting a mere 44 years from 1912 to 1956.

Even in the sixteenth century, Morocco was able to resist the domination of the Ottoman Empire which had extended its rule over the rest of North Africa. There had been several dynasties ruling Morocco-some Berber, some Arab, but all Islamic-and finally in 1649 a power-ful southern Moroccan group established the Alouite Dynasty which is still on the throne of Morocco in the person of Mohamed 6. It claims cherifian descent from Ali, the son-in-law of the prophet, and the Monarch is consequently both the spiritual and temporal ruler of the country.

Even under the Protectorate, the monarchy maintained a Cherifian Government alongside the Protectorate Governments. While the latter staffed almost entirely by French and Spanish , ran the normal range of civilian affairs, the Cherifian Government occupied itself with religious affairs and matters concerning the place throughout the territory of both zones .Still today , the legacy of these historical developments shows itself in the dominant role of the King in the life of the country .



The position of the monarchy was further reinforced by the role played in the postwar independence movement by the present King's grand father, king Mohamed 5. It may be said that the essential impetus to the whole movement came from a forthright public appeal made by king Mohamed in a speech at tangier in early 1947. The istiqlal , the civilian independence movement , had been formed in December 1943 (although small nationalist groups had been in exist ence since the 1920 but, until the alliance between this movement and the king after 1947, it had been fighting an uphill battle .With the king identified with the goal of independence , the movement thereafter gathered momentum . After an abortive attempt by the French to replace him, including a period of exile from 1953 onward, King Mohamed returned in triumph in 1955 and Morocco became independent in 1956.

The sultan became (1957) King Muhammad V (Sidi Muhammad) and soon embarked on a foreign policy of "positive neutrality," which included support for the Muslim rebels in Algeria. After the king's death (Feb., 1961), his son Hassan II ascended the throne. He soon enacted a new constitution that established A bicameral parliament. Border hostilities with Algeria in 1963 cost both sides many lives; final agreement on the border was reached in 1970.

In June, 1965, following a political crisis that threatened to undermine the monarchy, King Hassan declared a state of emergency and took over both executive and legislative powers. The country returned to a modified form of parliamentary democracy in 1970, with a revised constitution that strengthened the king's authority. Opposition groups, later called the National Front, rejected the constitution and boycotted legislative elections. An attempt on Hassan's life by military leaders took place on July 10, 1971.

Hassan announced a new constitution in Feb., 1972, which lessened the king's powers. In August another assassination attempt took place, when the airplane carrying King Hassan was strafed on its way back from France. The king continued to rule in isolation and maintained relative order through a policy of suppression.

In 1974, Morocco pressed its claim to sovereignty over Spanish Sahara, and in Nov., 1975, Hassan lead the "Green March" of over 300,000 unarmed Moroccans to the disputed region.

In 1976, Spain relinquished control of the area, ceding it to Morocco and Mauritania as Western Sahara. However, the Polisario Front, a group of Western Saharan guerrillas with Algerian and Libyan backing, fought for independence for the territory. Morocco took over Mauritania's portion of Western Sahara in 1979 and continued to battle the Polisario throughout the 1980s.

Normalization of relations between Morocco and Algeria in 1988 cut off Algerian support for the rebels and in 1991 the Polisario and Morocco agreed to a cease-fire. A UN-sponsored referendum to decide the territory's permanent status was ordered for the early 1990s. Disputes regarding who would be permitted to vote delayed the referendum through the 1990s, during which time the region was integrated administratively into Morocco.

King Hassan died in 1999 and was succeeded by his son Crown Prince Sidi Mohammed, as Muhammad VI. Initially extremely popular, the new king revealed himself to be a strong advocate of social change and economic improvement, but the monarchy nonetheless remained the unquestioned center of power in the country. In July, 2002, Morocco occupied an uninhabited islet off Ceuta that is claimed by Spain, drawing international attention to the disputed Spanish enclaves along Morocco's Mediterranean coast. After Spanish forces removed the Moroccans, both sides agreed to leave the islet unoccupied.

## **2. Islamic economics:**

Is economics in accordance with Islamic law. Its two central tenets are no interest can be earned on loans and socially responsible investing. The key difference from a financial perspective is the no-interest rule since the Islamic socially responsible investing paradigm is not much different from what other religions do. In trying to prevent interest, Islamic economists hope to produce a more 'Islamic society', however liberal movements within Islam may deny the need for this field, since they generally see Islam as compatible with modern secular institutions and law.

## **3. Islamic banking:**

Refers to a system of banking or banking activity that is consistent with Islamic law (Shariah) principles and guided by Islamic economics.

In particular, Islamic law prohibits usury, the collection and payment of interest, also commonly called *riba* in Islamic discourse. Generally, Islamic law also prohibits trading in financial risk (which is seen as a form of gambling). In addition, Islamic law prohibits investing in businesses that are considered *haram* (such as businesses that sell alcohol or pork, or businesses that produce un-Islamic media). In the late 20th century, a number of Islamic banks were created, to cater to this particular banking market.

## **II- Socio-economic infrastructure:**

### **1. Location:**

Morocco is located in the northwestern corner of Africa across the Mediterranean Sea and the Strait of Gibraltar from Spain.

### **2. Size:**

Morocco has an area of 446,300 square kilometers, not including 250 square kilometers of coastal waters, which makes it slightly larger than California. Western Sahara, claimed by Morocco, has an area of about 266,000 square kilometers.

### **3. Land Boundaries:**

Morocco's land boundaries measure 2,017.9 kilometers, including a 1,559-kilometer border with Algeria and a 443-kilometer border with Western Sahara. Morocco also shares a border with Spain around that nation's two African enclaves at Ceuta (6.3 kilometers) and Melilla (9.6 kilometers).

### **4. Disputed Territory:**

Morocco does not recognize Spain's claim to several Spanish enclaves on the Mediterranean coast of Africa, principally Ceuta and Melilla. Morocco claims Western Sahara and, since 1979, has administered the territory as its own, although the International Court of Justice ruled in 1975 that Morocco has no legitimate claim to Western Sahara. A cease fire between Morocco and the Algerian-backed Polisario Front independence movement in Western Sahara has been in effect since September 1991, but the United Nations-sponsored

referendum on self-determination has never been held, and periodic negotiations designed to resolve the status of Western Sahara have failed.

### **5. Length of Coastline:**

Morocco's coastline along the Northern Atlantic Ocean and the Mediterranean Sea measures 1,835 kilometers.

### **6. Maritime Claims:**

Morocco claims a territorial sea of 12 nautical miles, a contiguous zone of 24 nautical miles, and an exclusive economic zone of 200 nautical miles, as well as a continental shelf to a depth of 200 meters or to the depth of exploitation.

### **7. Topography:**

Four rugged mountain chains dominate Morocco's topography and divide the country into three geographic regions: the mountainous interior, including plateaus and fertile valleys; the Atlantic coastal lowlands; and the semiarid and arid area of eastern and southern Morocco where the mountains descend gradually into the Sahara Desert. In the north, the Rif mountain range runs parallel to the Mediterranean. South of the Rif range, a series of three Atlas Mountain ranges somewhat overlap one another as they slant across the country on a generally northeast-southwest axis. The most northerly of the three, the Middle Atlas range, is separated from the Rif by only a narrow corridor.

The lofty High Atlas range is situated immediately to the south of the Middle Atlas range and is parallel to it. Farther south and to the west lies the Anti-Atlas range.

### **8. Principal Rivers:**

Morocco has the most extensive river system in North Africa. Its two most important rivers are the Moulouya, which flows into the Mediterranean Sea, and the Sebou, which flows into the Atlantic Ocean.

## **9. Climate :**

The Rif and Atlas mountain ranges divide Morocco into two climatic zones: one that receives the westerly winds from the Atlantic and one that is influenced by the proximity of the Sahara Desert. Western and northern Morocco have a Mediterranean (subtropical) climate, with mild winters and hot, dry summers. On the Atlantic Coast, the mean temperature is 16.4° C to 23° C. By contrast, the climate is more extreme in the interior, where it is subject to wide seasonal variation, with temperatures ranging from 10° C to 27° C.

The pre-Saharan south has a semiarid climate. Rainfall varies from moderate in the northwest to scanty in the south and east. The rainy seasons are April–May and October–November. Only the mountains receive rain in the summer. Because of its inconsistent rainfall, Morocco is subject to periodic droughts, which take a considerable toll on agriculture.

## **10. Natural Resources:**

Morocco's store of natural resources is relatively modest, with one notable exception. Morocco is home to two-thirds of the world's reserves of phosphates, which are used to produce fertilizers. Other resources include copper, iron ore, lead, manganese, salt, silver, and zinc.

## **11. Land Use:**

In 2005 Morocco's land use was distributed as follows: arable land, 19 percent; permanent crops, 2 percent; and other, 79 percent.

## **12. Environmental Factors:**

The Moroccan Ministry of Territorial Development, Water, and Environment is responsible for environmental protection. In July 2003, the ministry announced an action program to improve Morocco's environment. The most serious environmental challenge is water quality. A 2003 report by the United Nations Educational, Scientific and Cultural Organization (UNESCO) ranked Morocco in next-to-last place among 122 countries in water

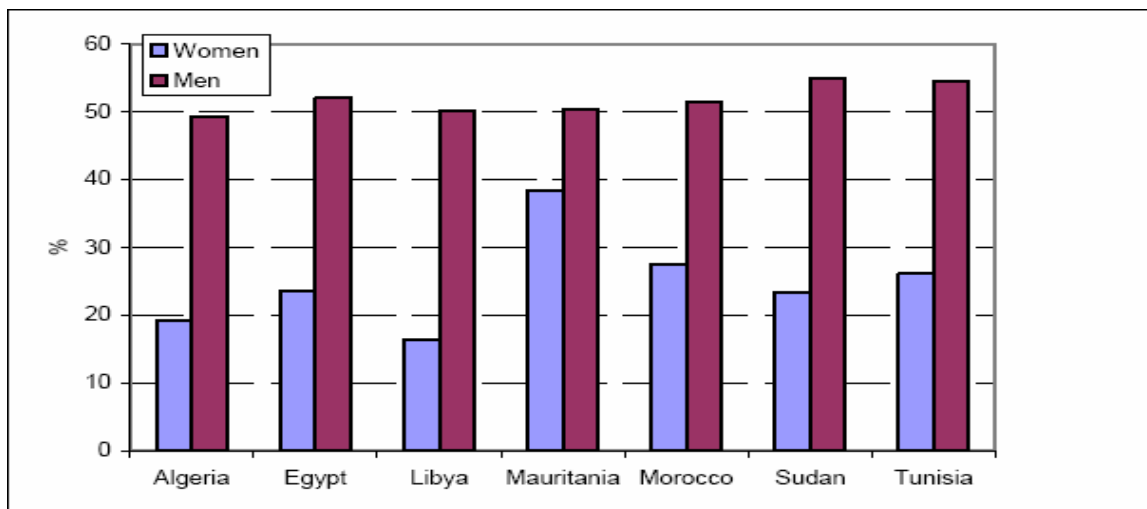
quality. Morocco's poor standing was attributable to erosion, salinization, and urbanization. Land degradation and desertification as well as oil pollution of coastal waters also are problems.

In June 2004, the United States and Morocco signed an agreement to cooperate on environmental protection.

### 13. Population:

As of mid-2006, Morocco had an estimated total population of 33.2 million. During 1998–2006, the population grew at an average 1.6 percent annual rate. The population is concentrated in the northwestern part of the country, west of the Atlas Mountains. Some 58 percent of the population lives in cities. The net migration rate was estimated to be –0.87 migrants per 1,000 in 2005. About 100,000 foreign nationals reportedly reside in Morocco.

