CHAPTER 1

BACKGROUND
1.1. General Presentation

Morocco is geographically located in a strategic position at the entrance of the Mediterranean Sea. It has for several centuries served as one of the main trading channels between Europe and Africa. Morocco is endowed with the largest phosphate reserves in the world, a relatively favorable agricultural sector, rich fisheries, a promising tourism industry, a growing manufacturing sector (especially textile and clothing industries, and more recently electrical and electronic industries), and a dynamic, deregulated telecommunications sector. There is a considerable and growing inflows of funds from Moroccans working abroad with sizeable positive effects on Morocco both at the macroeconomic level, and on living standards of the households.

The Kingdom of Morocco has been a constitutional monarchy since 1972. The last constitutional revisions took place respectively in 1992 and 1996. The Head of State is the King (Mohamed VI since 23 July 1999) who is also by constitution the “Defender of the Faith”. The Constitution guarantees a multi-party system. Some thirty political parties are represented in the Chamber of Representatives. In September 1996, a constitutional referendum divided the Parliament into two chambers. The lower house, which is directly elected, and the upper house made up of representatives elected by professional and business organizations, labor unions, communal councils, and chambers of commerce.

The last parliament elections, in September 2002, were considered as the first free and fair elections. The current Prime Minister is the former Minister of the Interior, Mr. Driss JETTOU, a technocrat not affiliated to any party, heads a government of coalition made up of six parties. The main opposition party is the “moderate” Islamic party “Justice and Development”. Thanks to a special system of national lists, for the first time, there are 30 women in Parliament, which is unprecedented in the Arab world. Local elections took place recently in September 2003. Apart from the low participation rates, which did not exceed 50 percent at the national level and around 40 percent in urban areas, these elections were considered as transparent and free.

Morocco is a member of the Arab League, the Islamic Conference Organization, and the Arab-Maghreb Union.
Since the early 1980s the Moroccan government has pursued a comprehensive macroeconomic stabilization program (the structural adjustment program) with the support of the IMF, and the World Bank. This program intended to address internal and external macro-economic imbalances and to liberalize the economy. Five major economic reforms were implemented: trade liberalization, gradual foreign exchange market liberalization, tax reform, monetary policy liberalization and financial sector reform, and finally public enterprise reforms and privatization. The dirham has been fully convertible for current account transactions since 1993; reforms of the financial sector have been implemented and financial resources are no longer allocated on non-market mechanisms; and state enterprises are being privatized.

The structural adjustment program achieved significant results in term of macroeconomic stabilization. The current account deficit declined from 12.3 percent of GDP in 1982, to 2.3 percent surplus in 1988. Although the deficit reemerged later it was contained between 2 and 4 percent of GDP. The government deficit fell from 9.7 percent to 4.5 percent of GDP over the same period. Inflation rate decreased from 10.5 percent to 2.3 percent.

The next few years will be critical for Morocco’s future. Various international and external challenges lie ahead of the road. Social issues are indubitably the most crucial challenges that Morocco has to face. These are poverty alleviation, education of people, reducing the vulnerability of the economy to weather conditions, modernizing the government sector and targeting public spending. Achieving these objectives would need strong and sustainable economic growth in which the private sector is expected to be the engine. Institutional reforms are also a key matter, and effective and accountable institutions may boost private investment and attract more foreign flows. Recently, Morocco has put stress on improving governance and fighting legal and administrative red tapes. More autonomy at local level is beginning to take place and need to be strengthened in the coming years.
1.2. Country at a glance: basic information and national statistics

Morocco is a middle-income country, with a per capita GDP of around US$1,245 in 2002. Over the last four decades, Morocco has been a moderately growing country. The pace of GDP growth has even slowed down over the last decade as shown by Table 1.1. The recorded GDP growth declined from roughly 6 percent during the period 1973-77 to less than 3 percent over the period 1993-2000. Meanwhile, GDP per capita growth decreased from 3.6 percent from 1973-77 to less than 1 percent in the late nineties. This moderate growth performance was the result of the transition from an economy led by the government sector to an economy where the private sector is supposed to be the engine for growth. The budget deficit of the government, which exceeded 10 percent of GDP (Table 1.3) during the seventies and early eighties, was restricted to roughly 5 percent of GDP over the period 1993-2000.

