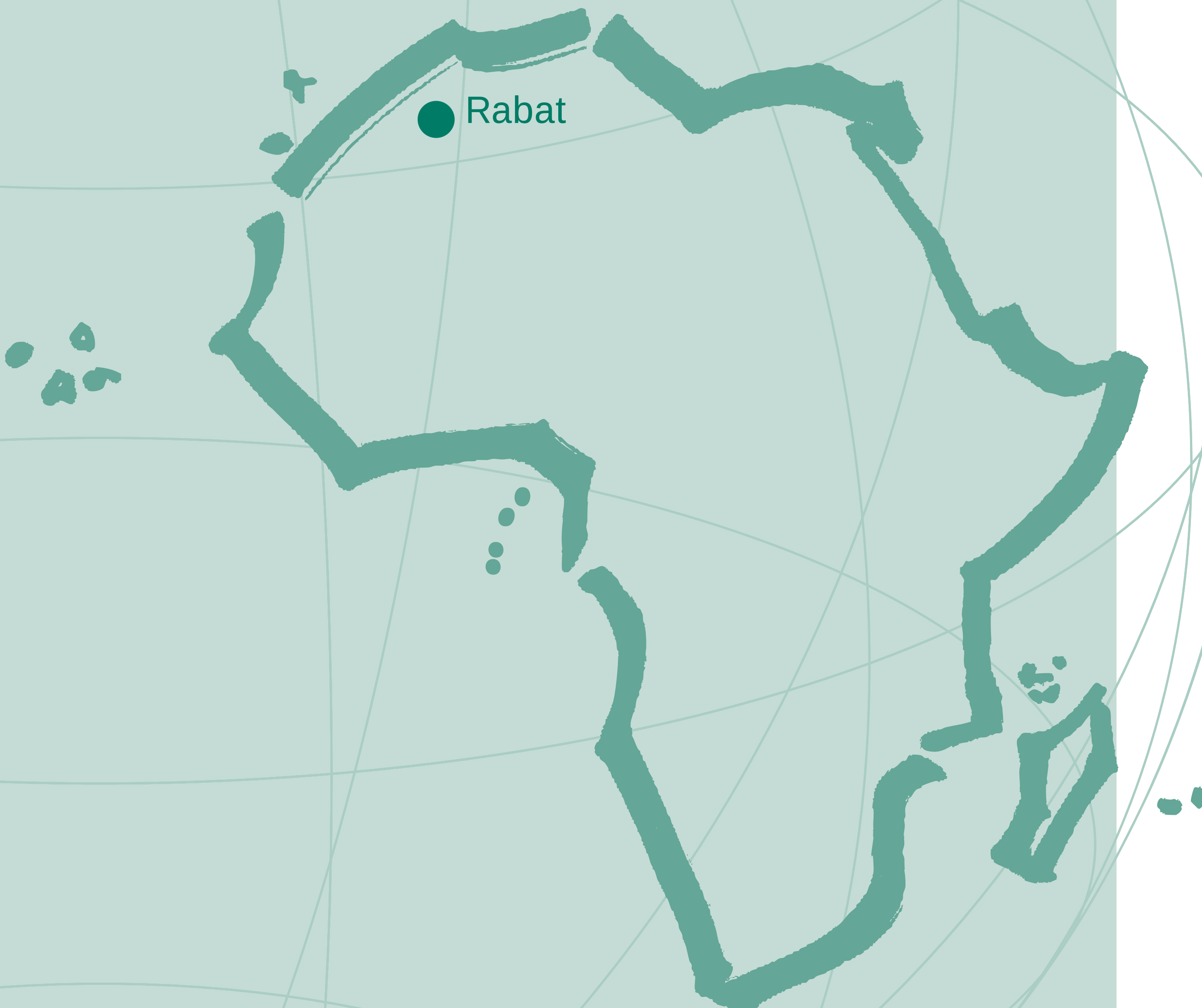
Morocco



key figures

• Land area, thousands of km²	447
• Population, thousands (2004)	31 064
• GDP per capita, $ (2003)	1 431
• Life expectancy (1995-2000)	68.7
• Illiteracy rate (2004)	47.5

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Morocco

THE MOROCCAN ECONOMY PERFORMED well overall in 2003 and should continue to show growth rates of over 3 per cent in the coming years. The 2003 growth rate of 5.5 per cent was achieved in a context of increased macroeconomic stability. In 2004, inflation was kept down to 2.3 per cent; the level of external debt fell by 4.5 per cent to 31.7 per cent of GDP; and the budget deficit was kept within reasonable limits at 2.5 per cent of GDP - though the budgetary situation remains heavily dependent on revenues from privatisation.

These encouraging results are the returns of a series of reforms introduced by the Moroccan authorities in recent years aimed at deregulating the economy and improving companies' competitiveness. The objective is to get the Moroccan economy on to a sustained growth curve that will boost the wide-ranging measures put in place by the Moroccan government to improve living conditions and reduce social and regional disparities. So far economic growth and reform have not succeeded in significantly improving the living conditions of the sector of the population that lives below the poverty line, nor in sustainably reducing the dependence of the economy on the vagaries of the agricultural sector.

Significant improvements in democratisation and progress in reducing social and regional disparities have been observed.

Morocco has nevertheless made significant progress in the fields of health, education and the democratisation of public life, as well as in the strengthening of basic infrastructures, notably in favour of those least privileged in Moroccan society. All this helps to consolidate social and political stability. It is essential that these efforts be pursued so that greater advantage can be taken of the opportunities offered by the recent opening up of the country. This trend has been intensified following the signature of free trade agreements with the United States, Turkey and the Arab states of Egypt, Jordan and Tunisia.

