# Morocco


**key figures**

| | |
|---|---|
| • Land area, thousands of km$^2$ | 447 |
| • Population, thousands (2006) | 31 943 |
| • GDP per capita, $ PPP valuation (2006) | 5 804 |
| • Life expectancy (2006) | 70.7 |
| • Illiteracy rate (2006) | 47.7 |

# Morocco


MEDITERRANEAN SEA
Tanger
Ceuta
Tétouan
Melilla
Kénitra
RABAT
Fès
Oujda
Casablanca
Meknès
Khouribga
ATLANTIC OCEAN
Safi
Bou Arfa
Figuig
Marrakech
Erfoud
Ouarzazate
Agadir
Zagora
Tan-Tan Plage
ALGERIA
14 Nov. 1975
Laayoune
Smara
Galtat Zemmour
Dakhla
MAURITANIA
0
200 km
Nouadhibou
town > 1 million inhabitants
500 000 - 1 000 000
100 000 - 500 000
< 100 000
major road
secondary road
railway
track
main airport
secondary airport
commercial port
petroleum port
fishing port

**M**orocco's economic performance improved markedly in 2006 and the outlook for 2007 is favourable. Growth reached 7.3 per cent in 2006, well above the forecast 5.3 per cent a year earlier, but is expected to slow down to 3.1 per cent in 2007. In 2006, investment grew at 5.3 per cent; unemployment fell significantly to below 10 per cent from 11.1 per cent in 2005, while inflation increased only modestly to 3.3 per cent in 2006, in response to high oil prices. The government managed to reduce the budget deficit to 5.6 per cent of GDP excluding privatisation receipts (4.1 per cent otherwise) in 2006, compared with 6 per cent in 2005; the deficit is expected to remain about the same in 2007 and 2008. The public debt to GDP ratio decreased from 75 per cent of GDP in 2005 to 70 per cent of GDP in 2006.

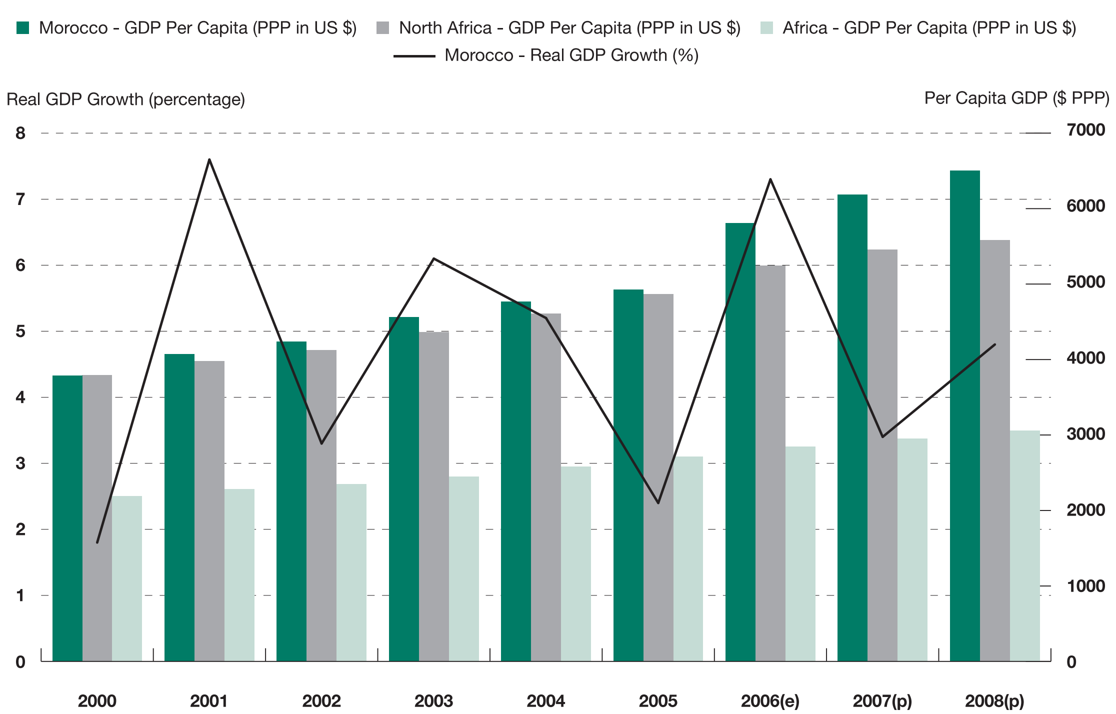
Since his coronation in 1999, King Mohammed VI has prioritised poverty reduction and job creation. To this end, the Moroccan authorities introduced wide-ranging policy reforms in 2005 and 2006 to diversify the economy and raise productivity, notably the *Plan Emergence*. This plan aims to raise growth by 1.6 per cent per annum over the next ten years, leading to the creation of an additional 440 000 new jobs.