Morocco has a population of almost 30 million, with an average annual rate of demographic growth of around 1.6 per cent. The urban population continues to increase, from 35 per cent of the total population in 1971 to almost 54.5 per cent in 2000 (Table 1.2).

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<thead>
<tr>
<th>Table 1.1. Long-term trends of growth, saving and investment</th>
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<tr>
<td>GDP growth (annual %)</td>
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<td>GDP per capita growth</td>
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<tr>
<td>Gross domestic savings (% of GDP)</td>
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<td>Gross national savings (% of GDP)</td>
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<td>Gross fixed capital formation (% of GDP)</td>
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<td>Gross fixed capital formation (annual % growth)</td>
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<td>Trade (% of GDP)</td>
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<td>External balance on goods and services (% of GDP)</td>
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<td>Current account balance (% of GDP)</td>
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*Source: Authors’ computation from World Development Indicators (2001)*

1 The interim statistical report produced in the first stage of this project represents a comprehensive source of statistics on the Moroccan economy over the period 1980-2000.
Moroccan economy has become more outward oriented over the last two decades. The share of the trade sector in GDP has substantially increased. By the end of the nineties, total exports and imports amounted more than 60 percent of GDP, while they did not exceed 50 percent at the beginning of the eighties. This increasing trend can be to a large extent attributed to trade liberalization reforms implemented under the SAP.

The labor force in Morocco has grown at much faster rate than the growth rate of the population. During the period 1971-82 total population increased from 15.38 to 20.42 millions, which is equivalent to an average annual growth rate of 2.6 percent. During the same period, the labor force expanded from 4 to almost 6 million, which led to an average annual growth rate of 3.66 percent. Although population growth declined to 2.06 percent over the period 1982-94 and stood at 1.6 percent for the period 1994-2000, and fertility rate declined from 7 children per woman in the sixties to less than 3 more recently; the labor force is still growing rapidly as shown in Table 1.2.

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<th>Table 1.2. Population and Labor force</th>
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<tr>
<td>Total population (million)</td>
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<td>Urban population (% of total)</td>
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<td>Labor force (million)</td>
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<tr>
<td>Employed population (million)</td>
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<td>Unemployed population (thousand)</td>
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*Source: Annuaire Statistique du Maroc (various issues)*

The slowdown experienced in fertility rates has not been reflected yet in the labor force. Over the last six years (1994-2000), the labor force in Morocco increased by an average annual growth rate of 3.57 percent. By the year 2000, more than 10 million people were into the labor force among which roughly 1.4 million were unemployed.
Morocco is endowed with a relatively diversified economy. The service sector (including those provided by Government authorities and public construction and works) is the largest in terms of its contribution to the real GDP (around 60 per cent). Small business in trade and repairing activities plays a leading role in the service sector. Manufacturing is dominated by the chemical and related industries, food, textiles, clothing, and leather goods. The share of manufacturing sector represents around 18 per cent of GDP. Agriculture and primary activities, which include livestock breeding, forestry and fishing, accounts on average for 14 to 16 per cent; and mining and energy for roughly 8 per cent. However, agriculture is Morocco’s largest employer (around 40 per cent of the labor force), and accounts for roughly 22 per cent of total exports of goods.

Transfers by Moroccans resident abroad represent the main source of foreign exchange, followed by tourism, and exports of clothing and mining products. Manufacturing accounts for almost two thirds of the value of exports of goods.

The recurrence of drought has had an impact on agricultural production, which was already facing structural constraints such as the high proportion of small family farms, limited use of modern production and storage techniques, high transport costs, and infrequent use of irrigation. Nevertheless, the fact that the economy is fairly diversified has, in general, mitigated to a certain extent the effects of the recent droughts.
Morocco’s national currency is the dirham (MAD), whose exchange rate is fixed and anchored to a currency basket formed by Morocco’s main trading partners’ currencies. The composition of this currency basket is kept secret by the Moroccan central bank. Competitiveness, measured in terms of the real effective exchange rate, has been declining over the nineties. In 2001, following a revision of the basket for the dirham, the real effective exchange rate depreciated by 5 percent.