**Graph .** II.13.1 The North Africa population comparison.



**Source:** <[www.maec.gov.ma/](http://www.maec.gov.ma/)> Labor Market Policies and unemployment in Morocco

### 14. Demography:

According to 2006 estimates by the U.S. government, the age structure of Morocco's population was as follows: 0–14, 31.6 percent; 15–64, 63.4 percent; and 65 and older, 5 percent. The median age was 23.9 years. The birthrate in 2006 was estimated to be almost 22 per 1,000; the sex ratio, 1.05 males per female at birth; and the total fertility rate, almost 2.7 children born per woman. The death rate in 2006 was estimated at about 5.6 per 1,000 people.

The infant mortality rate was estimated at 40.2 per 1,000 live births, although other estimates range from 36 to nearly 50 per 1,000 live births. Life expectancy was estimated to be 70.9 years for the population as a whole, or 68.6 years for men and 73.4 years for women, about average internationally.

### **15. Ethnic Groups:**

The population is 99 percent Arab-Berber (an indigenous North African group that has adopted Arab customs).

### **16. Languages:**

Arabic is the official language. Berber dialects also are spoken and increasingly used as a language of instruction in schools. French is often the language of business, government, and diplomacy and is taught in the schools. Spanish is spoken in the northern part of the country.

### **17. Religion:**

Islam is the official religion of Morocco. Muslims constitute 99 percent of the population; about 90 percent of Muslims adhere to Sunni Islam. The population also includes very small numbers of Christians and Jews, who are able to worship without restrict

### **18. Education and Literacy:**

Morocco's adult literacy rate was estimated at nearly 52 percent in 2003, 64.1 percent for males and 39.4 percent for females. Between 75 and 83 percent of women in rural areas are considered to be illiterate. However, the government has set up literacy centers where more than 80 percent of the attendees are women. The education system includes nine years of free and compulsory education, but attendance rates are low, especially among girls.

The World Bank estimates that 2.5 million children, mostly rural girls, do not attend school. Moroccan schools also have very poor retention rates.



Higher education is offered in 14 public universities, which had 290,000 enrolled students in 2002–3, and one private university, an American-style, English-language institution with about 1,000 students. Moroccan university graduates reportedly often find themselves ill prepared for the workforce.

**Table.** II.18.1 Religion, Languages, Literacy.

Ethnic groups:	Arab-Berber 99.1%, other 0.7%, Jewish 0.2%
Religions:	Muslim 98.7%, Christian 1.1%, Jewish 0.2%
Languages:	Arabic (official), Berber dialects, French often the language of business, government, and diplomacy
Literacy:	Definition: age 15 and over can read and write total population: 51.7% male: 64.1% female: 39.4% (2003 est.)

**Source:** Morocco Country Review <ISBN: 1590972252>

## **19. Health:**

According to the latest available information, Morocco has inadequate numbers of physicians (0.5 per 1,000 people) and hospital beds (1.0 per 1,000 people) and poor access to water (82 percent of the population) and sanitation (75 percent of the population). The health care system includes 122 hospitals, 2,400 health centers, and 4 university clinics, but they are poorly maintained and lack adequate capacity to meet the demand for medical care. Only 24,000 beds are available for 6 million patients seeking care each year, including 3 million emergency cases. The health budget corresponds to 1.1 percent of gross domestic product and 5.5 percent of the central government budget.

In 2001 the principal causes of mortality in the urban population were circulatory system diseases (20.4 percent); perinatal diseases (9.3 percent); cancer (8.5 percent); endocrinological, nutritional, and metabolic diseases (7.6 percent); respiratory system diseases (6.9 percent); and infectious and parasitic diseases (4.7 percent).

In 2004 the minister of health announced that the country had eradicated a variety of childhood diseases, specifically diphtheria, polio, tetanus, and malaria, but other diseases continue to pose challenges.

Although still high at more than 40 deaths per 1,000 live births in 2006, the infancy mortality rate shows considerable improvement since 1981, when it was estimated at 91 deaths per 1,000 live births.

According to estimates for 2001, approximately 0.1 percent of the population between the ages of 15 and 49 was infected with human immunodeficiency virus/acquired immune deficiency syndrome (HIV/AIDS).

## **20. Welfare:**

The National Fund for Social Security (La Caisse Nationale de Sécurité Sociale—CNSS) has managed Morocco's social security program for wage earners since April 1961. This public agency is responsible for collecting contributions from companies and also paying out benefits to workers employed in the principal sectors of the economy: industry and commerce, agriculture and fishing, and the trades. Benefit payments protect workers (and their families) against the loss of wages as a result of illness, pregnancy, disability, or old age. With a staff of about 5,000, the agency maintains 50 offices throughout the country.

## **21. Labor:**

The labor force was estimated to exceed 11 million in 2005. The distribution of the workforce in 2004 was as follows: 45 percent in services, 40 percent in agriculture, and 15 percent in industry. In 2004 Morocco's unemployment rate was 10.8 percent, representing a gradual but steady improvement over a five-year period. The urban unemployment rate (18.4 percent) was much higher than the rural rate (3.1 percent).

In addition, the unemployment rate was much higher for young people living in urban areas than for any other group. In 2002 the unemployment rate among city dwellers between the ages of 15 and 24 was 34.2 percent and 26.2 percent for those between the ages of 25 and 34. As of 2004, Moroccan law mandated a 44-hour workweek and a minimum wage of about

US\$223.30 per month for industrial workers. In the view of the U.S. Department of State, the minimum wage is inadequate to support a “decent standard of living” for a worker and his or her family.

## **22. Labor Law :**

The employment contract binding the employer to each of his employees is governed by the Royal Decree dated August 13, 1913, which lays down a code of obligations and contracts. Such contract may be written or oral.

A decree of October 23, 1948 sets out a specimen contract applicable to all industrial and commercial establishments. It defines the reciprocal rights and duties of employer and employees. An employer, however, can make more favorable arrangements in his establishment, subject to agreement with the Minister of Labor.

Workers have the right to join together in unions for the protection of their rights and to strike in defense for their collective interests. Nevertheless, the Inspectorate of Labor endeavors to settle disputes by mediation. At the same time, if both parties agree, arbitration may avoid recourse to strike action or legal action before the Tribunal of first instance.

There is no legal requirement for employees to be involved in the management of companies or to be represented on the board of directors.

Although there is no legislation requiring participation by labor in the profits of a business, a number of companies have implemented profit sharing plans.

The work week is limited to forty-eight hours, with no more than ten hours worked per day. Every employee is entitled to a weekly day of rest and a number of statutory paid holidays.

There are no legislated wage controls in Morocco other than the minimum wage. Therefore, wages and salaries can be freely contracted between employees and employers.

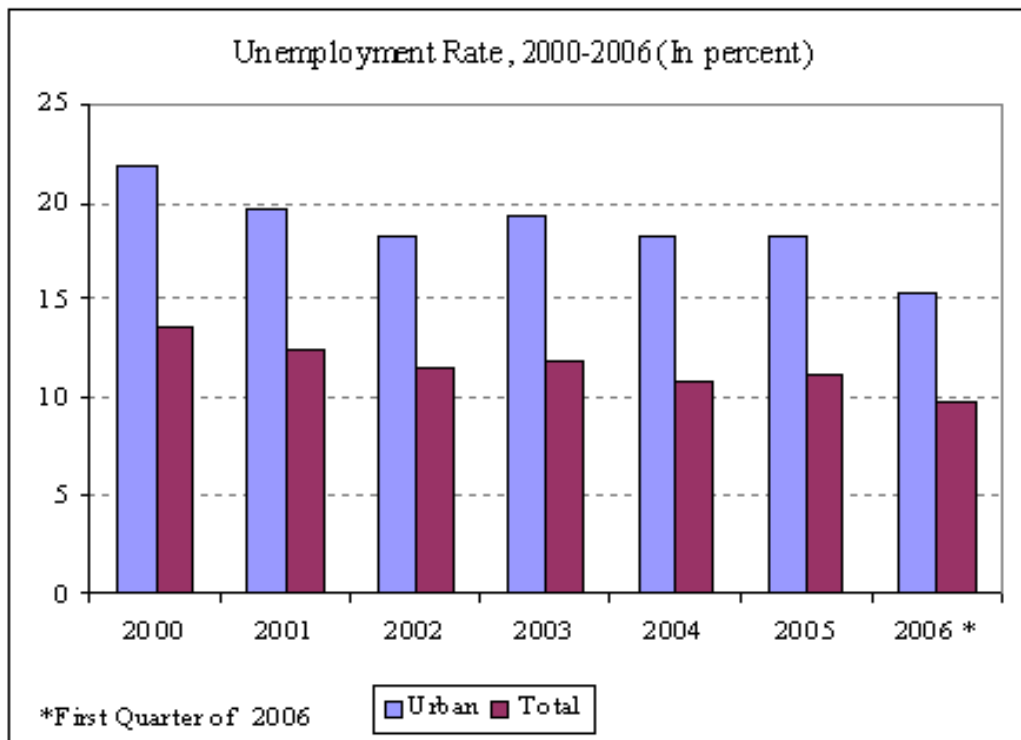
Apart from agreed pay increases, an indexing system enables the government to raise by decree all wages and salaries effectively paid when the Central Commission for Prices and

Wages records an increase of atleast 5 percent in the cost of living.

Wages, whatever the method of remuneration (time rates, piece rates or job rates) must be paid at least twice a month, at a maximum of sixteen days' interval.

Salaries must be paid at least once a month.

**Graph.** IV.10.1 Unemployment rate.



**Source :** <[http://www.ec.europa.eu/index\\_en.htm](http://www.ec.europa.eu/index_en.htm)>.

Morocco is divided into 16 administrative regions (further broken into provinces and prefectures); the regions are administered by Walis (governors) appointed by the King.

The Moroccan Constitution provides for a monarchy with a Parliament and an independent judiciary. Ultimate authority rests with the King. He presides over the Council of Ministers; appoints the prime minister following legislative elections; appoints all members of the government taking into account the prime minister's recommendations; and may, at his discretion, terminate the tenure of any minister, dissolve the Parliament, call for new elections, or rule by decree. The King is the head of the military and the country's religious leader.

Since the constitutional reform of 1996, the bicameral legislature consists of a lower chamber called the Chamber of Representatives, which is directly elected, and an upper chamber, the Chamber of Counselors, whose members are indirectly elected through various regional, local, and professional councils. The councils' members themselves are elected directly. Parliament's powers, though limited, were expanded under the 1992 and 1996 constitutional revisions to include budgetary matters, approval authority, and establishing commissions of inquiry to investigate the government's actions. The lower chamber of Parliament may dissolve the government through a vote of no confidence.

The last parliamentary elections were held in November 2002 and were considered largely free, fair, and transparent. At that time, King Mohammed VI formed a government appointing then Interior Minister Driss Jettou as Prime Minister. Cabinet level positions were drawn from most major parties in the coalition.

Following the 2002 elections, King Mohammed VI highlighted several goals toward which the new government should work: gainful employment, economic development, meaningful education, and increased housing availability. To meet the King's objectives, the Jettou government embarked on a series of initiatives and reforms, which he laid out in his early days as Prime Minister.

Jettou emphasized that first and foremost, modernization and revitalization of the country's infrastructure (roads, trains, communications, water, etc.) and national economy (support for Moroccan businesses, preparations for competition, modernization of modes of production, etc.), were necessary towards development progress in Morocco.

In order to create employment opportunities, the government is promoting investment in the tourism, industrial, fishing, and service industries, and is ameliorating, restructuring, and modernizing the education system.