**A reform programme aims to enhance growth and to improve human development indicators in the context of a mostly favourable political and economic environment.**

Morocco has signed several Free Trade Agreements, including one with the United States and one with Turkey, and is currently negotiating one with Europe.



**Figure 1 - Real GDP Growth and Per Capita GDP**
($ PPP at current prices)




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

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However, regional co-operation with the MENA region and Africa is still very weak.

Although the latest official growth and unemployment figures show impressive improvements, further reforms of the legal system, the administration and the labour market are required to extend these gains.

## Recent Economic Developments

Led by agriculture, economic growth jumped to 7.3 per cent in 2006, up from 4.2 and 2.1 per cent in 2004 and 2005 respectively, the highest since 1998. Stabilisation of agricultural output after this exceptional performance in 2006 is expected to entail a slowdown in growth in 2007 to 3.1 per cent. Over the longer term, the relationship between agricultural output and economic growth is weakening gradually, with the secondary and tertiary sectors gaining more weight in the country's output. Non-agricultural output growth has been quite steady at 4.9 per cent in 2006 and 5.3 per cent in 2005, and is expected to be 5.2 per cent in 2007, with the latter aided by the distribution sector, which is forecast to grow at 5.8 per cent.



The primary sector registered exceptional growth of 30.6 per cent in 2006. Cereal production reached an unprecedented 90 million quintals but is expected to fall back to 65 million quintals in 2007. Livestock also recorded a strong performance, which should be reinforced by policies to improve vaccination, sanitation, irrigation and crop diversification. A three-year restructuring programme has been put in place that includes the replacement of cereals with less water-demanding, fruit-bearing trees.

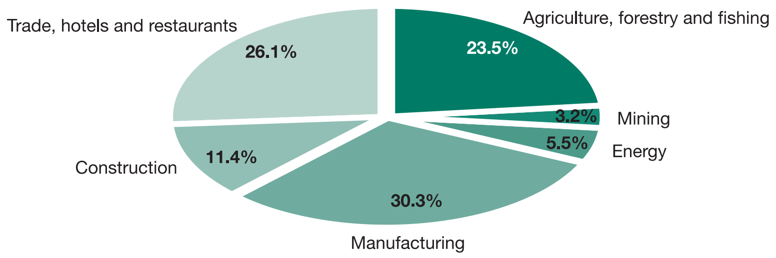
Exports of fruits and vegetables, however, are suffering as a result of strong competition from countries like Egypt and Turkey. According to the *Office des Changes* (exchange office), the volume of citrus fruit and tomato exports fell by 12.6 per cent and 14.5 per cent respectively in 2006.

Fish production decreased by 2 per cent in the year ending October 2006 following the decline in pelagic fishing which accounts for 82.1 per cent of total fish production in Morocco. The value of exports of fish products nonetheless rose by 8.4 per cent during this period, with canned fish, shellfish and fresh fish exports increasing by 5.3 per cent, 1.8 per cent and 1.3 per cent respectively.

Despite the late start of the agricultural campaign, the primary sector outlook for 2007 is for continued strong growth of 6.8 per cent, due to the policies outlined above and others such as subsidies for seed purchase and storage and low interest-rate loans to finance agricultural campaigns and investments.

The secondary sector continued its positive trend in 2006, growing at 4.9 per cent compared with 5.3 per cent in 2005. Industrial production rose by 4.7 per cent. The metal, metalworking and electronic industries recorded solid growth. Exports of electronic components grew by 10.4 per cent in 2006, up from 2.1 per cent in 2005.

Figure 2 - **GDP by Sector in 2005** (percentage)




**Source:** Authors' estimates based on National Statistics Office data.

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Thanks largely to Europe's imposition of new quotas on ten categories of Chinese products, the textile and leather sector recovered in 2006 with 14 per cent growth rate, after the downturn experienced in 2005 as a result of the phasing out of the Multi Fibre Arrangement (MFA) in January 2005, which granted Asian textile exports unlimited access to Morocco's traditional markets. In addition, Morocco is taking advantage of its proximity to the EU and the United States to attract a growing number of European and American multinational producers. Moreover, the recent decision of the European Council to extend the cumulation of origin system to Mediterranean countries could also be an advantageous opportunity. The new preferential trade agreements signed by Morocco, combined with upgrading to higher-value added product lines should help Moroccan producers to cope with Chinese competition. On the other hand, the entry of new European countries such as Bulgaria and Romania into the EU in January 2007 is expected to put further competitive pressures on Moroccan manufacturers.