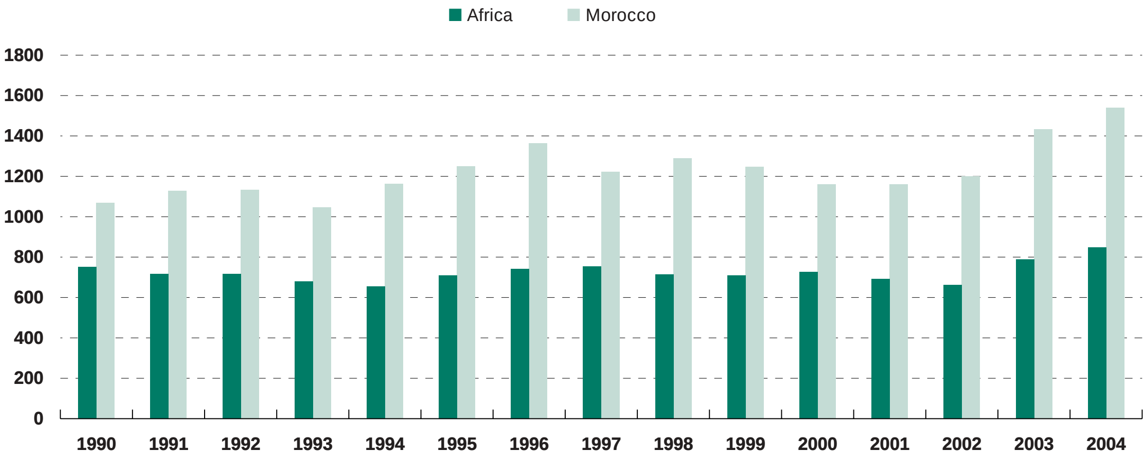
Figure 1 - Real GDP Growth

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

Recent Economic Developments

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.

Figure 2 - GDP Per Capita in Morocco and in Africa (current $)



Source: IMF.

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.

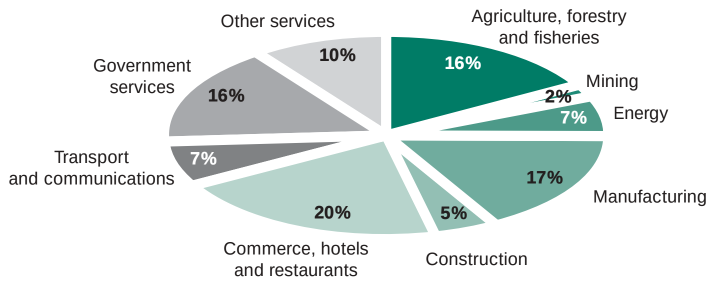
In 2004, the primary sector benefited from a good performance by livestock as a result, notably, of improved pasturage, an increase in the production of fodder crops, and the efforts made to assure the regular supply of food and veterinary products. The authorities have continued to actively support 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.

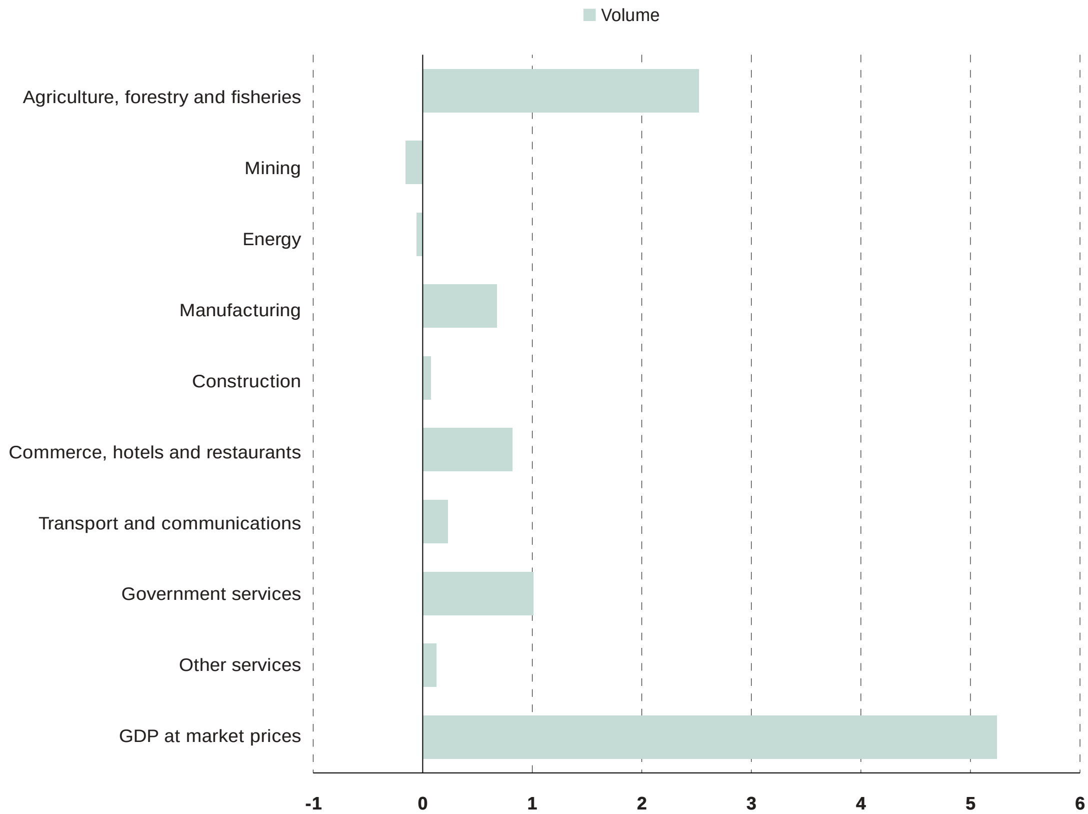
The secondary sector continued on a positive trend in 2004, particularly in mining and energy. The mining sector benefited from a favourable international climate, characterised by sustained demand. Phosphate and phosphoric acid production increased in 2004 by 9.5 and 16.4 per cent respectively. This counterbalanced a 1.2 per cent contraction in fertiliser production. 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

Figure 3 - GDP by Sector in 2003 (in percentage)



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

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (in percentage)



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

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 Afourer 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 para-chemicals. 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 per cent 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 per cent), 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.