Preparations are currently underway for the next parliamentary elections in September 2007

### **III- Global economic overview :**

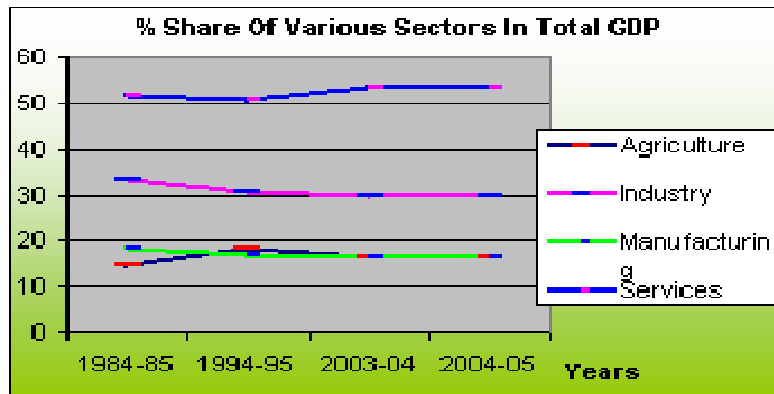
#### **1. Overview:**

Morocco has a developing economy, and its citizens are poorer than their neighbors in Algeria and, especially, Tunisia. From 1999 to 2004, poverty declined from 19 percent to 15 percent of the population, according to World Bank estimates, but poverty remains a serious challenge, particularly in rural areas, where the rate exceeds 25 percent. Unemployment, which averaged 10.8 percent in 2004, is particularly acute for young people living in urban areas (as high as 26 percent). In order to keep unemployment under control and prevent related social instability, the government is seeking to achieve an economic growth rate of 6 percent. To promote this goal, the government is pursuing a program of economic reform and liberalization, including private-sector development. However, reform efforts have lagged, and in 2004 real economic growth was only 3.7 percent. Among other factors, analysts believe that economic growth has been hampered by the economy's over-reliance on agriculture and would benefit from greater diversification. Morocco's hydrocarbons industry is smaller and less dynamic than that of neighboring Algeria, but the sector may benefit from recent efforts to liberalize rules for oil and gas exploration in Morocco.

#### **2. Gross Domestic Product (GDP):**

In 2004 Morocco's GDP was US\$50.1 billion and per capita income was US\$1,677. Real GDP growth of 3.7 percent reflected strength in energy and mining and, to a lesser extent, tourism. Estimates for 2005 placed GDP at US\$52.7 billion with a growth rate of about 1.8 percent. Morocco's relatively slow growth compared with the rest of North Africa resulted from the sub-par performance of the agricultural and textile sectors. Economic output in 2004 was divided among sectors as follows: agriculture, 16.7 percent; industry, 29.7 percent; and services, 53.6 percent.

**Graph.** III.2.1.GDP by sectors.



**Source :** < (<http://www.statistic.gov.ma/comptabilite53.htm>)>.

### 3. Government Budget:

Government revenues for 2005 were estimated at US\$12.94 billion and expenditures at US\$16.77 billion. The resulting deficit would constitute about 7 percent of gross domestic product (GDP).

### 4. Inflation:

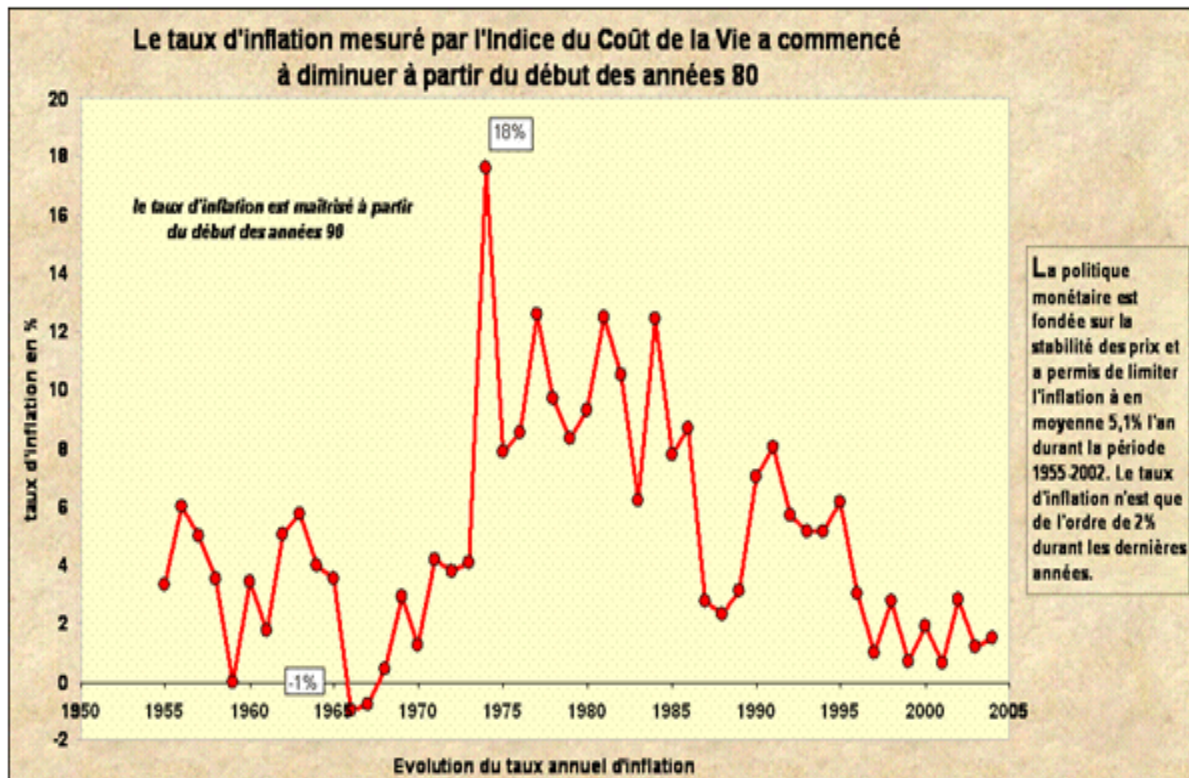
In 2004 Morocco's consumer price inflation was 4.1 percent. Agriculture, Forestry, and Fishing: Morocco's agricultural sector, including forestry and fishing, constituted 16.7 percent of gross domestic product (GDP) but employed 40 percent of the workforce in 2004. The agricultural sector is regarded as volatile, because of its vulnerability to inconsistent rainfall among other factors, and has been contracting in recent years.

Morocco's principal crops, in order of yield, are rice, sugar beets, barley, potatoes, tomatoes, and sugarcane. Other agricultural products include wheat, citrus fruits, olives, other vegetables, wine, and livestock. In 2002 Morocco's forestry production consisted of 926 cubic meters of roundwood and about 83 cubic meters of sawnwood.

Morocco has substantial fishing resources. In 2002 the total catch, mostly sardines, weighed 896,600 metric tons. In July 2005, Morocco signed a fishing agreement with the European Union (EU) that gives the EU limited fishing rights within Moroccan territorial waters for the first time since 1999. Under the agreement, the EU is restricted to catching a

maximum of 60,000 metric tons of small, open-water fish using 119 fishing boats per year. In exchange, the EU will pay Morocco US\$43 million per year. This accord is much more modest than its predecessor, which expired in 1999.

Graph.III.2.2 Inflation rate <1950-2006>



Source : <[www.wikipedia.org/wiki/Economy\\_of\\_Morocco](http://www.wikipedia.org/wiki/Economy_of_Morocco)>

## 5. Mining and Minerals:

Morocco has two-thirds of the world's phosphate reserves and is the world's top exporter of phosphate rock. In 2003 Morocco mined nearly 22 million metric tons of phosphate rock. Morocco is a minor producer of oil and natural gas. In fact, it is the largest energy importer in North Africa. Crude petroleum production totaled only about 300 barrels per day in 2005. Natural gas production was estimated at 5 million cubic meters in all of 2003.

## 6. Industry, Manufacturing, Agriculture and fishing :

Industry constituted 29.7 percent of Morocco's gross domestic product (GDP) and employed 15 percent of the workforce in 2004. Manufacturing, a subset of industry,



accounted for 18 percent of GDP. In 2004 manufacturing output was 41.6 percent higher than in 1992, indicating a relatively slow rate of growth, attributable to low levels of investment and productivity in combination with relatively high wages—higher than in China or India, for example.

The worst performing manufacturing segment was textiles, which has experienced no growth since 1994, reflecting competition from Asian countries and a relatively strong domestic currency. By contrast, the top-performing segments—paper and metallurgical products—have grown by 90.9 percent and 86.4 percent, respectively, during this period. Morocco is the world's leading exporter of phosphoric acid, which along with fertilizers is the most important product of the chemicals industry. The food-processing industry exports canned fruit, vegetables, and fish; the European Union is a major customer.

Energy: According to a January 2006 estimate by Oil and Gas Journal, Morocco's proven oil reserves total 1.07 million barrels, while its proven gas reserves total 60 billion cubic feet, although additional reserves may lie offshore. Both figures fall substantially short of the corresponding amounts in neighboring Algeria. In fact, Morocco is a net importer of energy, including coal, which is needed to fire the country's two main electric power stations. In 2003 Morocco produced an estimated 17.35 billion kilowatt-hours of electricity but consumed 17.58 kilowatt-hours.

Some 17 foreign energy companies are exploring for energy in Morocco. In 2000 Morocco began to provide tax incentives for offshore oil production and capped the share of foreign oil concessions reserved to the government at 25 percent. Comprehensive liberalization of the energy sector is expected in 2007. The disputed status of Western Sahara places in doubt the legality of oil and gas contracts in that country.

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## **7. Services:**

Services accounted for 53.6 percent of the economy and employed 45 percent of the workforce in 2004. Financial services liberalization has been underway since the early 1990s, but it has fallen short of expectations, according to the World Bank. Despite efforts at privatization, many financial institutions continue to be owned by the government. The latest thrust in this campaign involves boosting the independence of the central bank and improving bank supervision and regulation.

The latter is urgently needed because many banks suffer from extremely high levels of non-performing loans and inadequate reserves. The insurance sector has been streamlined with the closure of several poorly performing companies.

Morocco has modernized the Casablanca stock exchange by introducing an electronic quotation system, centralized settlement, and brokerage rules. Tourism is Morocco's leading source of foreign exchange. In 2003 Morocco received 2.2 million foreign tourists, with the largest contingents coming from France, Spain, the United Kingdom, Germany, and Italy, in that order. If Morocco is to achieve its goal of boosting tourist visits to 10 million by 2010, it will need to address the shortage of suitable hotel accommodations.

## **8. Foreign Economic Relations:**

Morocco's economy is gradually becoming more integrated into the international

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economic system. On January 1, 2006, a comprehensive bilateral free-trade agreement between Morocco and the United States went into effect.

Morocco is only the second Arab nation to have such an agreement with the United States. In December 1999, Morocco entered into a free-trade agreement for industrial goods with the European Union (EU) and expects to participate in a free-trade zone with the EU by 2012. In February 1989, the leaders of Morocco, Algeria, Libya, Mauritania, and Tunisia established the Union of the Arab Maghreb (UMA) to promote a North African free-trade area.