The other industrial sectors recorded more moderate growth, such as the food processing and chemical sectors, with 1.7 per cent and 6 per cent growth rates respectively, for the year ending June 2006.

High oil prices led to a downturn in oil refining of 9.2 per cent for the year ending October 2006. However, new refineries are scheduled to be operational in 2008, which should enhance the competitiveness of the sector. Increased imports of electrical energy from Algeria and Spain supplemented growth in electricity production by 8.6 per cent in order to respond to growing demand from households (14.1 per cent) and businesses (10.1 per cent).

Mining activity recorded a slowdown in 2006, with the volume of phosphate exports declining 0.8 per cent, following an increase of 18.4 per cent in 2005. Rising prices of phosphates, however, pushed up the value of exports of phosphates, phosphoric acid and manures by 10.6 per cent, 7.2 per cent, and 30.7 per cent respectively.

The service sector grew 5.8 per cent in 2006, with all major sectors performing well. The construction sector was bolstered by public investment in roads, ports and housing developments, as well as the boom in tourism. For the year ending October 2006, cement sales were up 8.7 per cent, compared with 4.8 per cent during the same period the previous year. The government intends to construct 100 000 housing units per year to resolve the problem of shantytowns that have grown around the country's main cities. Private construction companies are carrying out the building under government contracts, with various tax breaks, subsidies and other incentives.

The government's tourism strategy is paying dividends. *Banque Marocaine du Commerce Extérieur* (BMCE) and a consortium of AttijariWafa Bank and *Groupe Banques Populaires* (GBP) each launched investment funds amounting to 2.5 billion dirhams. Foreign investment is flowing into the country's tourism sector, with Gulf developers alone having announced investments of \$14 billion over ten years, in major tourist destinations such as Marrakech and Tangiers. The construction of four out of seven planned new resorts is underway and a \$1.4 billion preliminary agreement for the development of the Taghazout station near Agadir has been signed. The number of tourist arrivals in the year ending October 2006 increased 15.2 per cent, up from 11.8 per cent over the same period in 2005. By the end of November, the number of tourists reached 5.875 million, including 2.645 million Moroccans living abroad. Almost 40 per cent of these tourists originated from France, and 21 per cent from Spain. The main destination cities remain Agadir, Marrakech and Casablanca, which recorded an increase of hotel nights of 45 per cent, 29 per cent and 11 per cent respectively. The increase in the number of tourists translated to a surge of 23.9 per cent in tourism receipts to 43.3 billion dirhams at the end of October 2006. Airline traffic consequently also rose, with the number of international passengers increasing by 18 per cent to reach almost 6 million. This should further be improved by the arrival of two international low-cost airlines, Easy Jet and Ryanair in 2006, along with the newly-created Moroccan low-cost airline Jet 4 You.

The communication sector also expanded in 2006, and should be boosted further by the entry of the third mobile operator, Wana, in early January 2007. The other two operators recorded an increase of 24.2 per cent in subscriber numbers to 14.9 million at the end of the third yearly quarter. 3G licences were also granted to the three telecoms operators in July 2006. The number of Internet subscribers also increased by 73 per cent compared with the same period in the previous year. Offshoring and IT activities are expected to grow by a record 18 per cent, supported by various government incentives and by the opening of the Casablanca shore (Casashore) site in March 2007. This site, which provides incentives and state-of-the art equipment and technologies, is already attracting major companies such as BNP Paribas, Axa, Tata Consulting Services, Cap Gemini, *GFI Informatique* and Renault. By 2015, the sector is expected to employ 30 000 people and contribute $500 million to the country's GDP.

Domestic demand in 2006 benefited from good performance in the primary sector, which accounts for 45 per cent of the country's workforce, as well as from strong inward remittances and an improvement in employment levels. Private demand continues to be the primary driver of the country's economy, with 8.9 per cent growth. Households' purchases of durables increased, as reflected by the 20.8 per cent growth in consumer loans, and car sales grew at 31 per cent. Public consumption growth slowed to 4.1 per cent however, reflecting the effect of the early retirement scheme enacted by the government to reduce the public sector wage bill; public consumption is expected to decelerate further in 2007 to 3 per cent. Investment continued to grow at around 6 per cent, but is expected to slow to 4.5 per cent in 2007 before picking up to reach 7 per cent in 2008.