1.3. Basic findings of most recent national reports

This section presents an overview of the basic findings of the most recent reports on the Moroccan economy. These reports include the Moroccan Central Bank reports (Bank Al-Maghrib annual reports), the IMF annual reports on Morocco issued under article IV consultation (2001 and 2003), and the World Bank Country Assistance Strategy report (2001 a.).

1. Political transition: One of the features that almost all these reports agree on is the major soft political transition experienced by Morocco over the last five years. There is a consensus on an opening of the political process and a highly growing civil society. There is a large debate in Morocco, and concrete initiatives are being implemented in favor of human rights, political rights, women rights with recent changes in the family code, free and transparent elections, decentralization and local governance.

2. The vulnerability of the economy to climatic shocks. Agriculture plays a critical role in the Moroccan economy. It contributes significantly to GDP (between 14 and 20 percent). It absorbs a sizeable share of total labor force (around 40 percent), and contributes significantly to exports earnings. Although adverse climatic shocks explain to a certain extent this vulnerability, institutional and policy factors are also behind the vulnerability of the Moroccan agricultural sector. First, a major fraction of the cultivated land area are rain fed. So far, the irrigation policy that started since independence has not succeeded in covering more than 15 percent of the cultivated land. Second, the distribution of land is highly unequal and the size of farms is generally very small (70 percent of farms are smaller than 5 ha). There is also an insufficient public investment, particularly in rain fed area, and a high product concentration in favor of cereals, horticultural products, and vegetables at the expense of other crops even
though they might be more drought resistant. This biased concentration of crops is to a certain extent due to the incentive framework in the agricultural sector. There is also a high geographical concentration of exports. The European Union countries absorb 80 percent of Morocco’s agricultural exports, and even more for some products such as tomatoes for which exports to Europe represents roughly 90 percent. This high concentration makes Moroccan exports highly vulnerable to demand fluctuations on the EU markets, not mentioning the adverse effects of the Common Agricultural Policy.

3. The complexity of real estate structure and multiplicity of ownership status, the low qualification of the human resources are also among the main barriers to growth and modernization of the agricultural sector. The last general agricultural census carried out in 1996 estimated the number of farmers to 1.5 million of which 81 percent are illiterate. Furthermore, census data pointed out that 70 percent of the farmers have farms that are smaller than 5 hectares, that only 50 percent use fertilizers, 33 percent pesticides, and 16 percent selected seeds. Mechanization covers not more than 47 percent of soil and 31 percent of harvest activities.

4. The incentive framework designed to promote agriculture in Morocco is biased toward large farmers and weather-sensitive crops. The elimination of price subsidies on wheat should be coupled with the reduction of tariffs in order to provide incentives to alternative crops, those for which Morocco has real comparative advantages on international markets. This is a very sensitive issue since the abolition of the incentive framework in place may have sizeable social and economic transition costs.

5. There is a clear consensus that despite the recurrence of droughts, Morocco has achieved significant steps in terms of reforming its economy moving from an over-regulated state to a more market-oriented economy. The purpose of these reforms, sustained by partners such as the World Bank, the International Monetary Fund, and the European Union has been to implement a development strategy aimed at creating favorable conditions for a strong, socially balanced and sustainable economic growth. This implied preserving macroeconomic balances, privatizing state owned enterprises, improving the investment climate, and modernizing institutions as a whole.
6. Overall, the budget deficit has shown a downward trend since 1995. However, this performance is partly due to a significant reduction in public investment rather than public consumption, and recently to exceptional revenues derived from privatization of formerly state-owned enterprises; and concessions granted by the State. Recently, measures were taken to limit public spending and consisted mainly of eliminating subsidies on some basic goods such as oilseeds, oil, and sugar for industrial use. Other measures have also been taken to improve budget performance. Efforts have been made to increase government revenue by broadening the tax base, raising domestic indirect taxes (such as value added tax) to compensate for the expected decline in import duties, and improving tax compliance through a more efficient tax collection system. Measures were adopted to upgrade and modernize the tax administration, to fight tax evasion and smuggling activities.

