

## 2001 Country Reports on Economic Policy and Trade Practices

Released by the Bureau of Economic and Business Affairs

U.S. Department of State, February 2002

### MOROCCO

#### Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1999	2000	2001	1/
<i>Income, Production and Employment:</i>				
Nominal GDP 2/	34,871	32,986	32,986	
Real GDP Growth (pct) 3/	-0.7	0.3	6.5	
GDP by Sector:				
Agriculture	5,161	4,299	N/A	
Manufacturing	6,033	5,869	N/A	
Services	6,520	6,425	N/A	
Government	5,022	4,779	N/A	
Per Capita GDP (US\$)	1,235	1,149	1,157	
Labor Force (urban 000s)	5,263	5,345	5,520	
Urban Unemployment Rate (pct)	22.4	21.5	20.2	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	10.2	7.9	9.2	
Consumer Price Inflation	0.7	1.9	2.0	
Exchange Rate (DH/US\$ - annual average)				
Official	9.84	10.6	11.3	
Parallel	N/A	N/A	N/A	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 4/	7,346	7,421	7,273	
Exports to the United States 4/	251	261	245	
Total Imports CIF 4/	10,765	11,515	11,320	
Imports from the United States 4/	703	693	650	
Trade Balance 4/	-3,419	-4,094	-4,047	
Balance with the United States 4/	-452	-432	-405	
External Public Debt (US\$ billions)	17.5	16.0	15.4	
Fiscal Deficit/GDP (pct) 5/	2.3	3.5	3.1	
Current Account Deficit/GDP (pct)	0.8	1.5	0.1	
Debt Service Payments/GDP (pct)	8.4	7.6	N/A	
Gold and Foreign Exchange Reserves	6,005	5,159	7,549	
Aid from the United States 5/	16.3	53.1	18.7	
Aid from All Other Sources	1,545	861	807	

1/ 2001 figures are based on Moroccan government and Embassy estimates.

2/ GDP at factor cost.

- 3/ Percentage changes calculated in local currency.
- 4/ Merchandise trade.
- 5/ Fiscal Year Basis.

### *1. General Policy Framework*

Two years into his reign, King Mohammed VI continues to demonstrate energy and determination to reform Morocco's economy and to deepen its democratic structures. King Mohammed's extensive travel throughout the country has earned him tremendous respect among his people.

Relatively strong macroeconomic indicators coupled with stubborn structural problems characterize the Moroccan economy. Morocco's inflation levels remain manageable at approximately two percent, and foreign currency reserves provide approximately six months of import coverage. Despite these good macroeconomic figures, however, economic growth has been anemic in Morocco over the last decade, partially as a result of dependence on agriculture and the recurrence of drought. A two-year drought led the economy to shrink by 0.7 percent growth in 1999 and fostered only 0.3 percent growth in 2000. Strong growth predicted for 2001 is fueled primarily by a rebound in agricultural production as a result of adequate rains in northern Morocco during the 2000-2001 growing season. Unemployment in Morocco is high, with urban unemployment in excess of 20 percent. The 2001 budget deficit, projected to be 3.5 percent of GDP, remains worrisome. The current year budget deficit would be approximately 8 percent of GDP were it not for over \$2.1 billion in privatization receipts garnered from the partial privatization of the state telecommunications operator Maroc Telecom.

The government headed by Abderrahmane Youssoufi has made progress in reforming Morocco's economy. Under Youssoufi's government, important steps have been taken to make the public tender process more transparent, to update Morocco's intellectual property rights legislation, to develop a specialized commercial court system, and to liberalize the telecommunications market. The USAID-funded Investor Roadmap has identified common barriers to foreign and domestic investment, and Morocco has embraced the reform efforts involved in the U.S.-North African Economic Partnership.

Despite the progress made by the government on economic reform, there is frequent criticism that the government is not moving quickly enough. The government bureaucracy is extensive and with 33 ministers is considered top heavy.

