

# RESEARCH REPORT

MACROECONOMY

NOVEMBER  
2021

## Morocco: 2022 Finance Act

**A proactive text... An essential risk-taking**

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### EXECUTIVE SUMMARY

A new cycle of growth is emerging. "Faithful" to a rather modest growth rate but without great volatility over the past decade, the Moroccan economy experienced a real departure from its trajectory with a recession in 2020 of -6.3%. In 2021, the recovery is significant with an expected increase of 5.7%. Going forward, the Ministry of Finance plans to resume during the 2022E-2024E phase with a growth dynamic in GDP comparable to that observed during the 2010-2014 period, with all the same more qualitative contributions. In this context, the year 2022 should lay new bases for growth.

In addition, the preparation of the budget for the year 2022 takes into account a number of requirements which generate considerable additional costs. At the same time, and by wishing to avoid an increase in the tax burden which could penalize the economic recovery, this 2022 FA version is forced to take additional risks to ensure its targets.

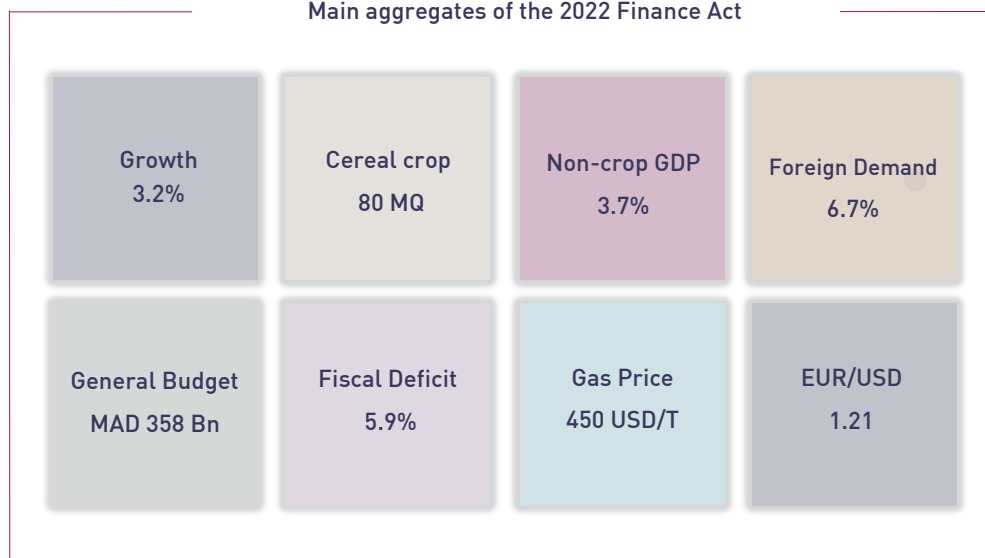
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#### Main aggregates of the 2022 Finance Act



Given the fiscal measures, and in the continuity of the main editions, the provisions of the 2022 FA in its initial version, are going in the streamline direction of tax regimes' simplification, tax rates unification, and also investment support.

Overall, the 2022 FA demonstrates a proactive and committed character, while following the footsteps of previous editions in terms of budget construction. Nevertheless, the effective fulfillment of its commitments remains, more than ever, dependent on uncontrollable exogenous factors. This concerns in particular the continuous improvement of the sanitary situation, the stabilization of commodities' prices internationally and a reasonable rainfall level.

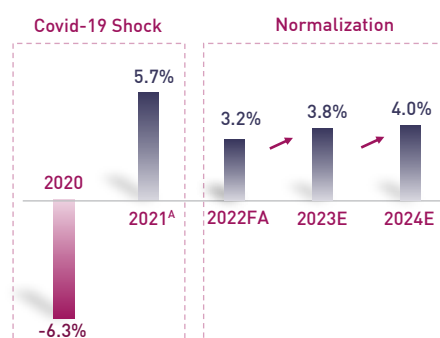
## AFTER THE COVID-19 EPISODE ... A NEW CYCLE OF GROWTH IS EMERGING

The Moroccan economy is entering a new cycle of growth. 'Faithful' to a modest growth rate but without major strikes over the last decade, the Moroccan economy experienced a real departure from the trajectory with a recession in 2020 of -6.3% followed by a recovery of 5.7% during 2021.

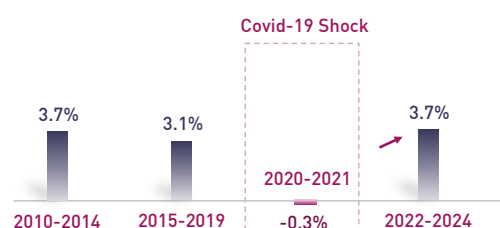
It is very interesting to watch the new growth trajectory at this point. Before that, we take a step back and analyze the GDP growth in 5-year phases. During the 2015-2019 five-year term preceding the Covid-19 shock, the average growth rate slowed down to 3.1%. This pace was slightly more sustained during the period 2010-2014 with an average increase of 3.7%.