7. Monetary policy in Morocco has been specially designed to curb inflation. To this end, a target for annual growth in the monetary supply has been fixed by monetary authorities. This resulted in a monetary discipline sustained by the fact that the government has not made use any special advances from the Central Bank since 1998. Moreover, the “Public Treasury” has been financing its needs exclusively by domestic market resources. Overall, monetary policy has been decisive in controlling inflation in Morocco and keeping the value of the Dirham relatively stable.

8. Morocco reformed its foreign exchange system in the late 1980s and early 1990s by, gradually, unifying and liberalizing foreign exchange markets. Morocco has established current account convertibility since 1993, but still imposes some restrictions on capital account convertibility. Less restrictions are imposed on inflows than on outflows. Non residents are allowed to hold accounts in foreign and domestic currencies, but residents’ accounts are subject to more regulation. The main objective of exchange rate policy undertaken by policy makers in Morocco is to stabilize the real effective exchange rate vis-a-vis the main trading partners. This objective is sought, in nominal term, by pegging the MAD to a basket of currencies and, in real terms, via budgetary and monetary policies aiming at limiting inflation.
9. Although Morocco has put special emphasis on the manufacturing sector as a pillar of its development strategy, the value added of this sector did not record any substantial growth, as one would expect, especially during the nineties. The value added of the industrial sector represents roughly one third of GDP over the last two decades. The manufacturing sector’s contribution continues to stand around 18 percent of total GDP, with a net domination of three industries: Textile and clothing industries, chemical industries, and mineral industries. During the nineties, average growth rate of manufacturing sector value added stood at 2.7 percent as compared to 4.1 percent achieved during the eighties. The counter-performance in the manufacturing sector can be attributed to the intensification of trade liberalization process, which put higher pressure on domestic firms. Export competitiveness of manufacturing products was also hurt by exchange rate policy of the Moroccan dirham, which shows signs of overvaluation during the late nineties.

10. Tourism, which is a major foreign exchange, and jobs provider, suffered from an unfavorable international environment due to the economic slowdown, and recently terrorist attacks in Casablanca (May 16, 2003). However, the tourism industry is expected to become an important source of growth and employment in the coming years. Between 1995 and 2000 the number of tourists has increased by some 4 percent due in part to important investments in this sector, the privatization of some of the hotels, and the incentives provided by the investment code. A national strategy of promoting tourism has been recently designed. It aims at reaching a target of 10 million of foreign tourists by 2010, which seems to be a very ambitious objective.

11. Investment rate was higher in the 80s compared to the 90s due mainly to the decline recorded by public investment. In the 70s and during the first half of the 80s, public investment exceeded private investment. Public investment covered economic and social infrastructures (roads, schools, and hospitals) as well as productive sectors such as agriculture and industry. Due to sizeable and persistent internal and external imbalances by early eighties, this trend was reversed after the implementation of structural adjustment program that started in 1983. Different measures have taken place such as the attempt to reduce and rationalize government spending, the introduction of profitability criteria in assessing public projects, the liberalization of trade and prices and the gradual process of privatizing public enterprises. In 1986, public investment represented no more
than one third of total investment. Except in 1993 and 1994, the slow down of public investment share went on over the rest of the period contributing to total investment by less than 40 percent. Although this trend can be seen as a positive undertaking since private investors’ decisions are made on a more rational basis and are usually more productive than public investment, it has at least two adverse effects. First, public investment in Morocco tends to complement private investment rather than to crowd it out. Second, public investment represents a significant component of the demand, and a large number of firms used to rely quasi-exclusively on public procurements.