Table 1 - Demand Composition (percentage of GDP)	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**19.6**	**22.9**	**22.7**	**23.2**	**22.8**	**23.8**	**24.3**
Public	3.1	2.9	2.7	2.6	2.7	2.8	2.9
Private	16.5	20.0	20.0	20.6	20.1	21.0	21.4
Consumption	**83.8**	**80.4**	**80.4**	**81.3**	**76.7**	**76.1**	**75.7**
Public	16.9	19.8	19.5	19.9	20.0	19.9	19.5
Private	66.9	60.6	60.9	61.3	56.7	56.3	56.3
External Sector	**-3.4**	**-3.3**	**-3.1**	**-4.4**	**0.6**	**0.1**	**0.0**
Exports	26.3	32.9	33.8	31.1	35.2	36.1	35.8
Imports	-29.6	-36.2	-36.9	-35.5	-34.6	-36.1	-35.8

Source: National Statistics Office data; estimates (e) and projections (p) based on authors' calculations.

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. These prospects are favourable for future growth.

Macroeconomic Policies

Fiscal and Monetary Policy

The Moroccan authorities have a delicate budgetary challenge on their hands: reducing the budget deficit by juggling between the decrease in revenue that will

Table 2 - Public Finances (percentage of GDP)	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Total revenue and grants[a]	**23.5**	**31.1**	**25.0**	**27.0**	**26.7**	**26.7**	**26.6**
Tax revenue	20.7	22.7	22.9	22.1	21.6	21.7	21.6
Grants	0.0	0.1	0.1	0.1	0.3	0.2	0.2
Total expenditure and net lending[a]	**26.5**	**30.7**	**29.4**	**29.6**	**29.2**	**29.1**	**28.7**
Current expenditure	21.3	25.4	24.7	25.0	24.5	24.3	23.7
Excluding interest	*15.9*	*20.5*	*20.3*	*20.9*	*20.9*	*20.8*	*20.4*
Salaries	10.5	12.5	12.2	12.7	12.5	12.3	12.0
Interest	5.4	4.9	4.4	4.1	3.6	3.5	3.3
Capital expenditure	4.9	5.2	4.7	4.6	4.7	4.9	5.0
Primary balance	**2.4**	**5.3**	**0.0**	**1.6**	**1.1**	**1.0**	**1.2**
Overall balance	**-3.0**	**0.4**	**-4.4**	**-2.5**	**-2.5**	**-2.4**	**-2.1**

a. Only major items are reported.
Source: Ministry of Finance and Privatisation data; estimates (e) and projections (p) based on authors' calculations.

follow the removal of duties and the inevitable slow-down in the number of privatisations, while at the same time containing expenditure without compromising the objectives of reducing poverty and unemployment.

Ordinary revenue, excluding Treasury special accounts, totalled 109 444 billion dirhams in 2004. This increase of just 3.6 per cent is due to a 27.8 per cent reduction in privatisation revenues. Fiscal revenue increased by nearly 3.3 per cent in 2004 following an 8.2 per cent increase in direct taxes (compared to a rise of 9.3 per cent in the previous year), and a 1.6 per cent rise in indirect taxes. Customs duties fell 12.8 per cent in 2003 and 4 per cent in 2004, mainly as a result of the implementation on 1 March 2003 of the fourth round of reductions in duties stipulated in the partnership agreement with the EU. The reduction is also the result of a lower than expected increase in imports. These movements led to a slight reduction in fiscal pressure, which descended from 22.1 per cent in 2003 to 21.6 per cent in 2004. Privatisation revenue, which came to nearly 5.7 billion dirhams in 2003, could rise again considerably in 2005.

Total expenditure increased 3.5 per cent from 114 932 billion dirhams in 2003 to 118 880 billion dirhams in 2004. This rise takes into account a 4.8 per cent increase in ordinary expenditure in 2004 and, more particularly, an increase of nearly 7.4 per cent in spending on goods and services and of about 6.9 per cent in personnel costs. The increase in compensation charges in 2004 is essentially due to support for butane gas prices, tied to the increase in oil product prices. In 2004 expenditure from the Hassan II fund (a special fund which draws mainly on privatisation revenue to finance heavy investment in infrastructure and the social sectors) amounted to 4.4 billion dirhams or 1 per cent of GDP.

The overall evolution of revenue and expenditure resulted in a budget deficit in the 2004 financial year representing 2.5 per cent of GDP, the same as in the previous year. Excluding privatisation revenues, the budget deficit was reduced from 5.2 per cent in 2003 to 4.4 per cent in 2004, compared with an initial forecast of a reduction of 5.7 per cent. At the end of December 2004, outstanding direct Treasury debt stood at 67.6 per cent of GDP, compared with 68.2 per cent in 2003. The budget deficit could be reduced to 2.4 per cent in 2005 and further to 2.1 per cent in 2006, including privatisation revenue.