### *2. Exchange Rate Policies*

The Moroccan Dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions on presentation of documents. Moroccan companies may borrow abroad without prior government approval. Investment abroad by Moroccan

individuals or corporations is subject to approval by the Foreign Exchange Board, but is becoming more commonplace. Private Moroccans continue to face several foreign exchange restrictions, notably against use of international credit cards. This makes it nearly impossible for Moroccans to use e-commerce to purchase goods internationally.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the euro and the currencies of the European trading area. Changes in the rates of individual currencies reflect changes in cross rates. The basket gives a strong weight to the euro, resulting in higher volatility of the dollar against the dirham. This volatility increases the foreign exchange risk of importing from the United States as compared to importing from Europe. Prior to this year, the dirham peg remained unchanged since the nine percent devaluation in May 1990. However, due to a higher inflation rate than its European trading partners in the 1990's, persistent pressures from the IMF and World Bank to introduce greater flexibility into its exchange rate regime, and a desire to maintain its trading relationship with Europe, the central bank adjusted the value of the dirham by changing the weight of the currencies in the basket. This April 25, 2001, adjustment gave greater weight to the euro, and resulted in an effective devaluation of the dirham by 5.18 percent. While this adjustment signaled a commitment to a more flexible exchange rate policy, many international and domestic observers continue to believe that the dirham is overvalued.

### *3. Structural Policies*

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. It replaced quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil. A significant change occurred on July 6, 2001, with the implementation of a new competition law. The law formally forbids anti-competitive behavior, creates legal sanctions for anti-competitive practices, and establishes an authority to survey market competition.

The interest rate policy has also changed in recent years. In 1994, the government revised the interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a Value-Added Tax (VAT), a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties.

The code also eliminated the VAT on certain capital goods and equipment. A plethora of minor taxes can significantly raise the cost of certain imported goods.

### *4. Debt Management Policies*

Morocco's foreign debt burden has declined steadily as a result of prudent borrowing and active debt management in recent years. Foreign debt fell from 128 percent of GDP in 1985 to below 50 percent of GDP, approximately \$16 billion, by the end of 2000. Similarly, debt service payments before rescheduling, as a share of GDP, fell to 7.6 percent in 2000. The last Paris Club rescheduling took place in 1992. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors. Since 1996, France, Spain, and Italy have authorized debt-equity swaps up to 30 percent of eligible Paris Club debt.

##### *5. Significant Barriers to U.S. Exports*

**Import Licenses:** Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for firearms, used clothing, used tires, and explosives.

**Tariffs:** Tariffs have been gradually reduced in recent years. The maximum tariff for most goods is 40 percent, although the range of tariffs is 2.5 percent to 300 percent, with the highest tariffs applied to cereals. The government is currently considering a modest reduction of tariffs coupled with a reduced number of tariff bands. There is also a value-added tax ranging from 0 to 20 percent. As a result of the Morocco-EU Association Agreement, which went into effect on March 1, 2000, tariffs on most industrial products imported from the European Union will be gradually eliminated, with a target date of 2012 for complete elimination.

**Services Barriers:** Barriers in the services sector have been falling as Morocco conforms to its WTO engagements. In November 1989, parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993, the Moroccan government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the government's 50 percent share of Mobil's Moroccan subsidiary in 1994. A draft law currently under consideration would prevent foreign or domestic companies from acquiring a stake greater than 50 percent in firms in the insurance sector.

**Standards, Testing, Labeling and Certification:** Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy, and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law. The government does not require locally registered firms to apply ISO 9000 usage. The use of the metric system is mandatory.

**Investment Barriers:** The government actively encourages foreign investment. The parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries. Foreign investment is prohibited in certain sectors of the economy, including the purchase of

agricultural land and investment in the phosphate sector. In the pharmaceutical sector, a Moroccan-registered pharmacist must hold 26 percent of the company's capital stock, in order to operate officially as a pharmaceutical company.