Figure 1.1. Public Investment in % of total investment

12. Over the last decade, foreign direct investments have experienced a substantial increase. Their total amount, which did not exceed, on yearly basis, $100 millions in the 80s; represented an average of $400 millions during the early 90s. Foreign direct investments in Morocco culminated in more than $1 billion in 1997 but declined soon after to roughly $312 millions. During the period 1998-2000, foreign investments and private loans reached on average 1,5 billion dollars. These inflows originated mainly from the European countries (France, Spain, Italy, Germany, Switzerland, and Benelux). Although, FDI flows have experienced a growing trend during the last decade, their size remains substantially dependent on privatization proceeds. The most important purchases of State enterprises by foreigners took place in 1997, 1999 and 2001.\footnote{In 1997, the SAMIR and SCP refineries were sold to CORRAL, a Swedish group with Saudi capital, and the concession for Jorf Lasfar thermal power station went to the American group ABB; in 1999, a second GSM license was granted to the Spanish-Portuguese consortium Méditel, and in 2001, 35 per cent of the capital of Maroc Télécom was sold to the French group Vivendi Universal.} In 2000, FDI was about US$ 500 million, compared with almost US$ 3 billion in
2001. Furthermore, in 2001, the accumulated amount of debt converted into investment was DH 5.3 billion.

13. **The current level of FDI remains below the country’s potential** and can be boosted by tackling efficiently the barriers to investment. According to different investigations by the World Bank (PSA report 1999) and the Moroccan Ministry of Trade and Industry (FACS Survey 2000), **the low rate of private investment in Morocco can be explained by both macroeconomic and microeconomic factors.** On the macroeconomic side, the perceived risk and uncertainty with respect to macroeconomic policies play major role in the waiting and hesitating behavior of potential investors. The profile of both local and external demands continues to be mainly driven by exogenous factors. **The weakness of infrastructure, the burden of administrative procedures, and excessive labor market regulations are also critical issues facing foreign investors.** Other constraints often highlighted by entrepreneurs are informal sector competition, and judicial system inefficiency. The creation of regional investment centers (CRI) is expected to improve the investment climate (16 centers are already open) and should simplify administrative formalities. More recently the government is stressing the need for judicial system reforms.

14. **Moroccan economy has become more outward oriented over the last two decades.** The share of foreign trade in GDP has substantially increased. This increasing trend of openness of Moroccan economy has been the result of trade liberalization reforms implemented as a part of the Structural Adjustment Program. Moroccan exports grew more rapidly in the eighties, with an average growth rate of 8 percent. During the nineties, exports of goods and services continued to grow but at a slower pace of 4.8 percent. In 2000, exports have even declined by 0.6 percent. These disappointing achievements with regard to comparable countries can be attributed to a large extent to the dependence on the European market, the apparent appreciation of the Moroccan DH (MAD) against its major trading partners’ currencies, and the fierce competition from Eastern European and Asian countries.

15. **Trade deficit seems to be a chronic characteristic of the trade balance in Morocco.** It reached 12.3 percent of GDP in 2000 as compared to 10.2 percent of GDP in 1995. This upward trend of trade balance is due to the faster growth of imports during the
last years. Expressed in dollars, imports increased by 5 and 7 percent in 1999 and 2000 respectively. The substantial increase of oil price on the world market combined with the high volume of imports in cereal represent the key factors that led to the observed worsening of the trade balance.

16. In terms of the structure of exports, the most noticeable change over the last two decades is the growing importance of industrial products. Their share stood at 23.5 percent in 1980 and jumped to 40.5 percent 1985. In 1990, the share of manufactured exports exceeded half-total exports. However, this trend did not continue, it even slightly regressed by the end of the last decade. Moroccan exports have changed from low-value added products to relatively more processed products, although the change was stronger in the eighties compared to the nineties. The extent of diversification as measured by the share of manufactured products in total exports increased and the share of the first four commodities in total exports decreased. Regarding the geographical concentration of trade, European Union continues to represent more than 60 percent of Moroccan imports and more than 70 percent of its exports. This high dependency on the European market increases the vulnerability of Moroccan economy to the adverse chocks experienced in Europe.

17. The substantial and persistent trade balance deficit has been significantly offset thanks to the substantial remittances of Moroccan workers abroad. These remittances exceeded $ 2 billion in 2000 and represented roughly 6.5 percent of GDP. They experienced a steady and maintained increase except in 1988, 1994, 1997 and 1999. On average, remittances of Moroccan abroad evolved at a yearly rate of 4 percent in dollar terms during the nineties. According to the Foreign Exchange Office, remittances of Moroccan workers abroad exceeded $ 3.5 billion in 2003. Tourism receipts also play a critical role in providing foreign exchange and contributing to alleviate the burden of debt service. The tourism industry tourism receipts amounted to $ 2 billions in 2000 and reached more than $ 3 billion by the end of 2003.
18. Morocco is achieving a major demographic transition and its fertility rate has significantly slowed down and expected to decline even further in the future. Average family size is becoming smaller and household division of work between males and females is gradually changing. However, the major challenges facing Morocco during the first decade of the new millennium is the provision of basic education to its population.