Faced with persistent excess liquidity, the *Bank Al Maghrib* (the central bank) revised upwards its rate of remuneration for liquidity absorption from 3 to 3.25 per cent, and its monetary reserve rate from 14 to 16.5 per cent, while at the same time offering banks the opportunity to make currency swaps. In this context, the growth in money supply (M3) at the end of 2004 was 8.3 per cent, compared with 8.7 per cent in 2003. Analysis of M3 subsidies show a further 7.8 per cent increase in net external credit (compared with 15.1 per cent in 2003), a 0.7 per cent increase in internal credit growth to 6.6 per cent (compared to 5.9 per cent in 2003), an 8.6 per cent rise in lending to the economy (compared to 8.7 per cent in 2003), and an increase of net lending to the state of 1.3 per cent (compared to -2.7 per cent in 2003). This increase in money supply led to a liquidity level (M3/GDP) in 2004 that was again very high - at 89 per cent – compared to 92.3 per cent in 2003, a figure that partly reflected the efforts of *Bank Al Maghrib* to reduce the effects of this excess liquidity.

After four years of poor performance, the Casablanca stock exchange returned to growth in 2003. The Moroccan All Shares Index and the Moroccan Most Active Shares Index rose 32.3 and 26.3 per cent respectively in the course of the year. However, these two indexes fell again at the end of 2004 under the impact of the high level of market prices and the publication of poor results by certain companies.

The inflation rate in 2004 was 2.3 per cent, compared to 1.2 per cent in 2003. The increase in the price of crude oil on the international market led to the Moroccan government deciding to increase prices for oil products in August 2004. Since 25 August a litre of petrol costs 8.98 dirhams (0.81 euros), as compared to 8.65 dirhams before the price increase, and a litre of ordinary diesel fuel costs 5.96 dirhams (0.54 euros), compared to its former price of 5.76 dirhams. The inflation rate in 2005 should come close to 2.6 per cent as a result of the increase in the price of food products and the upsurge in oil prices. The rate should fall to 1.8 per cent in 2006.

The national currency depreciated by 3.9 per cent in relation to the euro in 2003 and by 1.8 per cent in 2004. The dirham appreciated, however, by 15.1 per cent in relation to the dollar in 2003 and by 8 per cent in 2004. This trend is favourable to the development of exports from Morocco to the EU, its leading trading partner.

External Position

The period from 2002 to 2004 was characterised by the pursuit of a policy of opening up and integration of the Moroccan economy. In October 2003, Morocco signed a new agreement with the EU, which this time focused on the agricultural sector. On the European side, the agreement staggers the timetable for the removal of trade tariffs and provides for an increase in tomato export quotas from 170 000 to 220 000 tonnes over a period of four years. On the Moroccan side, there is a commitment to importing between 400 000 and 1 million tonnes of European wheat, depending on the level of the national harvest. In addition, Morocco signed free trade agreements in 2004 with Egypt, Jordan, Tunisia and Turkey. These agreements form part of the Barcelona process for the construction of a Euro-Mediterranean zone. Finally, Morocco concluded a free trade agreement with the United States in March 2004. Through these agreements, the Moroccan authorities are seeking to diversify their external trade so as to take advantage of the recovery in the international economy and to protect themselves against any future slowdowns in the European economy.

Moroccan exports - which brought in only 10 billion dirhams in 2004 - showed a very small increase, and their share of GDP fell 1.6 per cent to 18 per cent. The recovery in the activity of SAMIR in 2004 resulted in a 104.1 per cent increase in sales of energy and lubricants abroad. Exports of phosphates and their derivatives increased by 22 per cent over 2003 to reach 14.5 billion dirhams (1.31 billion euros). These good performances partly compensated for the poor results in the value of exports of electrical, textile and agricultural products. The fall in the sales of agricultural and fish products was to blame for the decline in the contribution of food exports to total export growth. The value of exports of electrical and electronic products also declined in 2004, following the 8.7 and 0.9 per cent drop in the respective values of sales of electric wiring and cables, and electronic components. Exports of the main products of the textile sector – ready-made clothes and hosiery – fell in value by 0.7 and 6.2 per cent respectively. Exports are expected to make up 18.3 per cent of GDP in 2005 and 18.1 per cent in 2006. Most of these exports go to the European market (75 per cent), with just 1.5 to 2 per cent of the country's exports going to the countries of the Arab Maghreb Union. France and Spain are Morocco's two principal trading partners for both imports and exports.

The increase in the price of crude oil on international markets provoked a 57.7 per cent increase in the cost of crude oil imports in the balance of trade in 2004: these imports cost the country 14.5 billion dirhams (1.31 billion euros). Morocco imports virtually all the products it needs to cover its energy requirements. The average cost per tonne imported increased 19.3 per cent in 2004, rising from 1 999 to 2 384 dirhams (215 euros). The overall volume of petrol imports rose, moreover, from 4.61 million tonnes in 2003 to 6 million tonnes the following year, representing an increase of more than 30 per cent. The increase in the volume of crude oil imports was the result of the return to full activity of SAMIR, the country's only refinery. Altogether, the increase in purchases of crude oil and an 11 per cent increase in the value of non-oil products seriously worsened Morocco's trade deficit.