Table 1 - **Demand Composition** (percentage of GDP)

| | 1998 | 2005 | 2006(e) | 2007(p) | 2008(p) |
|---|---|---|---|---|---|
| | Percentage of GDP (current prices) | | Percentage changes, volume | | |
| **Gross capital formation** | **26.0** | **30.3** | **5.9** | **4.5** | **7.0** |
| Public | 3.2 | 2.9 | 6.9 | 5.0 | 6.9 |
| Private | 22.8 | 27.3 | 5.8 | 4.4 | 7.0 |
| **Consumption** | **77.7** | **75.9** | **9.3** | **2.5** | **3.4** |
| Public | 16.7 | 19.2 | 4.1 | 3.0 | 3.0 |
| Private | 61.0 | 56.6 | 10.6 | 2.3 | 3.6 |
| **External sector** | **-3.7** | **-6.1** | | | |
| Exports | 24.4 | 31.6 | 7.3 | 4.9 | 6.5 |
| Imports | -28.1 | -37.8 | 8.7 | 2.7 | 4.1 |

**Source:** *Haut Commissariat au Plan* data; estimates (e); and projections (p) based on authors' calculations.

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## Macroeconomic Policies

### *Fiscal Policy*

Morocco's fiscal policy has been improving steadily over the past few years. The large deficit recorded in 2005 was mostly the result of the erstwhile cost associated with the early retirement plan that was put in place by the government to reduce its wage bill. Overall spending increased consequently by 17 per cent last year to reach 34 per cent of GDP in 2005.

Overall receipts remained strong at an estimated 23.4 per cent of GDP in 2006, down slightly from the high of 23.9 per cent in 2005. The government's efforts to improve tax collection and the strong economy significantly boosted revenues. Direct tax receipts grew by 14.8 per cent, driven by a 28.8 per cent increase in corporate taxes collection, reflecting strong corporate profit growth. Income taxes, however, only grew at 2.1 per cent for the year ending October 2006 compared with a strong 17.5 per cent growth in the same period from the previous year, partly as a result of the early retirement scheme. Changes to the tax code, notably the decrease in the tax rate applied to high income taxpayers from 44 per cent to 42 per cent starting in January 2007, could further lower revenues. Direct taxes are expected to increase by 1.2 per cent in 2007 to reach the equivalent of 9.2 per cent of GDP and 43.9 per cent of total tax receipts. Overall, the revenue to GDP ratio is expected to edge downward to 23.2 per cent.

Indirect tax receipts rose 12.2 per cent in 2006 owing to increases of 23.9 per cent and 12.5 per cent in value added tax (VAT) proceeds linked to domestic demand and imports respectively. These are forecast to increase by 8.8 per cent and 8 per cent in 2007, to reach 12 billion dirhams and 16 billion dirhams respectively. Stamp and registration duties also increased by 11.9 per cent, driven by good performance in the construction sector, and these are expected to reach 7.3 billion dirhams in 2007. Customs duties on the other hand remained broadly stable following the tariff reductions in compliance with the various trade agreements that have been signed by Morocco; customs revenues are expected to decline by 5.8 per cent in 2007. Total indirect taxes are nevertheless expected to increase 6.1 per cent in 2007 to reach 44.2 billion dirhams thanks to enlargement of the fiscal base, with the conversion to formal and taxable status of part of the informal sectors.

Non-fiscal revenues declined by 0.6 per cent in 2006, partly as a result of the decline in privatisation receipts, despite the sale to Altadis of the remaining 20 per cent of *Régie des Tabacs*, the former state tobacco monopoly, as privatisation receipts were less than half the expected level. The government privatisation plan for 2007 is also behind schedule with the sale of *Compagnie marocaine de navigation* (Comanav) and *Société marocaine du thé et du sucre* (Somathès) still waiting to be launched. The contribution of privatisation receipts to government revenues is expected to slow down in the medium-term to about 2 billion dirhams per year.

State revenues were also supported in 2006 by 4.5 per cent growth in receipts from state monopolies and other state activities, and the balance on other special accounts. Receipts from state monopolies are expected to fall 10.7 per cent in 2007.

Reductions in government expenditure from the early retirement scheme were somewhat offset by large subsidy payments, especially on petroleum products. Overall public expenditure declined to 29 per cent of GDP in 2006 from 29.9 per cent in 2005, and should remain steady in 2007.