19. Illiteracy rate of people aged 15 and above stands at 48 percent in 2000 and 43 percent by the end of 2003. It declined substantially from 72 in 1980 and 61 percent in 1990. The decline in illiteracy rate over the last five years has been particularly significant for women, yet illiteracy remains extremely high in Morocco both by regional and international standards. Morocco's human development indicators are much lower than those of countries with similar per capita income.\(^3\)

20. Paradoxically, the government expenditure on education in Morocco is high compared to other middle income countries despite the relative decline it recorded in the nineties. The public spending on education as a share of gross national income amounted to 6.3 percent in 2000 and the average public spending on education stood at 6.4 percent during the eighties. The disappointing performance of education in Morocco has more to do with the quality, allocation of resources, equity and efficiency of educational system. According to the World Bank estimates (2001 c.), one

fifth of the budget of education is allocated to administrative overheads of the 260,000 employees. By breaking down expenses on education for grades 1-6 (primary education) and 7-12 (secondary education) it appears that they are skewed against the primary education. **Per student, the cost in secondary schools is 3.3 times higher than in primary schools.**

21. Recently, a “new reform” of the educational system has been set out in “the National Charter for Education and Training”. The most immediate priority of this reform is to increase substantially primary enrollment. The Charter also intends to improve governance of universities, human resource management, and strengthen partnerships with the private sector.

22. During the period 1980-2000 the labor force grew from 6.7 to 10.3 million among which 8.9 millions are employed and 1.4 million are unemployed. According to these figures unemployment rate at national level stands at 13.6 percent in 2000 against 7.2 percent in 1980 and 12.1 percent in 1990. However **there are significant differences in unemployment rates between urban and rural areas.** The urban rate of unemployment is estimated to 21.5 percent in 2000, which is equivalent to 1.15 million of unemployed. This rate shows significant gender disparities, as it is around 27 percent for women and 20 percent for men. **Unemployment rate reaches 38 percent for people aged between 15 and 24 years and stands at 29 percent for those holding a degree or more. In rural area unemployment rate did not exceed 5 percent in 2000.** Facing a tiny and uncertain labor market, unemployed people from rural area move to the cities looking for better opportunities. This phenomenon is even increasing over the last years due to the frequency of droughts. According to the survey on the urban labor force, around 20 percent of urban unemployed originate from rural area.

23. **The interventionist policy in Morocco in the seventies gave rise to a large public sector in which the state and public enterprises employed a significant share of the labor force,** particularly in urban area. **The public sector wage bill in Morocco is large either by regional or international standards.** It stands at 12.2 percent of GDP in 2001, which puts constantly pressure on the government budget and threatens macroeconomic stability. According to IMF (2001), the wage bill and interest payments absorb almost three quarter of tax revenues, leaving few resources for other essential
outlays, or for facing exogenous shocks such as droughts or higher energy costs. Jobs offered by the public sector are overprotected and relatively well paid. Public sector wages are even higher than in the private sector at all skill levels especially when all the benefits are accounted for (Agénor & El Aynaoui 2003). In addition, pay in the civil service is more sensitive to seniority than in the private sector, less sensitive to performance and less rewarding for scarce skills. Based on these facts, students tend to acquire a type of education that allow them to work for the public sector ignoring the type of skills required by the private sector. A closer look at the type of education received by the unemployed graduates confirms this inference⁴.

24. The first challenge facing policy-makers in Morocco is to improve the economic and social climate by fighting poverty and improving living standards. Faster growth could help achieving these goals, but would in turn require two conditions. The first is accelerating growth in an economy geared to moderate growth rates. The second is accelerating growth while keeping a stable macroeconomic framework. The experience and benefits gained from more than ten years of structural adjustment need to be preserved. Strong economic growth would allow speeding up the development of economic infrastructure and social services.