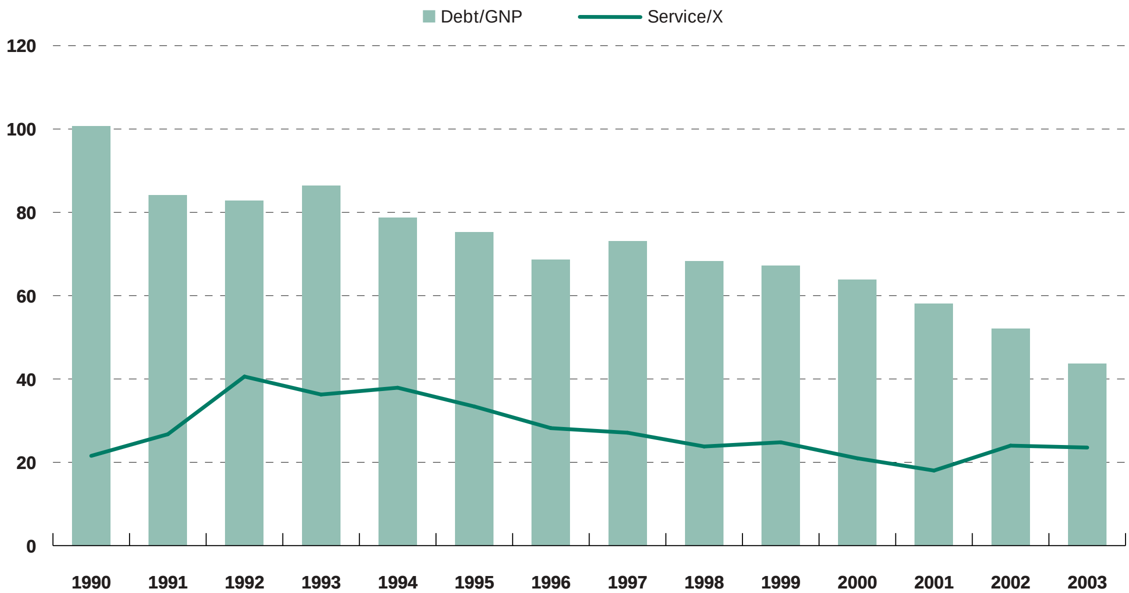
Morocco's trade was marked by a 34 per cent deterioration in the trade deficit, resulting from a sharp 14.1 per cent increase in imports to 15 billion euros and a moderate 2.1 per cent rise in exports to 8 billion euros. The import cover rate stood at 55.2 per cent compared to 61.7 per cent in 2003 – a decline of 6.5 per cent. Under the effect of the increase in the value of imports, the trade deficit should increase this year to reach 11.8 per cent, and 11.9 per cent in 2006.

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-7.7	-8.9	-8.5	-9.9	-10.9	-11.8	-11.9
Exports of goods (f.o.b.)	18.8	21.1	21.7	19.6	18.0	18.3	18.1
Imports of goods (f.o.b.)	-26.5	-30.0	-30.2	-29.5	-28.8	-30.2	-29.9
Services	2.6	3.2	3.3	5.8			
Factor income	-3.6	0.2	0.4	-1.7			
Current transfers	7.0	10.3	8.9	9.4			
Current account balance	**-1.7**	**4.8**	**4.1**	**3.7**			

Source: Ministry of Finance and Privatisation general economic policy department data; estimates (e) and projections (p) based on authors' calculations.

Figure 5 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports)



Source: World Bank.

Despite this aggravation of the trade deficit, the Moroccan economy finished the year with a current account surplus of about 1.3 per cent of GDP. This positive result comes from a 10 per cent increase in tourist revenues over 2003 (more than 300 million euros) and a 7.1 per cent rise in transfers from Moroccans living abroad (3.7 billion euros). In 2005, for the fifth consecutive year, the current account should be in surplus by around 1.3 per cent of GDP despite the aggravation of the balance of trade deficit.

In 2004, the capital and financial operations account registered a surplus representing 0.1 per cent of GDP. The overall balance was in surplus for the fourth consecutive year, with a positive balance of close to 1.3 billion euros. The reduction in the level of external debt continued, finishing at 31.7 per cent of GDP compared to 36.2 per cent in 2003, and official reserves increased by nearly 12 per cent to reach 15.2 billion euros or the equivalent of 9.8 months of imports at the end of December 2004.

Structural Issues

The rhythm of the major structural reforms, which are helping to accelerate growth, has been intensified since 2002. Private and public operators are co-operating to offer companies a favourable and attractive environment. Morocco's legal and fiscal framework is moving closer to the requirements set by international conventions. The Investment Charter and the relaxation of exchange controls include measures that reinforce the opening of the national economy towards the exterior. Three fundamental freedoms have been underlined – the right to invest, the right to transfer profits and the right to transfer capital gains under certain conditions. Efforts to improve the environment are continuing through the introduction of measures designed to encourage private initiative. The Hassan II Fund provides financial aid for the acquisition of land and/or the construction of production units. An offshore financial centre has been opened for banks and certain holding companies. The state has also reinforced the protection of industrial property.

Small and medium-sized companies (SMEs) and industries constitute the underlying fabric of the Moroccan economy. They make a significant contribution to economic growth, job creation and local and regional development. In 2002, SMEs represented 93 per cent of Moroccan industrial companies, 38 per cent of industrial production, 33 per cent of industrial investment, 30 per cent of industrial exports and 46 per cent of industrial employment. Out of the 7 200 industrial companies registered in 2002, 38 per cent were micro-companies employing less than 10 people, 38 per cent small companies employing between 10 and 49 people, 17 per cent medium-sized companies employing 50 to 199 people, and 7 per cent big companies employing more than 200 people. The three sectors with the greatest number of companies are chemicals and para-chemicals, textile and leather, and food processing.