Government spending is dominated by current expenditures, with government investment in recent



Table 2 - **Public Finances** (percentage of GDP)

| | 1998 | 2003 | 2004 | 2005 | 2006(e) | 2007(p) | 2008(p) |
|---|---|---|---|---|---|---|---|
| **Total revenue and grants[a]** | **21.8** | **21.7** | **22.5** | **23.9** | **23.4** | **23.2** | **22.8** |
| Tax revenues | 20.4 | 19.8 | 20.2 | 21.8 | 21.4 | 21.1 | 20.7 |
| Grants | 0.0 | 0.1 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 |
| **Total expenditure and net lending[a]** | **29.0** | **26.5** | **27.0** | **29.9** | **29.0** | **28.9** | **28.5** |
| Current expenditure | 25.7 | 22.2 | 23.1 | 26.5 | 25.6 | 25.4 | 24.9 |
| *Excluding interest* | *21.1* | *18.5* | *19.6* | *23.2* | *22.3* | *22.2* | *21.7* |
| Wages and salaries | 10.2 | 11.2 | 11.3 | 11.9 | 11.5 | 11.3 | 11.1 |
| Interest | 4.6 | 3.6 | 3.5 | 3.3 | 3.3 | 3.2 | 3.1 |
| Capital expenditure | 4.0 | 4.3 | 4.0 | 3.5 | 3.5 | 3.5 | 3.6 |
| **Primary balance** | **-2.5** | **-1.2** | **-1.0** | **-2.7** | **-2.4** | **-2.5** | **-2.5** |
| **Overall balance** | **-7.1** | **-4.8** | **-4.5** | **-6.0** | **-5.6** | **-5.7** | **-5.6** |

a. Only major items are reported
**Source:** IMF data estimates (e); and projections (p) based on authors' calculations.

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years only accounting for about 3 to 4 per cent of GDP, or a tenth of total spending. Wages and salaries of civil servants account for almost half of current expenditures, but declined from 11.9 per cent of GDP in 2005 to 11.5 per cent in 2006, and are expected to fall again slightly as a percentage of GDP in 2007 and 2008.

Subsidy payments amounted to 11 billion dirhams in 2006, the equivalent of 2.3 per cent of GDP. These almost doubled at the end of the third quarter of 2006 relative to the previous year, as a result of failure to fully index domestic petroleum prices to world oil prices despite several upward adjustments over the year. Food prices are also subsidised and insulated against fluctuations against world market prices. For 2007, subsidies are, however, expected to fall to 8.3 billion dirhams, or 1.6 per cent of GDP.

The overall fiscal deficit decreased slightly in 2006 to 5.6 per cent of GDP from 6 per cent in 2005, and are expected to remain at around that level during the next two years. With interest on public debt declining slightly as a percentage of GDP over this period, the primary balance will stabilise at around 2.5 per cent of GDP.



### Monetary Policy

The autonomy of the central bank *Bank Al Maghrib* (BAM) was enhanced in 2006, with BAM adopting an inflation targeting strategy and improving the transparency of its monetary policy. Inflation increased from 0.9 per cent in 2005 to 3.3 per cent in 2006, reflecting mainly higher energy prices. As a result, real interest rates fell to negative levels until the central bank tightened policy, thus bringing nominal interest rates up. Inflation is expected to slow down in 2007 to a range between 2.1 per cent and 2.8 per cent. The favourable balance of payments entailed a 29 per cent increase in net foreign assets from July 2005 to July 2006.

The exchange rate remains pegged to a basket of currencies dominated by the euro, the currency of Morocco's main trading partner, despite growing rumours of a move towards a "more flexible" exchange rate. Reflecting the strong appreciation of the euro against the dollar in 2006, the dirham decreased by 0.4 per cent in value against the European currency, but gained 1.75 per cent against the dollar.

### External Position

Exports rose in 2006, but at a slower rate than imports and GDP, such that exports-to-GDP fell slightly from 18.1 to 17.6 per cent while imports-to-GDP rose from 31.8 per cent to 32.8 per cent. As a result, the trade deficit surged from 13.7 per cent of GDP in 2005 to 15.2 per cent in 2006. The trade deficit is expected to recede to about 14.5 per cent of GDP during the next two years. The large surpluses in services, mainly tourism, and remittances, generally more than offset the trade deficit in recent years, such that Morocco tends to run a current account surplus. In 2006, this surplus dwindled to almost zero from 1.6 per cent of GDP in 2005, but it is expected to bounce back to 1.3 per cent in 2007 and 2.3 per cent in 2008. The current account surplus, along with rising GDP, has entailed a steady fall in the external debt to GDP ratio from over 50 per cent in 2000 to under 30 per cent in 2006, with

Table 3 - **Current Account** (percentage of GDP)

| | 1998 | 2003 | 2004 | 2005 | 2006(e) | 2007(p) | 2008(p) |
|---|---|---|---|---|---|---|---|
| Trade balance | -7.8 | -8.7 | -11.5 | -13.7 | -15.2 | -14.6 | -14.5 |
| Exports of goods (f.o.b.) | 17.8 | 17.6 | 17.6 | 18.1 | 17.6 | 17.5 | 17.1 |
| Imports of goods (f.o.b.) | 25.7 | 26.3 | 29.1 | 31.8 | 32.8 | 32.0 | 31.6 |
| Services | 4.2 | 5.3 | 5.8 | 7.3 | 8.0 | 8.4 | 9.2 |
| Factor income | -2.6 | -1.6 | -1.2 | -1.0 | -0.9 | -0.8 | -0.8 |
| Current transfers | 5.8 | 8.2 | 8.6 | 9.0 | 8.2 | 8.3 | 8.4 |
| **Current account balance** | **-0.4** | **3.2** | **1.7** | **1.6** | **0.1** | **1.3** | **2.3** |