25. The second area of concern is environmental deterioration, which is causing depletion and overexploitation of natural resources such as water, or fish reserves. The government is becoming more sensitive to the need for environmental and natural resource protection. Effective and incentive-based regulation still need to be designed and implemented. For a net oil-importer such as Morocco, the used of a domestically sustainable and clean source of energy (solar and/ or wind) is a real challenge.

26. The rapid changing international context represents a real external challenge for the Moroccan economy. The world economy, driven by globalization and regionalism, is developing into an increasingly deregulated and liberalized framework in which the private sector plays an even greater role. These developments provide both opportunities and risks for Morocco. The opportunity is to benefit from the dynamic effects of the liberalization of international trade and regional trade (the Euro-Mediterranean Free Trade Area). However, Morocco might also be marginalized in either or both spaces, or might suffer from the negative effects of international financial distresses due to high interdependency among national economies.

27. The next few years are critical for Morocco’s future. Both domestic and external challenges require a long-term strategic framework whose objective is to reach a relatively fast and sustainable economic development. The private sector is expected to lead this development strategy replacing the state as the engine of economic growth. The state will need to set the platform and provide support for its effective implementation.

28. External relations need to be reinforced with Europe and open Morocco to the other regions of the world. Morocco has just signed a free trade agreement with United States, which is expected to stimulate American investments in Morocco and boost other investors’ confidence in Morocco.

29. Achieving these objectives will require a sustained, long-term effort in many interrelated areas together with substantial change in attitudes and behavior of the stakeholders. In economic terms, annual growth rate of 7 to 8 percent need to be achieved to alleviate poverty and reduce unemployment, which requires an investment rate between 27 and 30 percent of GDP. This would need higher levels of private investment and more efficient and better-targeted amounts of public investment. The initiatives taken recently to simplify the investment related procedures by creating a unique administrative entity at the regional level, may help boosting investment. Higher rate of private investment means that the saving rate needs an increase of 3 to 6 percent since it was around 24 percent in 2000. This gap might be difficult to bridge. The saving rate increased already substantially from 16.2 percent in 1995. The current plan (2000-2004) adopted by the government is set around a scenario
of 5 percent economic growth for its coverage period. This target is below the prospects (7 to 8 percent), yet it has been missed.

1.4. Conclusion

Morocco has recorded significant progress on various fronts but there are still reasons of concern. Almost all recent reports emphasize the major “soft political transition” experienced by Morocco over the last five years. There has been a consensus on an opening in the political process and an increasing involvement of the civil society. The country has also achieved significant progress in terms of economic reforms moving from an over-regulated state to a more market-oriented economy. Its economy has become more outward oriented over the last two decades and its foreign exchange system was reformed. The positive outcomes of such reforms are showing up. In terms of exports, the importance of manufactured products over the last two decades has increased markedly.

Monetary policy has succeeded in curbing inflation. The budget deficit has shown a downward trend since 1995. However, this performance is partly due to a significant reduction in public investment rather than public consumption, and, recently, to exceptional revenues derived from privatization of state-owned enterprises.

Morocco has to face a number of challenges in the coming years. The economy continues to be very vulnerable to climatic shocks and agriculture continue to represent an important sector (between 14 and 20 percent of GDP and around 40 percent of the labor force). The complexity of real estate structure, the multiplicity of ownership status and the poor skill level of human resources further impact the performance in agriculture. Moreover, the incentive framework designed to promote agriculture tends to be biased toward large farmers and weather-sensitive crops. Relative to its geographical location and historical background, Morocco could benefited more by promoting tourism and industry. The unfavorable international environment due to the economic slowdown, and more recently terrorist attacks in Casablanca do not convincingly explain the underperformance of the Moroccan tourism. FDI flows have experienced a growing trend during the last decade, but their size remains substantially dependent on the privatization process. The current level of FDI remains below the country potential and can be highly promoted by tackling efficiently the barriers to investment. Illiteracy is another critical issue in Morocco. Further progress in reforms is sill needed to allow the country
successfully managing the consequences of the forthcoming WTO negotiations, the Euro-
Mediterranean Free Trade Area and the European Union membership of Eastern
European countries.