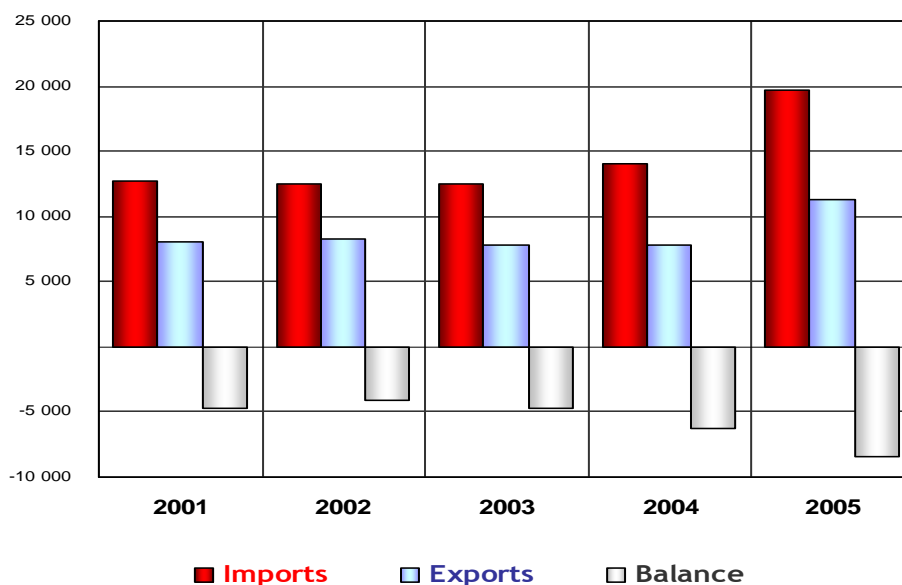
However, Algeria's support for Western Saharan self-determination, Morocco's condemnation of Iraq's invasion of Kuwait in August 1990, and mutual visa restrictions by Algeria and Morocco motivated by security concerns rendered the UMA ineffective. Morocco has been a member of the World Trade Organization since January 1995.

## 9. Imports:

In 2005 Morocco's imports totaled US\$18.2 billion. Principal imports were semifinished products; consumer goods; capital goods; fuel and lubricants; and food, beverages, and tobacco, in order of U.S. dollar value.

The top import partners in 2004 were France, Spain, Italy, Germany, Russia, Saudi Arabia, China, and the United States, in order of the value traded.

**Graph.III.7.1** Export and import levels



**Source:** <<http://www.statistic.gov.ma/comptabilite53.htm>>.

## 10. Exports:

In 2005 Morocco's exports totaled US\$9.5 billion. Principal exports were manufactured goods; semifinished products; food, beverages, and tobacco; and raw materials, in order of U.S. dollar value. Morocco leads the world in the export of phosphates. The top export partners in 2004 were France, Spain, the United Kingdom, Italy, and the United States, in order of the value traded. The European Union accounted for 71 percent of exports.

Table. III.8.1 The major imports and export partners.

The major imports partners			The major export partners		
Partners	Mio euro	%	Partners	Mio euro	%
<b>World</b>	<b>1 176 055</b>	<b>100,0</b>	<b>World</b>	<b>1 061 836</b>	<b>100,0</b>
<b>1</b> USA	163 057	<b>13,9</b>	<b>1</b> USA	251 657	<b>23,7</b>
<b>2</b> China	158 098	<b>13,4</b>	<b>2</b> Switzerland	81 980	<b>7,7</b>
<b>3</b> Russia	106 766	<b>9,1</b>	<b>3</b> Russia	56 445	<b>5,3</b>
<b>4</b> Japan	73 243	<b>6,2</b>	<b>4</b> China	51 796	<b>4,9</b>
<b>5</b> Norway	67 474	<b>5,7</b>	<b>5</b> Japan	43 663	<b>4,1</b>
<b>6</b> Switzerland	66 354	<b>5,6</b>	<b>6</b> Turkey	41 849	<b>3,9</b>
<b>7</b> Turkey	33 492	<b>2,8</b>	<b>7</b> Norway	33 787	<b>3,2</b>
<b>8</b> Korea	33 326	<b>2,8</b>	<b>8</b> United Arab Emir.	25 288	<b>2,4</b>
<b>9</b> Taiwan	23 835	<b>2,0</b>	<b>9</b> Canada	23 681	<b>2,2</b>
<b>10</b> Brazil	23 300	<b>2,0</b>	<b>10</b> Romania	21 825	<b>2,1</b>
<b>11</b> Saudi Arabia	22 092	<b>1,9</b>	<b>11</b> India	21 110	<b>2,0</b>
<b>12</b> Algeria	20 735	<b>1,8</b>	<b>12</b> Australia	20 710	<b>2,0</b>
<b>13</b> Libya	19 473	<b>1,7</b>	<b>13</b> Hong Kong	20 434	<b>1,9</b>
<b>14</b> India	18 911	<b>1,6</b>	<b>14</b> Korea	20 130	<b>1,9</b>
<b>15</b> Singapore	18 219	<b>1,5</b>	<b>15</b> South Africa	18 077	<b>1,7</b>
<b>16</b> Canada	17 174	<b>1,5</b>	<b>16</b> Singapore	17 227	<b>1,6</b>
<b>17</b> South Africa	16 731	<b>1,4</b>	<b>17</b> Mexico	16 762	<b>1,6</b>
<b>18</b> Malaysia	15 905	<b>1,4</b>	<b>18</b> Brazil	15 987	<b>1,5</b>
<b>19</b> Romania	15 305	<b>1,3</b>	<b>19</b> Saudi Arabia	15 443	<b>1,5</b>
<b>20</b> WA_AO	13 761	<b>1,2</b>	<b>20</b> WA_AO	13 484	<b>1,3</b>
<b>29</b> Morocco	<b>9 017</b>	<b>0,8</b>	<b>25</b> Morocco	<b>11 728</b>	<b>1,1</b>

Source: EUROSTAT <Comext, Statistical regime 4>

## 11. Trade Balance:

In 2005 Morocco posted a merchandise trade deficit of nearly US\$9 billion.

## 12. Membership in International Organizations:

Morocco is a member of the following international organizations: African Development Bank (AfDB), Agency for the French-Speaking Community (ACCT), Arab Bank for Economic Development in Africa (ABEDA), Arab Fund for Economic and Social

Development (AFESD), Arab Maghreb Union (AMU), Arab Monetary Fund (AMF), European Bank for Reconstruction and Development (EBRD), Food and Agriculture Organization (FAO), Group of 77, International Atomic Energy Agency (IAEA), International Bank for Reconstruction and Development/World Bank (IBRD), International Chamber of Commerce (ICC), International Civil Aviation Organization (ICAO), International Confederation of Free Trade Unions (ICFTU), International Criminal Court (ICCt, signatory), International Criminal Police Organization (Interpol), International Development Association (IDA), International Finance Corporation (IFC), International Fund for Agricultural Development (IFAD), International Labor Organization (ILO), International Maritime Organization (IMO), International Monetary Fund (IMF), International Olympic Committee (IOC), International Organization for Migration (IOM), International Organization for Standardization (ISO), International Red Cross and Red Crescent Movement (ICRM), International Telecommunication Union (ITU), Islamic Development Bank (IDB), League of Arab States (LAS), Nonaligned Movement (NAM), Organisation for the Prohibition of Chemical Weapons (OPCW), Organization of the Islamic Conference (OIC), Permanent Court of Arbitration (PCA), United Nations (UN), Universal Postal Union (UPU), World Confederation of Labor (WCL), World Customs Organization (WCO), World Health Organization (WHO), World Intellectual Property Organization (WIPO), World Meteorological Organization (WMO), World Tourism Organization (WtoO), and World Trade Organization (WTO).

### **13. Maghreb Arab:**

Arabic term for NW Africa. It is generally applied to all of Morocco , Algeria , and Tunisia but actually pertains only to the area of the three countries between the high ranges of the Atlas Mts. and the Mediterranean Sea. Some writers also included Spain—especially during its period of Muslim domination—in the definition. Isolated from the rest of the continent by the Atlas Mts. and the Sahara, the Maghreb is more closely related in terms of climate, landforms, population, economy, and history to N Mediterranean areas than to the rest of Africa.

The region was united politically only during the first years of Arab rule (early 8th cent.), and again under the Almohads (1159-1229). The Arab Maghreb Union was established in 1989 to promote cooperation and integration among the Arab states of N Africa; its members

are Algeria, Libya, Mauritania, Morocco, and Tunisia. Envisioned initially by Muammar al-Qaddafi as an Arab superstate, the organization is expected eventually to function as a N African common market, although economic and political unrest, especially in Algeria, and political tensions between Algeria and Morocco over Western Sahara have hindered progress on the union's joint goals.

#### **14. Major International Treaties:**

Morocco is a signatory to international agreements on the non-proliferation of biological weapons, chemical weapons, and nuclear weapons as well as various international agreements on civil aviation, customs cooperation, human rights, and intellectual property. Notable agreements on the environment include the following: biodiversity, climate change (including the Kyoto Protocol), desertification, endangered species, hazardous wastes, marine dumping, ozone layer protection, ship pollution, wetlands, and whaling.

#### **15. Administrative Simplification:**

Simplification is the key issue behind the modernisation of the Moroccan PA. King Hassan II and his successor King Mohamed VI both expressed the need to simplify, and indeed this is one of the cornerstones of the PA reform process. Another cornerstone is the Good Management Pact, which recommends the rationalisation of administrative procedures and promotes a closer relationship between the administration and the citizenry.

In order to stimulate and coordinate the various simplification measures Morocco created a Central Commission for Administrative Simplification (C.C.S.A.) under the leadership of the Ministry for Public Administration and Administrative Reforms. A group of experts from the C.C.S.A. drafted a general handbook on simplification projects.

#### **16. Economic Growth :**

Higher growth in Morocco will depend on faster total factor accumulation, i.e. higher rates of investment and human capital formation, as well as on increases in total factor productivity<sup>3</sup>. Empirical evidence demonstrates that there exist some key elements which can affect factor accumulation, factor productivity and growth.

First, cross-country work has demonstrated the overriding importance of prudent macro-economic management to growth.

Macroeconomic stability and in particular sustained small budget deficits (and preferably surpluses) play a significant role in raising domestic savings and in signalling the Government's commitment to reform (Chile and Thailand for example, both fast growers, have preserved persistent budget surpluses in the after reform period).

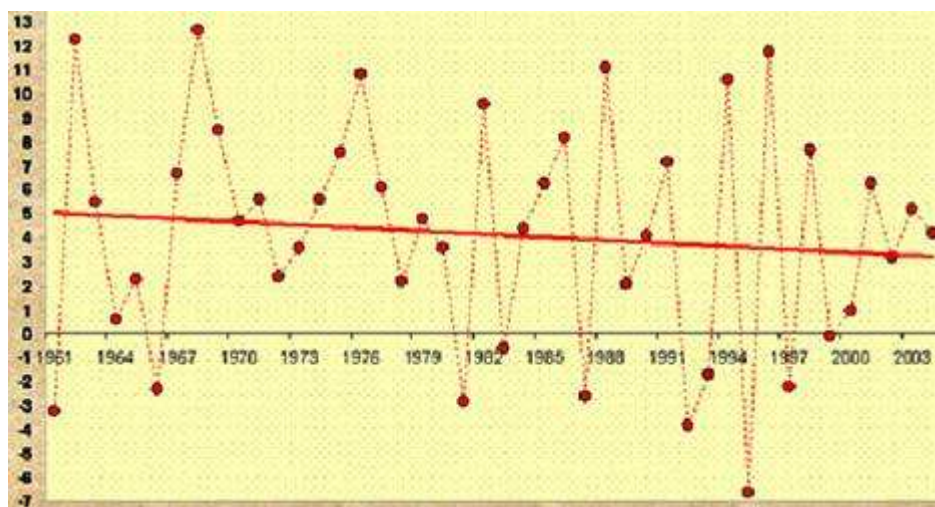
While Morocco has undertaken significant macroeconomic adjustment and as a result has attracted significant foreign investment, recent economic developments indicate that progress in this area remains fragile and needs to be deepened.

Growth of Morocco's real GDP was 4.4 percent in 2004, down slightly from the previous year.

Last year's depressed growth rate was due to a poor wheat crop (which experts predict will again be smaller than usual in 2005), and because of increased foreign competition with the country's textile industry.

Department of Commerce project Morocco's GDP will grow at a rate of 4.2 percent in 2005 and a more robust 5.1 percent in 2006.

