MOROCCO

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Key Economic Indicators

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

	1996	1997	1998 1/
Income, Production and Employment:			
Nominal GDP 2/	36,781	33,259	36,238
Real GDP Growth (pct) 3/	12	-2.2	6.7
GDP by Sector:			
Agriculture	7,098	5,093	6,570
Manufacturing	6,270	5,857	6,220
Services	7,063	6,451	6,883
Government	4,593	4,428	4,703
Per Capita GDP (US$)	1,372	1,218	1,273
Labor Force (urban 000s)	4,905	5,068	5,195
Unemployment Rate (pct)	18.1	16.9	18.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.7	9.2	8.0
Consumer Price Inflation	3.0	1.0	3.2
Exchange Rate (DH/US$ annual average)			
Official	8.69	9.60	9.63
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB 4/	6,893	6,931	7,319
Exports to U.S. 4/	165	164	174
Total Imports CIF 4/	9,022	8,862	9,259
Imports from U.S. 4/	614	509	510
Trade Balance 4/	-2,128	-1,931	-1,939
Balance with U.S. 4/	-449	-345	-336
External Public Debt (US$ billions)	22.0	19.8	18.6
Fiscal Deficit/GDP (pct)	3.2	4.1	3.2
Current Account Deficit/GDP (pct)	1.7	1.1	0.5
Debt Service Payments/GDP (pct)	8.8	8.5	8.3

Gold and Foreign Exchange Reserves	4,071	4,234	4,757
Aid from U.S.	20	20	20
Aid from All Other Sources	1,750	1,750	1,750

1/ 1998 figures are all estimates based on available monthly data in October 1998.
2/ GDP at factor cost.
3/ Percentage changes calculated in local currency.
4/ Merchandise trade.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural and fisheries sector, a large tourism industry, a growing manufacturing sector, and a considerable inflow of funds from Moroccans working abroad. Most of Morocco's trade is with Europe, with France alone accounting for about a quarter of Morocco's imports and a third of its exports.

The government has pursued market-oriented economic reforms since the early 1980s. It has restrained spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs, launched a privatization program and liberalized the foreign exchange regime. These reforms have helped restore macroeconomic equilibria: the current account deficit, fiscal deficit and inflation rates are well below their early 1980s levels. Economic growth has been modest, with wide year-to-year fluctuations due to an economy heavily dependent on agriculture.

The new government has signaled its determination to intensify the economic reform process, and among other things, to reduce the weight of the public sector wage bill, streamline foreign and domestic investment procedures, and devolve more power to regional governments. The Moroccan Privatization Ministry has announced an extension of the deadline for completion of its 1993-1998 privatization program, to December 31, 1999, to allow time to resolve legal barriers to the remaining enterprises that have yet to be sold. The state budget forecasts $217 million in privatization receipts in FY99 (ending June 30, 1999), down from $534 million in FY98. Privatization via sale of state-owned firms since 1993 has caused the Casablanca stock exchange volume to grow by a factor of four. The new government is examining ways to pursue further such sales with regard to more hard-to-sell state-owned firms, while also increasing privatization via concessions. The Moroccan Government has embraced private financing, construction and operation of some highways, a new port for Tangier and other large infrastructure projects, including a $1.5 billion electric power project awarded to a joint venture between an American and a European firm.

GDP fell 2.2 percent in 1997 following erratic rains. Agricultural GDP fell 25 percent in 1997. The Moroccan economy is expected to grow by 6.7 percent in 1998, led by a rebound in the agricultural sector and increased exports to Europe. However, Morocco's grain production for next year is already projected to be hampered by recent dry weather which resulted in lower planting than normal. Foreign exchange reserves have bounced back to an estimated 4.7 months of import cover after falling to only three months during the 1994-1995 drought. The government has been implementing incremental liberalizations of exchange controls for Moroccan residents. Morocco's chronic merchandise trade deficit narrowed in 1997, but imports are rising faster than exports thus far in 1998, despite healthy growth in phosphate exports and a 34 percent fall in the value of petroleum imports. Receipts from remittances, tourism and foreign investment have increased steadily over the past three years. Foreign investment for 1998 is projected to total $1,223 million, up slightly from last year's record of $1,210 million, and tourism receipts are up three percent over 1997.

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. Approval is routinely denied for projects that do not directly benefit Morocco.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French Franc and other European currencies. The rate against the basket has remained steady since a 9 percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Since Morocco’s inflation rate has been greater than the other currencies, many economists believe that the dirham is now overvalued by approximately seven to ten percent. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham. This increases the foreign exchange risk of importing from the United States as compared to importing from Europe.

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.

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, 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 value-added tax 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 in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 60 percent of GDP in 1997. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 29 percent in 1997**.** Those payments are projected to decline even more, to 25 percent of GDP, for 1998. 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, most recently in bilateral talks with U.S. Government officials this past October. Since 1996, France and Spain have authorized debt-equity swaps covering twenty percent of eligible Paris Club debt.

5. Aid

Less than two percent of the aid listed in the economic indicators section of the report is military assistance.

6. 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 motor vehicles, used clothing and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff is now 35 percent and the (trade-weighted) average tariff is about 13 percent. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods. Tariffs on most industrial products imported from the European Union will be gradually eliminated once the Association Agreement is implemented, with a target date of 2010 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.

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.

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.

Government Procurement Practices: While government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. 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 are sometimes marked by delays. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. 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. Morocco is not a signatory of the GATT Subsidies Code.

8. Protection of U.S. Intellectual Property

Morocco is a member of the World Trade Organization (WTO) and appears to be in compliance with 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: The Moroccan Parliament is considering legislation that will increase protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software pirates.

Patents: Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property. A quirk dating from the era of the French and Spanish protectorates requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. The proposed 1996 industrial property code, expected to be implemented in early 1999, will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, though this too will be amended in the new law.

9. 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, although strikers have encountered police harassment and arrest. Work stoppages are normally intended to advertise grievances and last 48-72 hours. Unions maintain ties to international trade secretariats.

b. The Right to Organize and Bargain Collectively: While the protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law, the government does not always enforce the protections fully, particularly 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, but the practice is not spreading to the service sector. A 1996 social dialogue between labor, government and management resulted in an agreement for a 10 percent pay raise, increased money for housing construction and an understanding to continue such tripartite discussions. Some of the provisions of this agreement have not yet been implemented.

The multiplicity of trade union federations creates competition to organize workers. As a result, a single factory may contain several independent locals. However, this also tends to weaken the unions' negotiating position with management. Labor laws are observed most often in the corporate and parastatal sectors of the economy. In the informal economy, labor regulations are routinely ignored. As a practical matter, the unions in Morocco have no judicial recourse to oblige the government to act when it has not met its obligations under the law.

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 or apprenticeship of any child under 12 years of age. Special regulations cover the employment of children between the ages of 12 and 16. In practice, however, children are often apprenticed before age 12, particularly in the handicraft industry. The use of minors is common in the rug making, textile, and tanning industries. Children are also employed informally as domestics and usually receive little or no wages. 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 $165 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. However, this figure is above the 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 do not differ from those described above, all of which is in the formal, industrial sector of the Moroccan economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1997

(Millions of U.S. Dollars)

Category		Amount
Petroleum		16
Total Manufacturing		53
Food & Kindred Products	26	
Chemicals & Allied Products	20	
Primary & Fabricated Metals	3	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	4	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		83

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

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