**Source:** IMF data estimates (e); and projections (p) based on authors' calculations.

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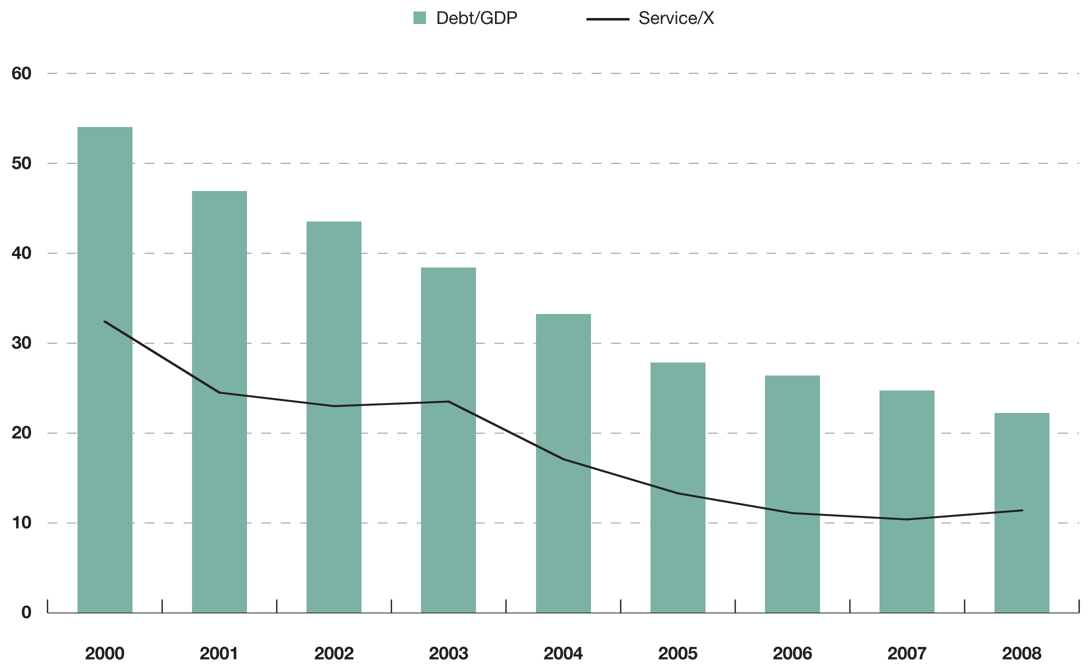
Figure 3 - **Stock of Total External Debt** (percentage of GDP) **and Debt Service** (percentage of exports of goods and services)




**Source:** IMF.

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a further decline to below 25 per cent forecast in 2008.

The best export performers in 2006 were phosphates and textiles; fish and electronic components exports also increased.

Booming domestic demand led to a 10 per cent rise in imports in 2006. Rising oil prices pushed up the energy bill by 13.2 per cent to reach 37.1 billion dirhams for the year ending October 2006, despite a decline in the volume of oil imported.

## Structural Issues

### *Recent Developments*

Having embarked on the path of trade liberalisation and amplification of its economy, Morocco is fully aware of the need to accelerate structural reforms and improve infrastructure. A wide-ranging reform programme has been launched by the authorities to achieve enhanced growth and improve human development indicators. Nevertheless, it remains to be seen whether the new initiatives will be more successful than previous reform efforts, which have lagged due to the government's reluctance to tackle some politically-sensitive issues, such as labour-market rigidities and protected industries.

The initiation of the *Plan Emergence*, which was formulated in late 2005, is probably the major event of 2006. This plan is aimed at both improving competitiveness in traditional industrial sectors (textile, food processing and fisheries) and supporting the emergence of newer sectors (offshoring, automotive parts, electronic components and aeronautics). It is hoped that the resulting export boom will yield an additional 1.6 per cent increase in annual GDP growth over the next ten years, reduce the trade deficit by 50 per cent and create 440 000 new jobs.

To achieve these ambitious objectives, the government has proposed a series of actions over the short- to medium-term. These include the establishment of several industrial zones in a number of cities around the country, dedicated to the outsourcing of automobile manufacturing, and production of electronics components for automobiles, airplanes and medical care. These should generate 12 billion dirhams in export revenues and create 55 000 new jobs by 2015.