**Graph.III.20.1** Economic growth changes.



**Source :** <[www.usaid.gov/ma/](http://www.usaid.gov/ma/)>



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**17. Privatization and Private Sector Development:**

The higher growth path requires substantial change in the role of the Government. Its main role should be to support private sector led growth rather than to be involved directly in productive activities. The public enterprise (PE) sector still accounts for about 20 percent of GDP, higher than in most middle-income countries.

To accelerate growth, Morocco will need to move faster on privatization of public enterprises, in reform of the regulatory system to promote private sector development and towards better public sector management.

In addition, the revenues from privatization should be used to finance debt reduction, rather than to finance additional current expenditures. Privatization represents asset sales. Selling assets to support current expenditures, while postponing necessary adjustments in expenditure patterns is an unsustainable strategy.

**18. Public Sector Management:**

The current system of public finance management hinders the efficient allocation of expenditures in Morocco. First, management within the central Government is over-centralized. Expenditure decisions for each ministry are decided a priori and individual expenditures must be approved. Second, local governments do not have control over expenditures due to lack of effective decentralization.

Third, a definition of medium-term priorities is lacking (and thus hinders continuity in fiscal policy) in the allocation of expenditures; financing for longer-run sectoral objectives is determined on an annual basis and is too dependent on year-by-year ad hoc deficit containment attempts. Fourth, the current management of PEs does not ensure efficient resource use.

To promote greater efficiency in the allocation of Government resources and to ensure continuity in the financing of activities in accordance with Government priorities, it is recommended that the budgetary process be made more flexible.

One suggestion would be to prepare 3-4 year investment programs. The same strategy would be required for recurrent expenditures. Efficiency in decision making would be increased if there were effectived ecentralization of Government.

This can be implemented only gradually and will require the strengthening of the administrative capacity of local governments and the implementation of an efficient resource transfer system to local Governments from the central Government.

The regulatory system governing PEs will also need to be overhauled to reduce the drain on Government resources.

### **19. Investment:**

Resident or non-resident foreign nationals are entitled to invest freely in Morocco, no investment operation in Morocco requires any prior authorization from the Control Exchange Office. Prior to 1996, Morocco offered foreign investors a package of investment incentives contained in various investment codes in different areas of business such as exports, tourism, industrial, mining, maritime, handicraft and real estate investments.

Those codes have been replaced by a new Investment Charter, promulgated by Decree No.1-95-213 of November 8, 1995. Effective as of January, 1996, the new Charter set up as a framework the main objectives regarding the promotion and development of investments in Morocco within the next ten years. It also codified several existing regulations some of which have been implemented through their inclusion in the Corporate Tax Law in 1996. Further, the Charter establishes that benefits for investors under previously existing laws will be maintained until expiration of their term and of the conditions for which they had been granted.

### **20. Moroccan's phosphate:**

Morocco's phosphate reserves are estimated at 110 billion tons, representing three-quarters of known world reserves. Phosphate production increased 8.2 percent in 2002. The state-owned Office Cherifien des Phosphates (OCP) continues work to increase processing capacity, increasingly in cooperation with foreign operators in joint ventures. Managem, the

mining arm of the holding company Omnium Nord Africain (ONA) has signed a 10 year, \$20 million credit agreement with the French development institution Proparco to finance further development.

To advance the production process in the phosphate sector, the government has been looking at ways to introduce private participation, emphasizing joint venture financing with firms in Europe and Asia.

Privatization efforts in the mining sector are moving forward with sales of shares in state-owned silver and lead mining companies in recent years. Although phosphate accounts for over 76 percent of mineral production, smaller quantities of other minerals are produced, including copper, fluorine, lead, barite, iron, and anthracite.

Non-metallic mineral production and the export of raw ore, other than phosphates has increased in recent years and a revised mining code is presently being drafted to boost private investment in the sector.

Morocco - Phosphate bed is found in sediments of the Eocene age for a distance of 320 km. between the Atlas Mountains to the east and the Atlantic coast in the west. The sediments are composed of shale, limestone and sandstone of marine origin. Phosphate occurs in limestone. The largest producing mine is the Khouribga (Kourigha).

The phosphate rock from this mine is known as 'Morocco Phosphate' in trade, guaranteed to contain a minimum of 73% BPL. The thickness of the phosphate bed is 3 metres.

## **21. Moroccan fish:**

Moroccan fisheries professionals on Friday unanimously opposed the renewal of the Moroccan-EU fisheries agreement, after its expiry in November 1999.

The fish industry operators who held their first colloquy in Tangiers (northern Morocco) said they are satisfied that the Moroccan government has announced its decision not to sign another agreement with the European Union and called for not signing similar agreements with any foreign country.

They further insisted on speeding up the creation of the "higher council for the safeguarding of sea resources" and called the national institute of research in sea resources to update its studies and research on fish stocks.

To make up for the loss of \$ 162.6 million a year in fees paid by the European Union, the fish professionals said Morocco should endeavor to restructure the traditional fishing sector and improve its performance so as to attract the interest of insurance companies.

Fisheries Minister Thami Khiari earlier said the authorities had made "a sacrifice" by rejecting future EU fishing fees, which represent an important source of funding.

Morocco has around 3,500 km coastline rich in fish where the European fleet, dominated by Spanish trawlers, operate annually.

The Moroccan fishing industry generates more than \$1.0 billion per year and employs some 400,000 people.

## **22. Tourism:**

Tourism is the second largest hard currency earner, and is a vital sector for Morocco. Visitors come primarily from Europe to hike or ski in the Atlas Mountains or to vacation around the beaches at Agadir. Others come for the culture, found in the medieval medinas of Fez and Marrakesh.

Foreign tourism held steadier in Morocco after September 11 than in other countries in the region.

Tourism currently employs 600,000 people, and has been the target of a huge expansion

initiative, with four billion dollars invested in the development of five resort areas. The government's aggressive investment agenda was designed to bring in 10 million visitors a year by 2010, way up from 2.5 million in 2001, with tourism's contribution to GDP growing from 8 percent to 20 percent over the decade.

The government intends to recruit cooperation and investment of the private sector, and has offered fiscal incentives to encourage hotel building and divested itself of more than a dozen state-owned hotels. Tourism developments currently in progress will add 20,000 beds and efforts to attract foreign capital and know-how into the sector are proving quite successful. Several major foreign groups are investing in Morocco: Saudi Dallah Al-Baraka Group is to construct a tourism complex and five-star hotel in Agadir and NESCO, Accor, Meridien, Starwood Hotels, and Majestic Hotels are all commencing significant projects.

### **23. Telecommunication:**

Morocco has seen significant growth in its mobile telephone market while the state telecoms company lost its monopoly over fixed-line services. Morocco is setting itself up to be a hub for call centres, with its proximity to Europe and its multilingual workforce, as the country works to train more workers in the IT sector. An interview with ANRT General Manager, Mohamed Benchaaboun, rounds out the chapter.

### **24. Media and advertising:**

It looks like 2006 is set to be a banner year for local media, with plans to push ahead with the introduction of organisations to monitor the distribution of print publications and audience ratings for TV and radio. With Morocco set to become the first country in the Arab world to liberalise broadcasting, all eyes will be trained on the kingdom's media sector in 2006, while advertising is seeing increasing revenues as the economy and media pick up. Internet penetration grew substantially in 2005 and it is the leader in IT in the Maghreb and the industry there is rather mature.

### **25. Basic of moroccan economics:**

Morocco's economy is based on mining, agriculture, fishing, tourism, a growing

manufacturing sector, and a deregulated telecommunications sector. Morocco has the world's largest phosphate reserves, and exports of phosphates from state-owned companies account for about 17% of Morocco's total exports. Agriculture accounts for between 15-20% of GDP and employs between 40-45% of its workforce (services employs around 35% and industry around 15%). Morocco is a net exporter of fruits and vegetables and a net importer of cereals, oilseeds, and sugar.vegetables and a net importer of cereals, oilseeds, and sugar.

## **IV Economic policie:**

### **1. Banking and Securities:**

The Bank of Morocco (Bank al-Maghrib), the central bank, has the sole privilege of note issue. It is required to maintain a gold or convertible-currency reserve equal to one-ninth of its note issue. The Ministry of Finance is responsible for the organization of banking and the money market. In February 1996 the central bank gave clearance for banks and finance houses to issue corporate bonds. Consumer credit companies are expected to be the first to take advantage of the new ruling. Other reforms scheduled for 1996 included a secondary market in public debt, an interbank foreign exchange market, and the launch of privatization bonds and global depository receipts (GDRs). As of 1997, only the interbank foreign exchange market had been implemented. Commercial banks were permitted to buy and sell foreign currency at market-determined rates, where previously foreign exchange rates were fixed on a daily basis by the central bank. The dirham was fully convertible in 1999. Commercial banks must have 51% domestic majority ownership; some foreign banks were moroccanized in 1975. There were 16 commercial banks in 2002, most of which were partly owned by European banks.

The largest private commercial bank is the Banque Commerciale du Maroc (BCM), which is 32% owned by foreign banks, including Banco Central Hispano, Credito Italiano, and Crédit Commercial de France. Another important commercial bank was Wafa Bank, with a 10% share of deposits in 1999. Wafa Bank owned half of a year 2000 banking venture with Senegal to offer services to ECOWAS countries. The three largest banks account for over 60% of banking assets and deposits.

Public sector financial organizations specializing in development finance include the National Bank for Economic Development, Moroccan Bank for Foreign Trade, National Agricultural Credit Bank, and Deposit and Investment Fund. Also instrumental in

development finance is the Bureau of Mineral Exploration and Participation, which has participatory interests in the production of all coal, petroleum, lead, and manganese.

The National Bank for Economic Development, established in 1959, has been particularly active in financing manufacturing. The Agricultural Credit Bank makes loans to credit organizations, public institutions, and cooperatives. Private individuals borrow from local agricultural credit banks or from the agricultural credit and provident societies.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$22.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$29.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.44%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.71%.

The stock exchange (Bourse des Valeurs) at Casablanca, established in 1929, handles mostly European and a few North African issues. The Casablanca stock market underwent a program of reform designed to attract increased interest from overseas and local investors. In 1993 the government approved legislation to turn the bourse into a private company with stock held by brokers, to create new stock-trading bodies and to channel the funds of small savers into share issues and unit trusts. In 1995, France agreed to finance further improvements, modeling the exchange on the Paris bourse and introducing computerization. In 2001, the stock exchange had 55 companies listed and a \$9.1 billion capitalization.

## **2. Monetary policy:**

Although price growth is trending upwards, serious inflationary pressures have so far been avoided. Consumer demand has been largely channelled towards European imports, the cost of which has fallen, largely because of tariff reductions. However, abundant liquidity is likely to remain a feature of the local economy in 2006-07, with monetary growth accelerating slightly, fuelled again by workers' remittances and by the impact of new privatisation proceeds on the government's fiscal position. Bank al-Maghrib (the central bank) is likely to raise interest rates by some 100-150 basis points over the forecast period (and possibly also raise commercial bank reserve requirements) in a bid to drain some of this

liquidity from the system to keep inflationary pressures in check. This would be in line with the upward trend in global interest rates in 2006 and in euro area rates in both 2006 and 2007.

### **3. Fiscal policy:**

Despite a weak economy, fiscal revenue growth was robust in 2005, although this was matched by even higher levels of spending. The stronger expenditure growth was in part driven by wage rises agreed in 2004 and the cost of a civil service early-retirement scheme (although this should help constrain Public-sector salary outlays in the longer term). The government has also begun to clear arrears on fuel subsidies, which had accumulated as global oil prices rose.

With the economy growing at a healthier pace in 2006, the direct tax take will grow strongly. The indirect tax yield should also rise markedly, as private consumption picks up.

Measures to improve tax collection and reduce exemptions will also boost government coffers.

