
Do economic conditions support the public finances in Morocco?

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Abstract

Fiscal policy has provided significant support to the activity during the post-crisis, owing to the increase in public investment and relevant expenditures of support for the price. This had affected public finances, since the combined effect of higher spending treasury and slow-down in revenues had pushed up the overall fiscal deficit at high levels in 2012 and 2013. The Moroccan economy is now facing major fiscal imbalance, which may not be resolved over time, especially as the ratio of public debt is accelerating over again. Public authorities are called to implement credible strategies that will promote a rapid restoration of their finances. For this purpose, it is necessary to examine whether economic conditions can support public finances and to identify, at the same time, changes in underlying structural budget deficit. This paper aims at examining and comparing two methods for estimating structural budget balance in Morocco. Rather, and in order to capture the relationship between public finances and the output gap, we refer to the primary public balance as measure of structural budget. The first method is the two-stage technique, commonly used by most international organizations. We will estimate in the first place the output gap and the potential production according to Hodrick-Prescott's filter and then we will calculate revenue and government expenditure sensitivities during the period from 1980 to 2013. The other method inspired by the work of Audenis, Menard and Prost (2001), refers to VAR models to specify the joint dynamics of primary balance and growth. The non structural balance includes the impact of past and present economic growth as well as the average response of fiscal policy to a shock on the activity. The results of both methods show, overall, a sizeable contribution of structural primary balance. The support provided to public finances by the economic situation remains weak, although it is most appreciated in the second method. We conclude that the restoration of the Moroccan public finances depends primarily on the structural reforms implemented by governments.

Key words: public finances, budget balance, structural public balance

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