For its 2022E-2024E forecasts, the Ministry of Finance plans to resume a GDP growth dynamic of 3.7%, comparable to that recorded during the period 2010-2014, with all the same more qualitative contributions. In this context, year 2022 would establish these new growth bases.

### GROWTH PROJECTIONS 2020-2024E (MIN. FIN.)



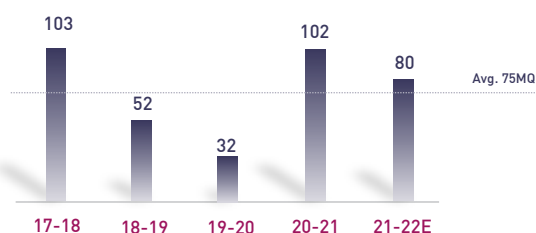
### GROWTH PHASES OF THE MOROCCAN ECONOMY



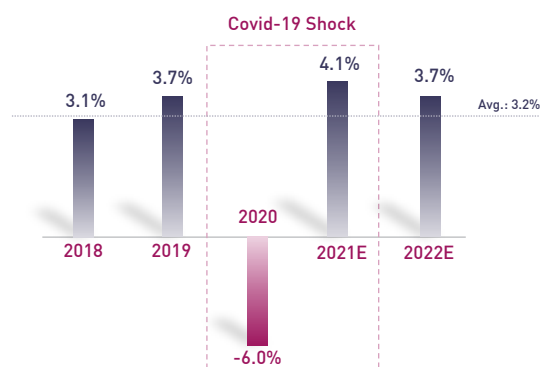
### 2021-2022 crop year... Difficult to do better

For the crop year 2021-2022, the 2022 FA forecasts a cereal crop of 80 MQ, which represents, in general, a level slightly higher than the average observed under the plan "Green Morocco" which sets around 75 MQ. In any case, year 2022 has an unfavorable base effect: It would be surprising, given the rainfall up to mid-November, to outperform the previous season, during which cereal crop reached 102 MQ with a record yield of 22.9 Q/Ha.

### CEREAL CROP (MQ)



### NON-CROP GDP (%)



### Non-crop GDP ... the real support for growth in 2022

While it hovered around +3.2% during the 2016-2019 period, non-crop GDP growth would, according to the forecasts of the 2022E-2024E three-year plan, be established within a range of [3.5% - 4.0%] by 2024. Already for year 2022, the FA forecasts a sustained increase of 3.7%. A qualitative improvement in the physiognomy of the GDP, which would gradually draw on its growth, in particular through an expected increase in secondary activities.

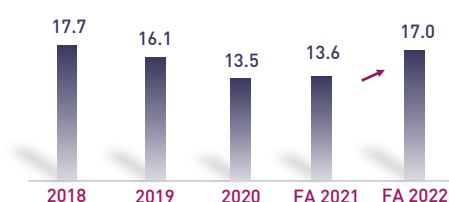
Source : Economic and Financial Report 2022 FA

## BALANCED BUDGET ... A RISKY EXERCISE IN THE FACE OF THE ECONOMY'S IMPERATIVES

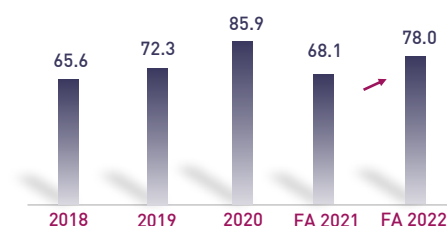
The construction of the budget for the year 2022 takes into account a number of imperatives which generate an additional cost of around MAD 21 Bn, i.e. nearly 85% of the general budget increase:

- ⇒ The start of the generalization process of the compulsory health insurance (AMO) for an amount of MAD 8.4 Bn ;
- ⇒ The wages increase postponed from 2021 to 2022 for an additional cost of MAD 6.5 Bn ;
- ⇒ Support for the health and education sectors for MAD 1.8 Bn ;
- ⇒ The postponement to 2023 of the butane liberalization project with the rise in international gas prices which raises the subsidies charge by MAD 3.5 Bn ;
- ⇒ Support for economic recovery through public spending and particularly the implementation of strategic (port) and/or priority (dams & irrigation) projects.

### COMPENSATION EXPENDITURE (MAD BN)

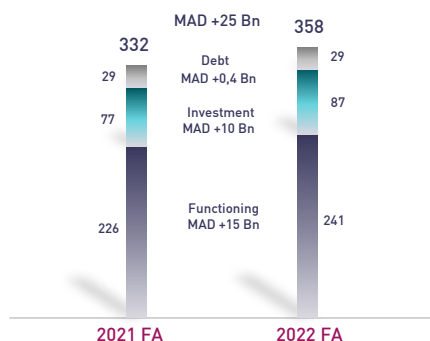


### TREASURY INVESTMENT EXPENDITURE (MAD BN)

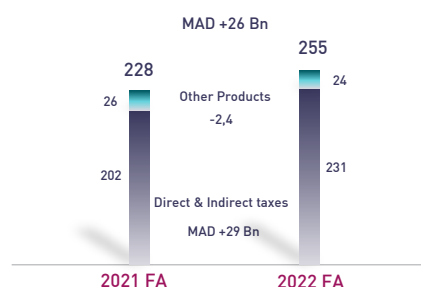


Thanks to a constant control of the cost of debt, the increase in general budget expenditure was contained at 8%, i.e. MAD +25 Bn. Faced with this, the 2022 FA is particularly relying on an increase in direct and indirect tax revenues amounting MAD +29 Bn. In this context, the Treasury is not introducing major tax reforms but is counting particularly on improving the health situation and lifting restrictions that would support domestic Demand.