Expenditure on public-sector wages will increase again, albeit more modestly, as will costs linked to the introduction of a new compulsory health insurance scheme. Subsidy spending will continue to be pushed up by surging global oil prices (as government-set local fuel prices fail to keep up) and by the repayment of last year's arrears. Capital spending will expand to meet social goals, primarily improved housing as well as transport infrastructure.

Overall, we expect the general government budget deficit to rise modestly in nominal terms in 2006, to Dh39.8bn (US\$4.5bn), although it will stay at around 7.3% of GDP, excluding privatisation revenue. If this revenue were included, the deficit would be equivalent to 6.1% of GDP.

Similar trends will prevail in 2007, with further robust growth in revenue. Moreover, with global oil prices currently forecast to fall, subsidy costs should decline. However, in an election year the government is unlikely to introduce major reforms to public-sector employment or remove basic food subsidies, and we therefore expect overall spending to rise, albeit at a slightly slower rate. As a result, the fiscal deficit should fall to Dh37bn (6.3% of



GDP) in 2007, excluding privatisation proceeds. With several large firms likely to be sold off that year—including Royal Air Maroc and possibly the postal service, as well as the remaining stake in Maroc Telecom—receipts from privatisation should rise, leaving the deficit including privatisation earnings at 4.2% of GDP. However, part of the privatisation receipts is likely to be used to pay down government debt, which should help keep interest payments manageable.

#### **4. Policy trends:**

The government will press ahead with policies aimed at generating faster economic growth and reducing unemployment and poverty. The government has made progress in addressing some of these issues, having improved the business environment by strengthening property rights and reforming labour regulations.

It has also seen through reforms to make it easier to set up new enterprises, which has led to a sharp increase in new business starts, and it is improving banking supervision and liberalising the telecommunications, aviation and energy sectors. In addition, a free-trade agreement (FTA) with the US, which came into effect in

January 2006, promises to boost exports to a potentially lucrative market and raise inward investment.

The government has also hinted that it will move slowly towards a more flexible exchange-rate regime over the next five years. Further reductions of multilateral tariffs and a simplification of the trade regime are planned in a bid to boost growth. Various reforms have been identified in industry in a bid to boost competitiveness, and tourism has been prioritised.

With its recent land-sale programme the government also seems to be addressing some of the issues that are holding back growth in the agricultural sector, such as underinvestment, which has left the sector overly dependent on drought-vulnerable cereals. Privatisation will also continue across a broad swathe of industry and services, including banking.

Set against these good intentions, however, is the inertia that continues to afflict much of the bureaucracy. Previous industrial restructuring plans have largely been ignored. There has been a reluctance to attempt politically challenging reforms that might mean a short-term

increase in unemployment, make life harder for the poor, or risk offending important elites.

The government has taken some tough decisions, such as cutting the size of the civil service and reducing fuel subsidies. However, its instinct will remain to ramp up spending if social stability appears under threat.

#### **5. Balance of Payments:**

In 2005 Morocco's balance of payments swung from a slight surplus to a deficit of US\$607.5 million. The current account surplus had been declining gradually since 2001.

#### **6. External Debt:**

In 2004 Morocco's external debt totaled US\$18.7 billion. The estimated figure for 2005 was US\$15.6 billion.

#### **7. Foreign Investment:**

In 2003 Morocco experienced a net inflow of foreign direct investment of US\$2.3 billion. Of this amount, the United States accounted for only US\$307 million. However, direct investment from the United States may receive a boost from the U.S.-Morocco Free Trade Agreement, which went into effect on January 1, 2006. The agreement removes barriers to 13 investment and provides for the protection of intellectual property. Another catalyst for increased foreign direct investment is Morocco's decision to liberalize the rules for oil and gas exploration.

#### **8. Foreign Aid:**

The World Bank's total historical involvement in Morocco through July 2005 consisted of 135 operations, representing a commitment of nearly US\$9 billion. As of July 2005, the World Bank was pursuing 13 investment projects in Morocco. On December 15, 2005, the World Bank approved loans for financial-sector development, rural water supply, and sanitation investment. Each loan was denominated in the amount of US\$200 million.

Morocco has special drawing rights with the International Monetary Fund (IMF) but receives no aid from that organization. Since 1953, the United States Agency for International Development (USAID) has provided Morocco with more than US\$2 billion of aid. In fiscal year 2005, USAID assistance to Morocco totaled US\$28.2 million. In 2005 the United States designated Morocco for the first time as a beneficiary of the U.S. Millennium Account program. Morocco was selected in recognition of its progress in achieving political, economic, and educational reform.

Morocco is the top beneficiary among Mediterranean nations of community assistance from the European Union, with commitments totaling more than US\$1.4 billion during 1995–2003.

**Currency and Exchange Rate:** Morocco's currency is the Moroccan dirham (MAD). In early May 2006, the exchange rate was approximately US\$1=MAD8.7.

## **9. Fiscal Year:**

Calendar year.

## **10. Foreign Relations:**

Morocco pursues a moderate foreign policy without notable controversy, except for its claim of sovereignty over Western Sahara. This claim is not recognized internationally, although Morocco continues to administer Western Sahara and has built a protective berm around three-quarters of its territory. Morocco's stance on Western Sahara is an irritant in its relations with Algeria, which supports the Polisario Front, a Western Sahara independence group. Morocco enjoys friendly relations with the United States, the European Union (EU), and the Persian Gulf states, including Saudi Arabia.

The United States has maintained relations with Morocco since 1787; a friendship treaty was renegotiated in 1836. No bilateral relationship between the United States and another nation has lasted longer. In recognition of Morocco's efforts to thwart international terrorism, the United States designated Morocco a major non-North Atlantic Treaty Organization ally in June 2004.

Although Morocco has cracked down on domestic terrorism, it opposed United States-led military interventions in Afghanistan and Iraq. A comprehensive bilateral free-trade agreement between the United States and Morocco went into effect on January 1, 2006. The EU's predecessor organization, the European Community, established relations with Morocco in 1960.

Current relations between Europe and Morocco are based on the comprehensive EU-Morocco Association Agreement, which entered into force on March 1, 2000.

Moroccan foreign policy is primarily oriented toward the Maghreb region—consisting of Algeria, Libya, Mauritania, Morocco, and Tunisia—through Morocco's membership in the Arab Maghreb Union. Morocco is linked to the Arab world through membership in the Arab League and also to Africa, although Morocco is no longer a member of the African Union.

Morocco left the Organization of African Unity (OAU), the African Union's predecessor organization, in 1984 following a dispute over the status of Western Sahara. In October 2000, Morocco severed all diplomatic ties with Israel out of protest over Israel's settlement policy.

Prior to the rupture, Morocco and Israel had maintained bilateral liaison offices since September 1994. Morocco is a long-standing advocate of a negotiated settlement to the Arab-Israeli dispute.

### **11. Foreign currency control:**

The Moroccan government has made the Moroccan Dirham (MDh) convertible for an increasing number of transactions over the last few years. As of February 1993, the MDh was made convertible for all current transactions and for some capital transactions, notably, capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions upon presentation of documents.

The Central Bank sets the exchange rate for the MDh against a basket of currencies of its principal trading partners. The rate against the basket has been steady since a 9 percent devaluation in May 1990, with changes in the rate of individual currencies reflecting changes in cross-rates. In a further move, the Ministry of Finance recently decided that private enterprises are allowed to access international financial markets directly.

International financial transactions are subject to the control of the Moroccan Exchange Office, which retains the authority to act in a balance of payments or liquidity crisis.

The liberalization of the exchange control has removed all barriers for international trade transactions, foreign investments, income transfer, foreign technical assistance and tourism.

Remittances of capital and related income to non-residence are guaranteed. No limitations are imposed on the time or amount of profit remitted. Loans, however, must be authorized by the Office of Exchange. Another important decision gives the banks the possibility to freely conduct investment operations in international capital market sites and, also, to engage in hard Currency accounts or in any other amount of capital deposited by foreign entities.

## **12. Foreign exchange:**

The Moroccan Dirham is convertible for all current transactions and for some capital transactions, notably capital repatriation by foreign investors, if the original investment is registered with the Foreign Exchange

Office. Foreign exchange regulations now allow expatriate employees to repatriate 100% of their salaries.

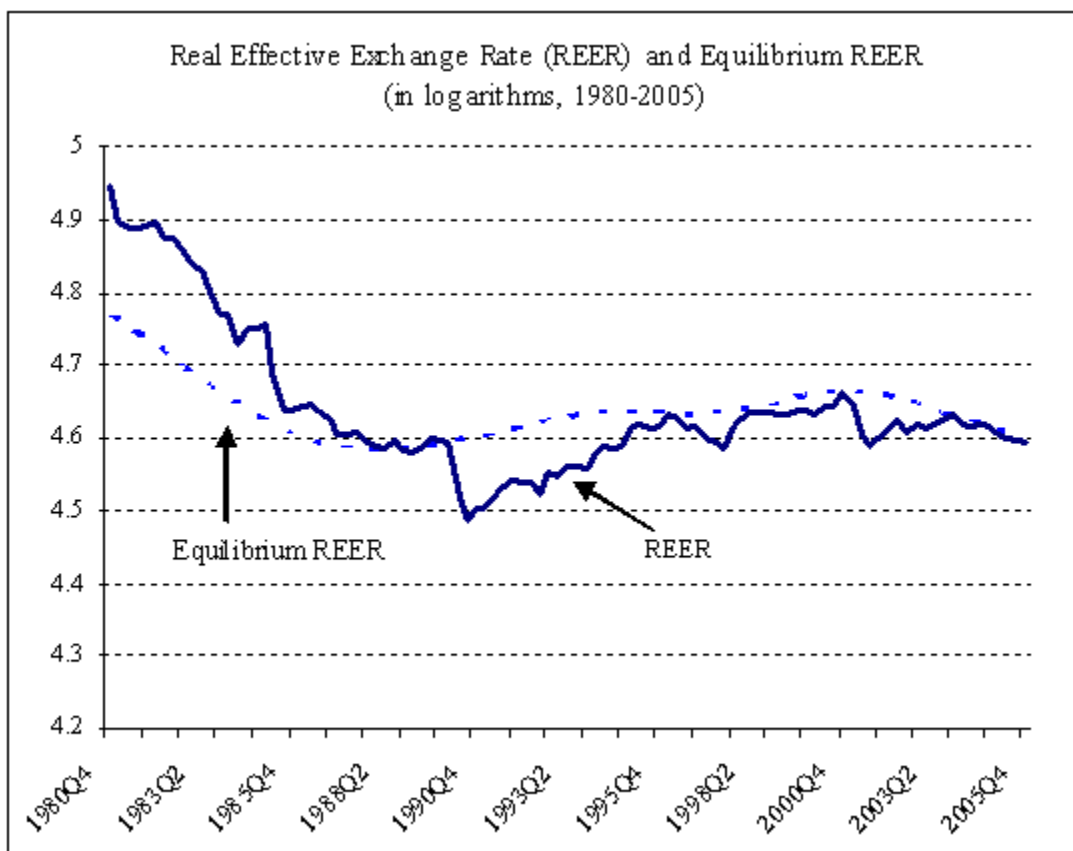
Foreign currency is routinely available through the commercial banks upon presentation of the necessary documents for the repatriation of dividends and capital by foreign investors, for remittances by foreign residents, and for payments for foreign technical assistance, royalties and licenses.

## **13. Exchange rates:**

Pressure from exporters for a more competitive exchange rate increased in the wake of intensified competition in the key European textile market and the unexpected weakening of the euro in 2005. Bank al-Maghrib has resisted these pressures—which should ease as the euro regains strength—and has maintained the dirham’s tightly managed float against a euro-dominated basket of currencies. The peg has been useful in anchoring the economy and keeping inflation low. In addition, a devaluation of the dirham would increase import and debt-servicing costs, putting considerable additional strain on the fiscal position.