**Government Procurement Practices:** While government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. The Moroccan government has placed an increasing emphasis on transparency. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan, mainly European, companies. Many of these projects are financed by multilateral development banks, which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

**Customs Procedures:** In principle, customs procedures are simple and straightforward, but in practice they have sometimes been marked by delays. The Customs Administration has launched a successful program to speed up the customs clearance process. Average processing time has fallen from several days to several hours. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

## *6. Export Subsidies Policies*

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme that allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme includes indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports that were subsequently transformed and exported.

## *7. Protection of U.S. Intellectual Property*

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, but strong enforcement is lacking. Morocco is not on the Special 301 Watch List or Priority Watch List. Morocco is a member of the World Trade Organization (WTO) and is in compliance with most of its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement. Morocco is also a member of the World Intellectual Property Organization and is a party to the Berne Convention for the Protection of Literary and Artistic Works (copyright), The Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks, as revised at Nice 1957.

**Copyright:** Piracy and counterfeiting is a problem in several Moroccan industries. Business computer resellers, and government agencies frequently install a single licensed product on multiple computers in violation of the licensing agreements. In the last two years, Microsoft,

the Business Software Alliance, and the Moroccan Bureau for the Rights of the Author have participated in an antipirating campaign, which according to private studies has reduced the level of software pirating from almost 90 percent in 1995 to about 60 percent in 2000. According to the same study, financial losses in the software industry are between \$6 to 6.5 million. Morocco's new commercial courts have ruled in favor of Microsoft in past cases against software pirates. The Moroccan government is more aggressive in tackling video piracy, and the local music community has also stepped up enforcement on CD and audiotape piracy in response to complaints. Recently, in June 2001 Canal+Horizon, a French cable company, announced it would leave the Moroccan market due to overwhelming competition from the informal sector. Counterfeiting of clothing, luggage, and other consumer goods is not uncommon though primarily for the domestic market, rather than for export.

**Patents:** Requests for patent protection should be filed with the Moroccan National Industrial Property Office in Casablanca. Several U.S. pharmaceutical companies have complained that Morocco does not provide adequate data exclusivity protection.

**Trademarks:** Trademarks are filed in Casablanca. Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export.

## *8. Worker Rights*

*a. The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur. Work stoppages are normally intended to advertise grievances and last 48 to 72 hours. Unions maintain ties to international trade secretariats.

*b. The Right to Organize and Bargain Collectively:* The protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law. The government protections are generally not enforced in the informal sector. Observance of labor laws in larger companies and in the public sector is more consistent. The laws governing collective bargaining are inadequate. Collective bargaining has been a long-standing tradition in some parts of the economy, notably heavy industry, and is becoming more prevalent in the service sector.

There is no law specifically prohibiting antiunion discrimination. Employers dismiss workers for union activities regarded as threatening to employer interest. The courts have the authority to reinstate such workers, but are unable to enforce rulings that compel employers to pay damages and back pay.

*c. Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Morocco.

*d. Minimum Age for Employment of Children:* The law prohibits the employment of any

child under 14 years of age. Special regulations cover the employment of children between the ages of 14 and 16. In practice, however, children are often apprenticed before age 12, particularly in the informal handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, wood working, metal working, and leather goods. Children are also employed informally as domestics and usually receive little remuneration. Child labor laws are generally well observed in the industrialized, unionized sector of the economy but not in the informal sector. In September 1998, the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

*e. Acceptable Conditions of Work:* The minimum wage is about \$180 a month, a figure above per capita income. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly well throughout the industrialized, unionized sectors where most workers earn more than the minimum wage. They are generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum workweek with not more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

*f. Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

**Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 2000**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	(D)
Total Manufacturing	55
Food & Kindred Products	41
Chemicals & Allied Products	11
Primary & Fabricated Metals	1
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	(*)
Transportation Equipment	2
Other Manufacturing	(*)
Wholesale Trade	-43
Banking	(D)
Finance/Insurance/Real Estate	0

Services	0
Other Industries	0
TOTAL ALL INDUSTRIES	38

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(D) Suppressed to avoid disclosing data of individual companies.

(\*) Less than \$500,000 (+/-).

Source: U.S. Department of Commerce, Bureau of Economic Analysis.