### GENERAL BUDGET EXPENDITURE (MAD BN)



### GENERAL BUDGET REVENUES (MAD BN)



Overall, the 2022 FA demonstrates a proactive and committed character, while following the footsteps of previous editions in terms of budget construction. In fact, this project materializes a costly social project for the generalization of AMO. At the same time, it supports economic recovery with a record level of public investment of MAD 245 Bn (+6.5%). Likewise, it postpones the energy price liberalization project (butane) in the context of a sharp rise in commodity prices. By wishing to avoid an increase in the tax burden which could penalize economic growth, the achievements of this 2022 FA version face two major exogenous risks:

- ⇒ The spread of the new epidemic wave from Europe to Morocco, or a poor crop year would call into question the prospects for an announced economic recovery ;
- ⇒ The upward and sustainable trend in commodity prices suggests higher-than-expected subsidies expenses.

## TAX PROVISIONS ... STREAMLINING OF REGIMES AND INVESTMENT INCENTIVES

Following the previous editions, the provisions of the 2022 FA in its initial version, are going in the streamline direction of tax regimes' simplification, tax rates unification, and also investment support. We present below a collection of the main provisions with impact simulations :

- ⇒ **Elimination of the progressive nature of Corporate tax:** Starting 2022, as soon as the taxable income reaches a determined threshold, the tax rate would be applicable to the entire amount without the possibility of deduction. Deductibility remains effective for the calculation of income tax ;
- ⇒ **"Tax incentive" for industrial investment:** A new effort is strengthening the tax system which accompanies the installation of industrial companies. These would benefit from an enhanced rate of 27% instead of a standard 31% rate, within the limit of MAD 100 Mn profit.

### TAX: GENERAL CALCULATION MODE

Range (MAD)	2021	Deduction	2022	Deduction
Less than MAD 300 K	10%	0	10%	0
Between 300 and MAD 1,000 K	20%	MAD 30 K	20%	0
Over MAD 1 000 K	31%	MAD 140 K	31%	0
Case: Profit of MAD 1,100 K	Tax of MAD 201 K		Tax of MAD 341 K	

### TAX: CALCULATION MODE FOR INDUSTRIAL COMPANIES

Range (MAD)	2021	2022
Less than MAD 300 K	10%	10%
Between 300 and MAD 1,000 K	20%	20%
Between 1 et MAD 100 Mn	28%	27%
Case: Profit of MAD 20 000 K	MAD 5 490 K	MAD 5 400 K

- ⇒ **Minimum contribution to the tax:** Reduction of the minimum contribution from 0.50% to 0.45% for companies which publish a positive net income excluding depreciation. Otherwise, this incentive benefits to companies which report "insufficient" bottom line as they penetrate an investment cycle ;
- ⇒ **Readjustment of the Social Solidarity Contribution:** On the one hand, individuals will no longer be subject to this "tax". On the other hand, companies remain subject to new rates which vary between 2% and 5% depending on their net income's level.

### SSC: NEW CALCULATION MODE / INDIVIDUALS

Range	Individuals	
Revenue	2021	2022
Above MAD 240 K	1.5%	0%
Case : Revenue of MAD 300 K	MAD 4.5 K	0

### SSC: NEW METHOD OF CALCULATION / COMPANIES

Range	Companies	
Net profit	2021	2022
Between 1 et MAD 5 Mn	1.5%	2%
Between 5 & MAD 40 Mn	2.5%	3%
Above MAD 40 Mn	3.5%	5%
Case: Net profit of MAD 50 Mn	MAD 1.75 Mn	MAD 2.50 Mn

- ⇒ **Generalization of the Single Professional Contribution (SPC):** Intended to replace the flat-rate scheme, this contribution brings together all taxes owed by professionals. This regime exempts from Income Tax.

The relevant population concerns service providers which turnover is less than MAD 0.5 Mn and other activities which turnover is inferior to MAD 2 Mn. Exceptions are permanently exempt companies, those operating in Industrial Acceleration Zones, and those benefiting from CFC status.

The calculation equation is as follows:  $SPC = T.O. \times \text{Coefficient} \times (10\% + \text{additional duty linked to medical coverage})$ . This coefficient is specified individually for the eligible activity sectors. The capital gains and indemnity tax rate remains stable at 20%.

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