To develop offshore services in Morocco, the authorities will focus on human resources development and on the creation of dedicated zones with state-of-the-art infrastructure in order to attract international companies. One such zone is "Casashore" which should be operational in March 2007. Office rents at EUR 8 per square metre, corporate tax holidays for the first five years, low sales taxes and import duties at 2.5 per cent, are among the incentives offered at the site. The government also signed a contract programme with the APEBI, the IT professional association in September 2006, to promote the development of IT activities in the country. Overall, the development of business processes outsourcing in Morocco should produce more than 2 billion dirhams in additional revenues by 2010.



The government continued the privatisation programme initiated in 2003. Seventy out of 114 entities initially listed for sale were privatised by late 2005, generating 76.7 billion dirhams in receipts for the government. Additional proceeds amounting to 4.6 billion dirhams were received in 2006, with the sale of the remaining 20 per cent of *Régie des Tabacs* to the Spanish group Altadis and 100 per cent of Somathès. In 2007, the government expects to collect an extra 4.5 billion dirhams from privatisation activity, notably from the sale of 4 per cent of the telecom operator Maroc Telecom through the stock exchange, and the concession of DRAPOR, its port maintenance company, along with the sale of 78.8 per cent of Comanav, the state shipping company.

Agriculture faces strong challenges with the expansion of the economy and the arrival of foreign products on the Moroccan market. Consequently, the authorities have designed a plan to improve competitiveness in the sector, through improved irrigation, regulation and land tenure. Irrigated land is set to increase by 10 000 hectares per year to help the country cope with frequent droughts. Water-demanding crops such as cereals will gradually be replaced by fruit-bearing tree crops such as olives, dates and almonds, with the government subsidising up to 80 per cent of the cost of seedlings and reducing interest rates on equipment and campaign loans to 5.5 per cent and 5 per cent respectively.

In order to make the most of its privileged geographic location, Morocco intends to become a regional investment and trade platform between Europe, the United States, the countries of Southern Europe and Sub-Saharan Africa. The country has therefore invested heavily in infrastructure over the past few years, and these efforts will be intensified in the near future. The authorities plan to triple the rate of highway construction from 50 kilometres per year to 160 kilometres in order to ease traffic, not only between Moroccan cities but also cross-border between the country and its neighbours. In addition, a 550 kilometre bypass linking the *Tanger Méditerranée* port to the city of Saidia in the North is planned.

To enhance the competitiveness and dynamism of its private sector, the Moroccan government has put in place a series of measures to encourage greater lending to small and medium size enterprises (SMEs), and to create an additional 200 000 jobs by 2008. The authorities launched the Moukawalati programme of SME finance, thus providing state guarantees and financial, legal and technical coaching services. The programme aspires to create 30 000 new enterprises and 90 000 new jobs by 2008, targeting potential entrepreneurs below 45 years of age who are unemployed but wish to start their own venture with an investment of up to 250 000 dirhams. Further development of the Moroccan private sector also depends on the government's actions to reduce the costs of energy, finance and taxes, to improve labour laws, to lessen the burden of bureaucracy and enhance the transparency of judicial processes.

The Moroccan financial sector is regarded as one of the most developed in North Africa, following the wave of reforms during the 1990s, and more recently a new law granting greater autonomy to BAM, and aligning Morocco's prudential regulations with the Basle II requirements. There are currently fourteen commercial banks in the country, most of which are partially owned by French banks. The largest private sector banks are Attijariwafa Bank and BMCE, which are diversifying into countries such as Tunisia, Senegal and Algeria. The largest bank in terms of market share is the state-controlled *Crédit Populaire du Maroc* (CPM), which holds 27 per cent market share and reported assets worth $11.1 billion in 2005. The remaining semi-public banks (CIH, CAM, BNDE and BMAO) are in the process, at varying speeds, of being transformed into universal providers, thus enhancing competition in a market that is so far largely dominated by three banks, namely CPM, Attijariwafa Bank, and BMCE.

### Access to Drinking Water and Sanitation

Water and sanitation accessibility are major concerns in Morocco. Since independence, successive governments have attached importance to these issues in their development programmes. However water is still an issue of considerable importance to the Moroccan authorities in a context where the country's water resources are relatively scarce and are constantly threatened by droughts. Drinking water has become scarce in some regions, including large cities, with the country having experienced four droughts during the 1990s alone.

In the early 1970s, the late King Hassan II launched a barrage strategy for all Moroccan basins and rivers which aimed to irrigate up to 1 million hectares. This policy led to progress in developing the country's water resources, yet significant disparities persist in the distribution between basins, and the prospects for 2020 suggest increasing scarcity as the population grows.