The small and medium-sized companies charter[1] was established in law 53-00 in July 2002. It represents the framework of reference for action taken to support SMEs, from financing and training to infrastructures and fiscal incentives for investment. The charter set up the ANPME and created an improved framework for associations supporting small and medium-sized companies. Since 2002, aid for the creation of companies has been offered via 16 regional investment centres. The principle mission of these centres is to simplify procedures through the use of a single company creation form. Among the support measures set out in the charter are: state aid for the use of information and consultancy services, technical assistance and expertise and management training, improved conditions concerning real estate, fiscal incentives in the form of deductions, reductions and tax exemptions and, finally, new financing measures. Different financing bodies have been set up for SMEs, these include collective capital investment funds, capital investment companies, regional financing companies, mutual and co-operative credit organisations, and risk-capital bodies and companies. The state also participates in the financing of certain actions and transactions to help young entrepreneurs through the fund for the promotion of youth employment (FPEJ). In addition, it also grants subsidies to professional and other bodies involved in the provision of training, information and assistance in the conception, evaluation and administration of investment projects. Indirect financial aid is provided for SMEs by general or sectoral guarantee funds. Guarantee funds specific to the needs of very small and innovative companies have been set up.

The ANPME has decided to make 2005 a year of consolidation for company upgrading. In 2004, the agency's action consisted above all of providing direct aid to companies, and assistance to their support structures. The report on projects carried out directly by the ANPME shows that 524 companies agreed to take part in the upgrading process, of which 314 have already been assisted and 97 are in the process of getting started..

1. This charter defines small and medium-sized companies as being businesses managed and/or administered directly by their owners, co-owners or shareholders; in addition, no more than 25 per cent of the companies capital may be held by one or more business that is not classed as small or medium-sized. The workforce of SMEs must be below 200 and their turnover must not exceed an average of 75 million dirhams over two years. Companies which have existed for less than two years must have an investment programme amounting to not more than 25 million dirhams and keep to an investment ratio of less than 250 000 dirhams per employee.

Financial Innovation in the Moroccan Banking System

The Moroccan banking system has a variety of financing options to help promote investment and company creation, with lending rates being freely negotiated between banks and entrepreneurs. Traditional bank loans cover up to 80 per cent of companies' needs with specific credit lines financing 70 per cent of the cost of restructuring programmes for SMEs. Loans to help self-employed young promoters and entrepreneurs have been created to promote the integration of young people into working life and reduce unemployment. The "Young Promoter" loan, which is destined for higher education and professional training graduates, was replaced in February 2003 by the "Young Company Creation" scheme, guaranteed up to 85 per cent by the state. In addition, leasing for the acquisition of capital equipment or property for professional use guarantees the rental and financing up to 100 per cent of the cost of acquisition. Capital investment – risk capital, development capital, start-up capital, transmission capital and restructuring capital – provides SMEs with fresh capital at different stages of their development cycle. They represent a form of financing that is paid for not through interest but by a capital gain at exit or by dividends. Capital investment also has the advantage of providing – as the basis for mobilising funds – technical assistance, advice and surveys. Under certain conditions, seven-year loans can be granted as part of an extension to a new partner or a shareholder. The initial loan and the new loan together cannot exceed 1 million dirhams for a single project and 3 million dirhams for companies or co-operatives. Loans are covered by a guarantee fund that assures 85 per cent of reimbursement of principal, plus normal interest and, if the case arises, late payment interest payments. Finally, with regard to micro-lending and within the framework of the upgrading programme, European credit lines – French, Italian, Spanish and Portuguese – and the Islamic Development Bank have contributed to national financing resources for the development of SMEs.

The development of micro-credit began rather tentatively in the 1990s with small loans destined to finance the economic activities of people with low revenues. In 1998, in collaboration with the United Nations Development Fund, the government set up the Microstart programme. This programme makes use of the capacities of local associations to provide micro-financing services on a durable basis. Microstart turned out to be a precious tool for the development of micro-credit activity and the government therefore took steps to organise the programme more effectively. A law was promulgated in 1999 to legalise the activities of associations specialising in micro-credit and setting out the conditions under which such organisations should be set up and run. To ensure the openness of their operations, the law requires micro-credit associations to keep accounts, to undergo annual external audits and to present five-year financial projects when they apply for authorisation start their activities. In addition, the law stipulates that associations can borrow on the open market and receive public and private subsidies without collecting savings. It also grants the associations exemptions from tax over 5 years and gives donors fiscal advantages. In this context of state support, and given the high level of demand, the micro-credit sector has developed considerably over the last four years. According to the national federation of micro-credit associations, the number of beneficiaries at the end of 2000 was no more than 125 000 for loans totalling less than 200 million dirhams, while at the end of September last year, the total amount distributed in micro-credits had reached 5 billion dirhams, itself an increase of 47 per cent over the 2003 total of 3.4 billion dirhams. The number of active clients stood at 403 000, of which 71.3 per cent were women, and the level of loan reimbursement was 90 per cent. The bulk of these loans – 87.6 per cent – were distributed in urban and suburban zones. Rural areas accounted for only 12.4 per cent of micro-credits. The main sectors to benefit from these loans were textiles and commerce, with respectively of 34.3 and 23.1 per cent of the total number of loans granted. Micro-credit associations are also going to be receiving both international and local financial support. The latter, in so far as public money is concerned, will be transiting through the Hassan II Fund. A convention for $10 million was signed in December 2004 between the *Société Générale Marocaine des Banques* and the US Agency for International Development (USAID); a second credit line for 110 million dirhams was opened by the European Investment Bank.