Assuming the central bank maintains its current policy of a tightly managed peg, we expect the dirham to strengthen against the dollar as the euro gains strength. The average exchange rate will be slightly stronger in 2006, at Dh8.77:US\$1, although there will be bigger movements by year-end, with the dirham strengthening from Dh9.25:US\$1 at end-2005 to Dh8.57:US\$1 at end-2006. The dirham will weaken against the euro in 2006. In 2007 dollar weakness year will see the dirham ease further against the euro, to an average of Dh11.86:€1, while climbing against the dollar, to Dh8.54:US\$1, although we expect this trend to have begun to reverse by year-end.

**Graph.IV.8.1** Exchange rate and Equilibrium.



**Source:** <<http://www.statistic.gov.ma/comptabilite53.htm>>.

#### 14. Taxation:

The Moroccan taxation system consists of direct and indirect taxes. Indirect taxes provide a greater source of tax revenue than the direct taxes. The system is statutory-based and has been recently updated in part with effect from 1/1/1996 by the Investment Charter (Law No. 18/95).

There is virtually no case law on taxation, and tax-issues hardly come before the courts. In general, the tax authorities do not issue advance rulings on taxation matters.

Moroccan corporations are subject to a unitary tax system. The corporate tax (impôt sur les sociétés or IS) rate has been reduced to 35 percent in 1996. Corporations are taxed under a special tax regime, which covers limited liability companies, limited partnerships by shares, general and limited partnerships in which at least one partner is a corporate entity, civil companies, branches of foreign corporations, public sector companies having profit-oriented activity and joint ventures having business-oriented activity. General partnerships and limited partnerships in which all partners are individuals may elect to be taxed under the corporate tax regime. The same applies to joint ventures in which all parties are individuals.

Foreign corporations are subject to taxation on income arising in Morocco if they have or are deemed to have a permanent establishment in Morocco. Taxation of corporations is the same irrespective of ownership, and foreign owned corporations are essentially regarded as Moroccan corporations insofar as they are incorporated in Morocco.

The corporate tax regime is based upon territoriality. Net profits earned by foreign subsidiaries and establishments of Moroccan companies are not taxable until profits are actually repatriated and distributed to shareholders.

Taxable income is based on receipts and accruals from products delivered, services rendered and work carried out and accepted by customers. Interest, royalties, income and service fees are subject to corporate income tax at the rate of 36 percent. Dividends received by corporate shareholders from taxable entities incorporated in Morocco are not taxable. This exemption does not apply, however, to foreign investment income, which is taxed after deducting foreign withholding taxes.

Morocco exempts certain types of income from corporate taxation. The first is income derived from agriculture which is exempt until the year 2020. The second concerns income of companies set up in the Western Sahara. There are also specific tax incentives exempting some companies from corporate tax for specified periods. In addition, Moroccan corporations can distribute tax free dividend of common- stock pro rata to all common-stock shareholders.

All expenses incurred for the purpose of the business are normally deductible, including salaries and wages, depreciation, rent and representation expenses. Only 75 percent of the amount paid for purchases of raw materials and products, start-up expenses, donations and other general expenses equal to or exceeding MDh 10,000 are deductible, unless the payment is made by a non-assignable crossed check, bank transfer or bill of exchange. Except for the corporate tax (IS), taxes are deductible.

Expenses incurred outside Morocco by a foreign company having permanent activity in Morocco require adequate justification and documentation before they may be deducted. Losses may be carried forward and deducted from taxable profit for a period of four years.

A minimum amount of corporate tax is payable by companies other than foreign companies (cotisation minimale or CM), irrespective of the company's profits or losses. The CM is based on turnover, income from interest, subsidies, bonuses or donations received. The CM is levied at a rate of 0.5 percent of income, and is not payable by companies during their first thirty-six months of operation..

### **15. Public Sector Investment Contracts:**

The Charter also offers special contracts with the state to enterprises whose investment programs are important due to their size, the number of stable jobs created, the region in which they will be carried out, the technology they transfer or their level of environmental protection.

Under these contracts, the state can grant a partial exemption from the following expenses:

Costs of purchasing the land necessary for carrying out the investment ; Costs of external infrastructure; Costs of professional training.

The Charter explicitly mentions that these contracts can include provisions, stipulating that the method regarding the settlement of disputes arising between a foreign investor and the Moroccan state will be in accordance with international agreements ratified by Morocco with respect to international arbitration.



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**16. Investment Promotion Fund:**

The Charter creates an Investment Promotion Fund, a special appropriation account designed to be used for the operations relating to the responsibility of the state for the cost of advantages granted to investors under the framework of the investment contract regime. The Charter, however, does not stipulate how the fund will be financed.

**17. Foreign Trade:**

As a member of GATT, Morocco has gradually removed most restrictions for imports originating from other member countries. According to the law of November 9, 1993 relating to foreign businesses, all goods and services can be imported without a licensing requirement.

In the event that imports are deemed to have a negative impact on national production, however, an import license may be required. In addition, the following duties can be imposed: Compensatory duties, in the event that the product imported benefits from manufacturing or export bonuses or subsidies in its country of origin; An anti-dumping duty, in the event that the import value is lower than the normal value of the item.

In order to import into Morocco, some documentation procedures are required. A person or entity must be registered in a register of importers and must obtain the authority to import from the Ministry of Commerce and Industry. An import registration form (engagement d'importation) should be obtained from a Moroccan Schedule A Bank for all imports into Morocco.

This form facilitates both custom formalities and the payments of the invoice. In recent years, export regulations have undergone a substantial amount of liberalization.

**Table.** IV.12.1 Morocco, Trade with the World

Year	Imports	Yearly % change	Exports	Yearly % change	Balance	Imports + Exports
2001	12 743		8 074		-4 669	20 818
2002	12 445	-2,3	8 282	2,6	-4 162	20 727
2003	12 473	0,2	7 744	-6,5	-4 729	20 216
2004	14 095	13,0	7 817	0,9	-6 278	21 913
2005	19 700	39,8	11 235	43,7	-8 465	30 935
2006	20 890	45,2	13 534	45,8	-10 456	37 214
3m 2005	4 053		2 296		-1 757	6 350
3m 2006	4 686	15,6	2 705	17,8	-1 981	7 391
Average annual growth		11,5		8,6		10,4

**Source:** EUROSTAT <Comext, Statistical regime 4>

Export licenses are not required, and export sales are not subject to export tax. The sole obligation on the part of the exporter is the repatriation of export benefits. The repatriation should be performed in a 120 day period, however, the deadline can be extended in case the trade obligations require do so. Settlements relating to exports can now be made in foreign currency, and the exporter is no longer required to produce the customs declarations justifying the import of foreign currency. Similarly, the financial regulations pertaining to investment operations are now directly handled at the level of the banking institutions.

### 18. Free Trade Agreements:

In 1995 Morocco entered into a Free Trade Agreement with the European Union which gives preferential treatment to Moroccan goods exported to the EU.

Under the agreement, industrial products can be exported to the EU duty-free and without quantitative restrictions, only for agricultural products. Some quotas and restrictions remain.

Recently, the country has signed an additional trade agreement with Ministers from four EFTA States (Switzerland, Norway, Iceland and Liechtenstein), due to come into force in early 1998.

Whereas the EFTA members will eliminate all restrictions on imports of industrial products, processed agricultural goods, fish and other marine products, Morocco has agreed to phase out tariffs and quotas over twelve years, while retaining the right to introduce restrictions to protect nascent or restructuring industries.

Morocco has also signed free trade arrangements with members of the Maghreb Arab Union (UMA). For all practical purposes, however, the UMA is dormant, and regional economic integration has been stalled. Another bilateral free trade arrangement has been established with Saudi Arabia.

### **19. Free Trade Zone:**

There is a Free Trade Zone in Tangier which is open to both Moroccan and foreign companies. The sixty-five companies located in the zone may import goods duty free and are exempt from other taxes.

The only requirement is that all local workers be paid directly in foreign exchange, which they are then obliged to exchange for MDh at Moroccan commercial banks operating in the zone.

## **V- Economics development background:**

Morocco is the fifth largest economy in Africa. It is also one of the most weather dependent on the continent. Changes in the weather have been the main determinant of macroeconomic and social trends in the country. Along with the weather, slow adoption of policies for sustained growth and macroeconomic stability constrained economic performance in the mid-1990s. Recognizing the potential benefits of active integration with the world economy, the Moroccan government has shown increased commitment to opening the economy. This renewed commitment is reflected in policies to attract foreign direct investment from beyond the Middle East and North Africa-implementing a transparent privatization programme, removing tariff barriers, reforming financial sector regulations, and strengthening stock exchange operations.

To ensure a more equitable distribution of the gains from trade, the government has intensified efforts to improve domestic competition, expand rural infrastructure, and reform agriculture.

GDP growth rose from a low 0.9% in 2000 to an estimated 6.5% in 2001. This marked improvement was due largely to the recovery from drought, which allowed the agricultural sector to provide a much-needed boost to the economy. Agricultural output increased by an estimated 25% in 2001, contributing to more than half the growth.

Non-agricultural output grew by 3.8%. Despite improvement in the supply situation, particularly in the food supply, inflation was expected to drop only marginally, from the 2.0% recorded in 2000 to 1.9% by the end of 2001. The decline was limited because of the devaluation of the currency (the dirham) in 2001 and the lagged effects of the oil price hikes of 2000.

Trade and investment reforms remain a national priority under King Mohammed VI. These reforms, along with the free trade agreement with the European Union, are expected to enable Morocco to reap greater benefits from globalization. For example, net foreign direct investment-which, at less than 0.1 % of GDP in 1999, has been low compared with that in other African countries-was boosted by the privatization of the state-owned telecommunications company, Maroc Telecom, in December 2000.

That transaction brought in more than \$2.1 billion (6.3% of GDP) in 2001.

The dirham was devalued in April 2001 largely in response to its appreciation against the euro and the strident calls for devaluation from exporters-and despite the improved external position in 2001, strengthened by the successful sale of Maroc Telecom.

Exports rose by an estimated 8.1% in 2001, thanks largely to an increase in exports of phosphate and phosphate by-products. The trade deficit was expected to improve from 9.5% of GDP in 2000 to 8.7% in 2001, and the current account balance from -1.7% of GDP to a small surplus of 0.7%.

Fiscal and monetary policies, which have been pro-cyclical, shifted slightly to an active stance of promoting macroeconomic stability and growth. Interest rates were brought down in 2001 to encourage private investment. This rate reduction was made possible by cuts in interest rates in the international money market, as attempts were made to reverse the global slowdown. Thus Treasury bill rates dropped from 6.3% in 2000 to 5.8% in 2001.

Private investment increased only marginally, however, from 21.7% of GDP in 2000 to 21.8% in 2001.

The budget deficit increased to a projected 7.2% of GDP in 2001, up from 6.5% in 2000 (excluding privatization revenues), as a result of large retroactive wage payments, capital transfers to public enterprises, and investment spending under the Hassan II Fund. This extrabudgetary fund, set up in 1999/2000, is designed to protect up to 50% of privatization proceeds to promote infrastructure and social investment in partnership with the private sector.

The fiscal situation is emerging as a serious concern. The deficit has remained within an acceptable range only when privatization receipts have been taken into account.

In the meantime, the expenditure side of the budget remains inflexible. In response to the vulnerability of the fiscal position, Standard and Poor's recently downgraded Morocco's country risk outlook from stable to negative. The rating agency maintained Morocco's foreign currency debt rating, however, at double-B/B.

Elections due in September 2002 pose a risk of weak fiscal control but also offer hope for revitalization of the economy. In the medium term fiscal consolidation and acceleration of structural reforms could produce higher and more stable economic growth.

Actions to improve governance and industrial competitiveness represent the main source of hope for further expansion of the Moroccan economy in the coming years.