In the early 1980s, the country introduced management procedures at hydrographic basin level. Administrative structures were then created to establish the basis for a global water management policy, taking into consideration surface and ground waters, their quantity and quality aspects, as well as water-users, as part of this same approach.

In 1995, a water law was promulgated. This represented a major advance, through the creation of regional River Basin Authorities to manage water resources at local level.

The *Office National de l'Eau Potable* (ONEP) is responsible for overseeing national water policies. It also is in charge of sewerage facilities in some cities, but not in rural areas. Municipalities are responsible for rural sanitation, but they lack both the financial and technical capacity to successfully complete their task. As a result, hygiene and sanitation are often deficient in rural areas. Major funding from the World Bank and the African Bank for Development is supplemented by aid from other institutions [UNDP, FAO, UNICEF, USAID, the Arab Fund for Economic and Social Development (AFESD), the Islamic Bank and OPEC] and nations (Japan, Belgium and Italy).

The National Initiative for Human Development launched by King Mohammed VI in May 2005 emphasises the importance of water for sustainable economic growth. In this respect Morocco has embarked on implementing a series of strategies in the effort to increase access to water in both urban and rural populations. In the last ten years, 14 million additional users (nearly half of the population) have been connected to drinking water supplies. Specific policies have been implemented by the operators Lydec in Casablanca (Suez), Redal in Rabat and Amendis in Tanger and Tetouan (Veolia) in order to provide water connections to low-income families in peri-urban settlements. Production capacity has been multiplied by 5 and reached 55 m$^3$ per second in 2003. During the same period the population connected to potable water soared from 2.8 million to 13.5 million. The connection ratio to drinking water increased by 1 per cent per year over the period 1992-2002. ONEP expects to achieve 92 per cent access to potable water in urban areas by 2007. The connection ratio is expected to reach 100 per cent by 2015.

Access to water in rural areas is much more restricted than in urban areas. This is mainly due to the dispersion of the rural population. The "*Programme d'Approvisionnement Groupé en Eau Potable des Populations Rurales*" (PAGER), launched in 1995, raised the access to water ratio of rural areas to 55 per cent in 2003. This ratio is expected to increase by 3 per cent per year to reach 100 per cent access by 2015, with an interim target of 92 per cent ratio before the end of 2007.

Regarding sanitation services, urban areas have witnessed significant progress in comparison with rural provinces. Sanitation coverage is low relative to Morocco's level of per capita income. Morocco still has one of the lowest rural water supply and sanitation access rates in the Middle East and North Africa, averaging 56 per cent for rural water supply and only 35 per cent for rural sanitation. To address these issues, the Moroccan government has developed the Rural Water and Sanitation Project, funded by a $60 million World Bank loan, $4.42 million of which is dedicated to hygiene promotion and sanitation. The World Bank has also provided technical assistance to the Moroccan government through the Sanitation, Hygiene and Wastewater Support Service (SWAT) to increase coverage, enhance reliability, and improve hygiene education. Although this technical assistance and the subsequent work by ONEP have contributed to a better understanding of rural hygiene and sanitation needs, rural access to sanitation and water remains below that of other countries in the region.



## Political Context and Human Resources Development

Morocco's political situation remains stable, with King Mohammed VI remaining popular despite the continuing problems of poverty and unemployment. The risk of terrorism from Islamic radicals and the continuing tensions with Algeria over the Western Sahara are at present not serious enough to disrupt the mostly favorable political and economic environment.

To facilitate access to education, medical services and transportation, as well as create job opportunities for rural populations, the government launched the first "*Programme National des Routes Rurales*" (PNRRI) in 1995 to build approximately 11 000 kilometres of rural roads. By 2004, the programme had completed 10 600 kilometres of roads, pushing the road accessibility ratio up to 54 per cent. A second ten-year programme was subsequently implemented in 2005 to build 15 500 kilometres of roads and reach an accessibility ratio of 80 per cent by 2015.

The "*Programme d'Electrification Rurale Global*" (PERG) seeks to provide electricity to two million rural households in 34 000 villages by 2007, up from 400 000 households in 1994 when the programme first started.

In order to meet the Millennium Development Goals (MDG) set for 2015, the Moroccan authorities have designed a wide-ranging programme to improve social conditions in the country. Substantial progress has been made towards poverty reduction, education, and infant mortality reduction Millennium Development Goals. In May 2005, King Mohammed VI launched the "*Initiative Nationale pour le Développement Humain*" (INDH) programme to reduce inequality and poverty, and improve human development in the country. The priorities include slum clearance and public housing in cities, as well as modernisation of agriculture, as discussed previously.