The reform of the banking and financial system has also continued, with the aim of improving the efficiency and the quality of company financing. In 2004 two major bills were adopted relating to the statutes of the *Bank Al Maghrib*, credit establishments and assimilated bodies. This legislation establishes greater flexibility in monetary regulation, while respecting the new regulatory and accounting requirements of the Basle II agreement. The project concerning the central bank involves a fundamental revision of its statutes: it establishes a new organisational, management and control framework, as well as the principle of separation of executive and monetary functions. The new text reinforces the autonomy of the central bank in the conduct of monetary and exchange policy and gives it the right to prohibit loans to the state and public establishments, excluding exceptional cash facilities under restricted conditions. The new banking law extends the field of the central bank's supervision duties to all financial institutions; it also reinforces the role of auditors and develops institutional co-operation in the supervision of the financial sector. Over the past two years the restructuring and rehabilitation of the financial institutions has been focused on the public sector banks – *Banque Nationale de Dévéloppement Economique*, *Crédit Agricole du Maroc* and *Crédit Populaire du Maroc*. At the same time, structural reforms concerning - in particular - the Treasury Bond market by adjudication and modernisation of the stock exchange, were launched in 2003 and 2004 with the aim of making the capital markets more efficient and increasing their contribution to the financing of the economy.

The authorities have programmed the deregulation of particular sectors of economic activity. The deregulation of the electricity sector is planned for 2005 and should lead to the establishment of both a regulated market and a free market that will share access to the transport network of the ONE. In the field of transport, the state railway company, the *Office Nationale des Chemins de Fer* has become the *Société Marocaine des Chemins de Fer*, the former public body is now a joint stock company, which opens the way to deregulation of the management of the railways through management concessions for railway infrastructures and operations. As for ports and shipping, a reform is planned which will split the *Office d'Exploitation des Ports* into two entities: the *Agence Nationale des Ports*, which will play the role of port authority, and the *Societé d'Exploitation des Ports*, which will have responsibility for commercial functions, the introduction of competition between and within ports, and the unification of cargo-handling services. A new deregulation policy has been instituted in air transport. It is founded on the objectives set out in the *Plan Azur* (notably increasing the number of passengers transported to 15.6 million by 2010) and aims at deregulation of the regular flight market taking place on a controlled and voluntary basis, as well as a limited deregulation of the charter market.

In the telecommunications sector, announcement of the sale of a second fixed telephone licence in 2004 did not attract much attention because of the explosion of the portable telephone market. In addition, market regulations prevented the sale from taking place before 2005. In 2004, *Maroc Télécom* reported a 12.8 per cent increase in turnover. Portable telephones earned it more than 10 billion dirhams (900 million euros), with turnover rising by 21 per cent on 2003 levels. The number of its clients rose to 6.4 million. However, its turnover for fixed telephones and Internet services stagnated at around 11 billion dirhams (1 billion euros), despite the success of broadband Internet, the number of subscribers for which rose from 2 600 at the end of 2003 to 60 000 at the end of 2004. *Maroc Télécom* was privatised in 2004 and listed simultaneously on the Paris and Casablanca stock exchanges in December 2004. The operation was the biggest stock exchange flotation in Morocco's history.

At the end of 2004, about half the 114 public companies targeted for privatisation in 1993 had been sold. The principal privatisations carried out in 2003 and 2004 were the 14 billion dirham sale of 80 per cent of the capital of the *Régie des Tabacs* tobacco company and the 95 million dirham transfer in July 2004 of 26 per cent of the capital of the SOMACA automobile construction company. Other privatisations were carried out at the end of 2004: the fertiliser producer FERTIMA was sold for 14.1 million dirhams, SONIR the printing works for 22 million dirhams, and a 40 per cent stake in the capital of the COMANAV shipping company was also sold off.

The government is also going to have to tackle the reform of the retirement system. Two public bodies currently manage retirement pension financing – the Moroccan retirement fund (CMR) for civil servants, and the military and the national social security fund (CNSS) for private sector employees. Despite the increase in contributions decided in 2002 and 2003 to improve the financial situation of the CMR – up from 7 to 10 per cent for civil servants and from 7 to 14 per cent for the military -, it seems likely that the two bodies will remain in deficit up to around 2010. Serious measures must be taken if the system is to remain solvent in the medium term. The World Bank has offered to help the Moroccan authorities to define the most efficient way of achieving this aim.

Political and Social Context

The beginning of the reign of King Mohammed VI constituted a crucial stage in the process of political transition and marked the beginning of a real democratisation of political life. Apart from renewing the political leadership, King Mohammed VI has taken a number of highly symbolic decisions such as the creation of a consultative committee for human rights, the reform of the code of civil liberties, the reform of broadcasting via the creation of the higher council for audiovisual communication, the adoption of a law abolishing the state monopoly in radio and television broadcasting, and the consolidation of minority rights. The creation in January 2004 of the equity and reconciliation authority (IER), a commission composed of former political detainees and human rights activists, should make it possible to investigate past exactions and violations.

The major event in terms of the modernisation of society is without doubt the reform of Family Law (the *moudawana*) and its transformation into the family code, which was adopted unanimously by the chamber of deputies and published in the official bulletin on 5 March 2004. This reform seeks to assure the judicial, legal and administrative protection of the family as an institution; to place areas such as polygamy, divorce and repudiation, and child custody and maintenance payments under judicial control; to promote equality between men and women in the field of family responsibilities; and to set out the mutual rights and duties of husbands and wives. In 2004 a national strategy for the protection of children's rights was created. Finally, Morocco carried out several reforms aimed at improving governance and relations between the government and citizens, including the creation of an independent mediatory body, *Al Wassit*.