The real GDP growth of 3.5 per cent in 2004 (following rates of 5.6 per cent in 2003 and 3.2 per cent in 2002) confirms the erratic economic progression caused by the country's dependence on the agricultural sector. The Moroccan authorities expect a slowdown over the next two years, with real GDP growth rates at 3.3 and 3.8 per cent respectively in 2005 and 2006.

Non-agricultural GDP growth is expected to remain at around 3 per cent. In 2003, the primary sector registered real growth of 18 per cent (compared to 5.6 per cent in 2002) due to remarkable results in cereal production, which reached 79.6 million quintals, up by 50.9 per cent on the previous year.

In 2004, cereal production totalled 83 million quintals – 4.3 per cent more than in 2003.

The first quarter of 2005 has been clouded by the expectation of a fall of 4.2 per cent in the performance of the primary sector, as the cereal crop is expected to be slightly below average.

In 2004, the primary sector benefited from a good performance by livestock as a result, notably, of improved pasturage, an increase in the production of fodder crops, and the efforts made to assure the regular supply of food and veterinary products. The authorities have continued to actively support agriculture: the debts of farmers in regions affected by drought have been rescheduled, the implementation of a system of insurance for cereal production has continued, and customs duties on imported wheat, barley and corn have been increased during the period in which the harvest was marketed.

The expiry of the fishing agreement with the European Union resulted at first in a major surge in fish production, which rose from 0.7 million tonnes in 1999 to 1.1 million tonnes in 2001.

This led to the depletion of stocks, in reaction to which there have been a series of extensions of the biological rest period. The Moroccan authorities expect a 2 per cent fall in real output in 2005, which will make the sector's contribution to overall growth fall from 0.3 per cent in 2004 to -0.3 per cent in 2005.

Overall, the primary sector employs 45 per cent of the total active population and 60 per cent of the active female population, while agriculture represents between 12 and 17 per cent of GDP, depending on the year and rainfall. The estimates and forecasts for 2004 and 2005 are poor: growth in agricultural output by volume is expected to be just 2.1 per cent in 2004 and virtually zero in 2005.

The secondary sector continued on a positive trend in 2004, particularly in mining and energy.

The mining sector benefited from a favourable international climate, characterised by sustained demand.

Phosphate and phosphoric acid production increased in 2004 by 9.5 and 16.4 per cent respectively.

Confronted with an increase in world demand for fertilisers and, in particular, for diammonium phosphate, the national phosphates company (OCP) - the world's leading exporter of phosphates and their derivatives - decided to build a new production unit at Jorf-Lasfar with an annual capacity of 850 000 tonnes, with the aim of raising total annual production to 3 million tonnes in 2005. In the same vein, the OCP decided to invest more than 1.1 billion dirhams in restructuring and modernising the sector.

The rate of growth in the mining sector, estimated at about 4.5 per cent in 2004, should slacken somewhat in 2005 under the effect of the expected slowdown in the demand for fertilisers caused by the consolidation of world wheat stocks.

Energy production strengthened in 2004, driven essentially by increases of 11.8 and 4.5 per cent respectively in the total net production of the state electricity company (ONE) and the concessions.

In 2003, energy production fell by 1.2 per cent following a 30.6 per cent reduction in refining activity resulting from a fire at the SAMIR refinery. To meet the anticipated strong increase in energy demand, SAMIR is planning to invest some 6 billion dirhams in a project to modernise the Mohammedia refinery. As for national electricity production, the ONE's investment plans provide for rural electrification, the continued construction of the Tahaddart power station and completion of the Afouer energy transfer pumping station.

In 2005, the energy sector should see activity slow down as refineries return to normal production levels.

Prospects for construction and civil engineering which depend on the rhythm of implementation of social housing programmes and of the building of basic infrastructures - look encouraging. Bank financing allotted to the sector progressed by 14.7 per cent in 2004.

Forecasts for 2005 predict real growth rate of 4.6 per cent in the construction sector.

The industrial sector went through a slowdown in 2004, notably in food processing, chemicals and paracheicals.

Production levels of the textile and leather industries continued on the downward trend that started in 2003 with the end of the multi-fibre agreement. At the end of June last year, there was a further reduction of 1.5 per cent, following the 3 percent fall that was seen in 2003. The sector should nevertheless benefit from the free trade agreement between Morocco and the United States, which gives Moroccan textile products easier access to the American market and encourages direct foreign investment.

The Spanish group Tavex plans to invest 630 million dirhams on the expansion of its Moroccan subsidiary (which specialises in the production of jeans and sportswear) so as to take advantage of the opportunities offered by the American market.

In 2003 the authorities set up a nationwide agency designed to support small and medium-sized companies (ANPME) by making them more dynamic and competitive. The ANPME is charged with piloting the national programme for upgrading this type of company in the fields of consulting and technical assistance, fiscal harmonisation, and the simplification of administrative procedures.



Following the creation in February 2003 of the Fonds de restructuration du textile (FORTEX), which was set up to aid textile companies facing financial difficulties with restructuring programmes, in July of the same year the authorities set up the Fonds national de mise a niveau (FOMAN), the role of which is to provide up to 80 per cent of the cost of technical assistance in the industrial sector and to participate – along with the banking sector – in the financing of investments.

In the course of 2004 the secondary sector experienced real growth in the order of 3.5 per cent, with 3.2 per cent growth in the manufacturing industries alone. In 2005, the growth rate for the secondary sector should be 3.8 per cent and 3.4 per cent for the manufacturing industries.

The number of tourists topped a record 5.5 million in 2004 -16 per cent up on the preceding year's figures.

This success was largely due to an increase of 27 per cent in the number of tourists from Western Europe, by far the country's biggest market. The French remain in first place with more than 1.16 million visitors (+27 percent), followed by the Spanish (333 028 visitors), the British (169 152), the Germans (146 269), the Italians (112 807) and the Belgians (105 821).

The number of Moroccans living abroad (MRE) who spent their holidays in Morocco came to 2.7 million in 2004: this figure represents about half the total number of MREs , and 9 per cent more than in 2003 . In 2004, the imperial city of Marrakech was the principal destination for foreign tourists, followed by Fès in the east, Agadir in the south, Ouarzazate in the south-east and Casablanca, the business capital.

The Moroccan authorities are pleased with this result, particularly given the economic situation in Europe, the crisis in the Gulf and, above all, the attacks that took place in Casablanca on 16 May 2003. The kingdom has adopted a national tourism development plan with the aim of receiving 10 million foreign visitors by 2010.

Hotel capacity has already risen from 1 500 beds per year between 1996 and 2000 to over 8 000 new beds between 2003 and 2004.

The authorities have decided to increase the size of the national aircraft fleet and to deregulate air transport.

The national company plans to spend 16 billion dirhams before the end of 2010 to buy 24 new aircraft, 4 of which were delivered in 2003.

The merchant service sector registered real growth of 3.5 per cent in 2004, to which the commerce, transport and communications and other merchant services contributed with growth rates of 4.2, 3.3 and 1.8 per cent respectively. The contribution to real GDP growth was 1.3 per cent in 2004.

Overall, the service sector can expect 4.2 per cent growth in 2005, thanks to a recovery in tourist activity and an improvement in commerce, transport and communication. As for the composition of demand, the value of final consumption - estimated at 76.7 per cent of GDP in 2004 - is expected to increase by 5.3 per cent in 2005.

This optimism is based on a growth in the revenues of rural households resulting from an improved agricultural season, as well as on the increase in investment in housing and durable goods that has followed from the lowering of interest rates and the mechanisms created by the authorities to facilitate access to cheap housing.

Consumption should make up 76.1 and 75.7 per cent of GDP respectively in 2005 and 2006.

Gross fixed capital formation should increase by 8.7 per cent in 2005, lifting the investment rate from 22.8 per cent in 2004 to 23.8 per cent in 2005 and 24.3 per cent in 2006.

## **VI- Conclusion:**

Morocco has a per capita income of \$1,200, placing it in the lower class of middle-income countries in the region. Its social indicators are among the lowest in the region. Approximately 49% of adults aged 15 and above were illiterate, placing Morocco at 20th among the 22 Arab League countries (surpassing only Mauritania and Yemen). Women are particularly affected, with female illiteracy rate at 62 percent, and significantly higher in rural areas.

Progress made in the early nineties in poverty alleviation has been lost: approximately 20% of the total population remains under the absolute poverty line (about one dollar per day), with two-thirds being located in rural areas (3.5 million, or more than 10% of the population).

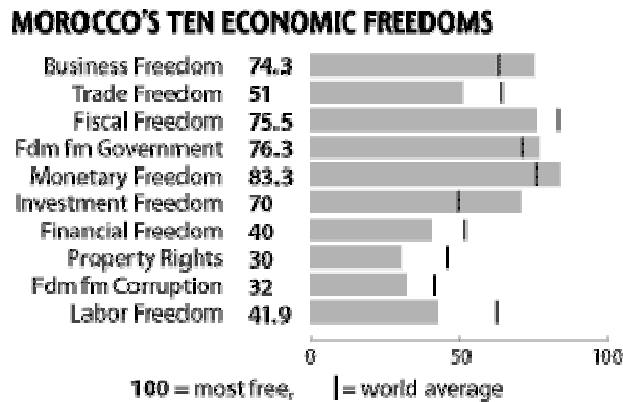
Moreover, about 55% of the rural population and 33% of the urban population were considered "economically vulnerable". The country's economy remains overly dependant on rain, and adverse climatic conditions directly impact the level of rural poverty.

Economic growth is further constrained by government policies that retard rapid modernization of the rural economy, diversification of cereal production, and efficient use of scarce water resources. Urban poverty is a direct consequence of unemployment, which is particularly high among youth (up to 35.4% in 15-24 year olds in 2005 alone). Such a high unemployment among youth contributes to insecurity and instability in urban areas.

In 2006, the government managed to maintain macro-economic stability, continue its investment program and advance the implementation of its reform agenda. At around 3.5% of the gross domestic product (GDP), the fiscal deficit will not exceed affordable levels and inflation will be contained around 2%. With regard to public investment and policy reform, achievements exceeded targets in many sectors. For example, the number of students enrolled in vocational training doubled as compared to the previous year. Social programs, including rural electrification, potable water and rural roads met or exceeded targets. A new family code -- Moudawana -- considered as one of the most progressive in the Arab region, was promulgated. Free trade agreements were signed with the U.S. and several countries in the

region. The health coverage scheme began as planned and the liberalization of several sectors (air transportation, radio-TV, and telecommunications) met set deadlines.

**Graph.VI.1**



**Source:** The Political Economy of Growth in Morocco

Despite donor support, the country continues to carry a significant financial burden, and the living conditions in that region are still substandard. In February 2006, locusts began to invade the south of the country. The government mobilized substantial equipment and resources to successfully stop the expansion of the swarms. Morocco also provided significant support to its neighboring countries (Mauritania, Senegal, and Mali) to contain the plague. Despite these efforts, locusts returned in large numbers in the fall, with swarms reaching the north-eastern region and spreading from the Canary Islands to the Middle-East. The unprecedented increase in oil prices was a significant shock that affected Morocco's economy as well. Unlike most countries in the region, Morocco imports almost 100% of its oil. The Government of Morocco's (GOM) policy to preserve the purchasing power of the poor requires keeping energy prices at a stable, affordable level. Thus, instead of raising the prices to keep up with imported oil levels, the government automatically reduces the level of taxes, which directly impacts its revenues and widens the fiscal deficit.

Morocco is important for U.S. interests in the region as its oldest ally and as a stable, democratizing, and liberalizing Arab Muslim nation. It is also important as a partner in the global war on terrorism and as a constructive force in the pursuit of Middle East peace and other regional security challenges.

The key Challenges for the country are creating jobs for a fast growing labor force and addressing the gaps in meeting the basic needs of the population.