In the course of the last few years the government has introduced policies to fight against poverty. In 2001, nearly 5.4 million Moroccans were living beneath the poverty line. There have been a number of structural social reforms dealing with education, health, housing, living conditions and employment. Government action in this field has benefited mostly urban areas, where the poor made up 9.6 per cent of the population in 2001, compared to 12 per cent in 1998. Poverty in rural areas, however, increased from 27.2 per cent in 1998 to 28.8 per cent in 2001.

A new employment code came into force in June 2004 aimed at regulating relations between employees, employers, unions and state bodies active in the employment field in a clear and open manner. Despite an improvement of more than 2 per cent in the level of economic growth, job creation regressed by 9.8 per cent. Unemployment rose from 11.6 per cent in 2002 to 11.9 per cent in 2003, affecting 1.3 million people. The increase in unemployment was more marked among women than among men, deepening the existing inequality between the two groups. In 2003, young people were seriously affected by unemployment, with graduates (24 per cent) relatively worse affected than non-graduates (5.7 per cent). However, between the third quarter of 2003 and the third quarter of 2004, the level of unemployment diminished from 12.3 per cent to 10.9 per cent.

Measures aimed at improving the living conditions of the population generally – and the least privileged categories in particular –, such as the promotion of social housing and rural infrastructures, are starting to bear fruit. For example, the "Cities Without Shantytowns" (PVSB) programme was launched in 2003 with the aim of ridding 67 cities of urban shanty towns by 2008 (a total of 201 550 households). In 2004, the first phase covering the 12 most problematic cities in the country got underway. At the same time, two guarantee funds were set up in December 2003 to facilitate access to property for the population at large, but particularly for households on low and irregular incomes, by enabling them to benefit from bank loans. The first fund provides bank loans for civil servants for the acquisition or the construction of social housing, while the second grants loans to people on low and irregular incomes.

Major programmes have been launched in recent years in the framework of the application of the rural development strategy. The integrated rural development programme for the enhancement of the Bour zones (DRI-MVB Project) aims to reduce vulnerability to drought in six priority regions. The national programme for rural roads seeks to consolidate efforts undertaken to reduce the isolation of rural areas. The programme for the collective supply of water in rural areas (PAGER) and the programme for global rural electrification (PERG) – launched in 1995 and 1996 respectively – have been accelerated, helping to increase the level of access to drinking water and level of electrification in rural areas to 55 and 90 per cent respectively in 2003.

In the health care sector, the Ministry of Public Health's budget has doubled over 10 years to reach 5.18 billion dirhams (nearly 5.3 per cent of the total budget spending) in 2003. Over the same period, investment spending increased by an average 5.7 per cent per year, leading to a significant improvement in the supply of health infrastructures and equipment, particularly in the local care sector. The number of basic health establishments, which stood at 2 405 in 2002, grew at a rate of 3.5 per cent per year between 1980 and 2001, while the number of patients per doctor fell from 3 087 in 1993 to 1 845 in 2003.

Between 1998 and 2002, life expectancy at birth increased by more than 1 year from 69.2 to 70.3 years. The death and infant mortality rate fell to 5.8 and 36.6 per 1 000 respectively. The level of vaccination cover for infants between the ages of 12 and 23 months reached 87.1 per cent for the three basic vaccines. Despite the progress made, the last study of household living standards - carried out between 1998 and 1999 - showed that more than 34 per cent of sick people did not seek treatment, a level that reached 55 per cent in the poorest fifth of the population. To remedy this problem, a 2002 law established two health insurance regimes: AMO, the obligatory health insurance scheme for public and private sector employees and their dependents, and the medical assistance regime, RAMED, for the most deprived population categories. Finally, two new projects were initiated: the health sector management support project (PAGSS), financed by the European Union as part of the MEDA programme (the EU's financial instrument for the implementation of the Euro-Mediterranean partnership), and the health sector financing and management project (PFGSS), funded by the World Bank.

In education, the government has taken on some of the Millennium Development Goals including, notably, the eradication of illiteracy among 15 to 24 year olds. Illiteracy currently affects about 35 per cent of this age range and nearly 48.3 per cent of the population over the age of 10. Women and the rural population are particularly affected, with rates of 61.9 and 66.9 per cent respectively. A new literacy campaign - *Massirat Annour* - was launched in May 2003 which it is hoped will, over time, help up to 1 million people per year. Several steps have been taken to give the campaign a national dimension and to involve as many relevant bodies as possible, including regional education and training authorities, local offices of the ministry of education and youth, and non-governmental organisations. Strategically, the improvement of human capital and its qualifications – which necessitates a reform of the education system – is indispensable to the development of the Moroccan economy. The first results of the reform launched in 2000 with the adoption of the charter for education and training are a little behind target. This is the result of the year's delay in its application. They remain encouraging nevertheless, as is demonstrated by the rise in net levels of school attendance among children aged 6 to 11, from 69 per cent in 1997/98 to 92.2 per cent in 2003/04 at national level, from 55.4 to 87.8 per cent in rural areas and from 44.6 to 83.1 per cent for girls in rural areas. At secondary school level, the level of school attendance among children aged 12 to 14 also shows a marked improvement, rising from 53.7 per cent in 1997/98 to 68.8 per cent in 2003/04. In the rural areas, this level increased from 29.7 per cent in 1997/98 to 50.1 per cent in 2003/04, while school attendance among girls in this age group virtually doubled over the period to 41.9 per cent. The reform of higher education, also dealt with in the charter, seeks to reduce the drop-out rate – in 1999, only 10 per cent of students obtained a degree after four years – in order to improve the uptake of graduates on the employment market and to bring the level of the education system back up to international standards.