Euler Hermes Economic Research

Country Report

Morocco

Gateway to Africa & the Middle East

General Information

GDP	USD96.729bn (World ranking 62, World Bank 2012)
Population	32.52 million (World ranking 39, World Bank 2012)
Form of state	Constitutional Monarchy
Head of government	Abdelilah BENKIRANE
Next elections	2016, legislative (Chamber of Representatives)

Strengths

- King Mohammed VI remains generally popular and rule by the monarchy is an acceptable form of governance for the majority of the population.
- Sound commercial and diplomatic relations with the U.S. and the EU.
- Economic resilience to volatile agricultural output, particularly resulting from periodic drought.
- Geographic proximity to a very large potential market (Europe) for international investors and traders.
- Favourable and improved external debt and debt service ratios.

Weaknesses

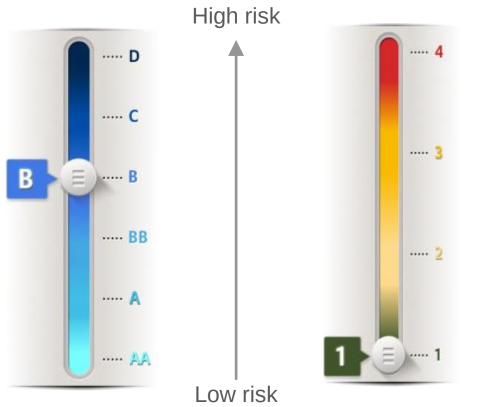
- Poverty and unemployment remain high and are a principal cause of social discontent and provide a potential breeding ground for religious militancy.
- Long-running dispute over the sovereignty of Western Sahara affects adversely relations with neighbouring Algeria and prevents full regional benefits through the Arab Maghreb Union.
- Weak record in relation to abuses of human rights and to press freedom.
- Although the monarchy remains popular and some reforms have been implemented there are lingering concerns that the government is merely a vocal expression of palace authority.

Country Rating

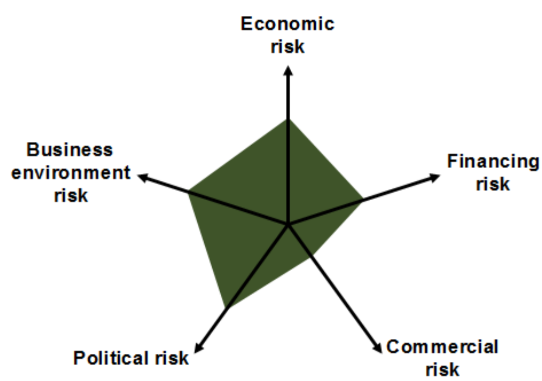
B1

Country Grade

Country Risk Level

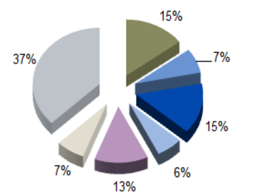


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
France	18%	1	14%	France
Spain	18%	2	13%	Spain
Brazil	6%	3	10%	China
India	6%	4	6%	United States
United States	4%	5	6%	Saudi Arabia

By product

Exports		Rank		Imports
Clothing	12%	1	9%	Crude Oil
Electrical Apparatus	11%	2	7%	Refined Petroleum Products
Fertilizers	9%	3	6%	Yarns Fabrics
Basic Inorganic Chemicals	9%	4	5%	Natural Gas
Other Edible Agricultural Prod	8%	5	4%	Cereals

Economic Forecast

	2010	2011	2012	2013	2014f	2015f
GDP growth (% change)	3.6	5.0	2.7	4.3	4.0	4.5
Inflation (%, end-year)	2.2	0.9	2.6	0.5	3.7	2.5
Fiscal balance (% of GDP)	-4.4	-6.7	-7.3	-5.5	-5.0	-4.6
Public debt (% of GDP)	51.3	54.4	60.2	61.5	63.2	63.3
Current account (% of GDP)	-4.5	-8.0	-10.0	-7.9	-6.1	-5.6
External debt (% of GDP)	29.8	29.8	35.4	36.5	36.8	36.1

Sources: IHS Global Insight, national sources, Euler Hermes

Economic Growth

GDP volatility, but greater resilience

Economic growth was relatively weak in 2012 (+2.7%), reflecting reduced agricultural output because of severe drought conditions. Despite economic diversification, agriculture remains a significant sector, accounting for 15% of GDP but around 40% of employment and therefore has a greater weighting in terms of the demand component of growth. Rural incomes and spending power are closely aligned with the fortunes of the largely rain-fed agricultural sector. However, the economy is now more relatively diversified, with higher value-added sectors, including automotives, electronics and aeronautical industries.

In Q1 2014, GDP growth was +2.5% y/y, down from +4.5% in Q4 2013, with agriculture contracting by -3.4% y/y after +18.5% in Q4 2013. The data are more positive than on initial inspection as the contraction in agriculture partly reflects stronger earlier data. Moreover, the non-agricultural sector expanded by +3.5% in Q1 (+2.2% in Q4 2013), which is the strongest quarterly growth for this part of the economy for over one year. Indeed, after a year of contraction, the construction sector, a bellwether for the state of the overall economy, recorded growth of +3.9% y/y. With growth in the eurozone expected to gain momentum, demand for Moroccan manufacturing, tourism and construction will improve. EH expects GDP growth of +4% in 2014 and +4.5% in 2015 (annual average over a ten-year period to end-2013 of +4.4%).

GDP growth (y/y, 4 qtrs cumulated %)

Sources: IHS Global Insight, Euler Hermes

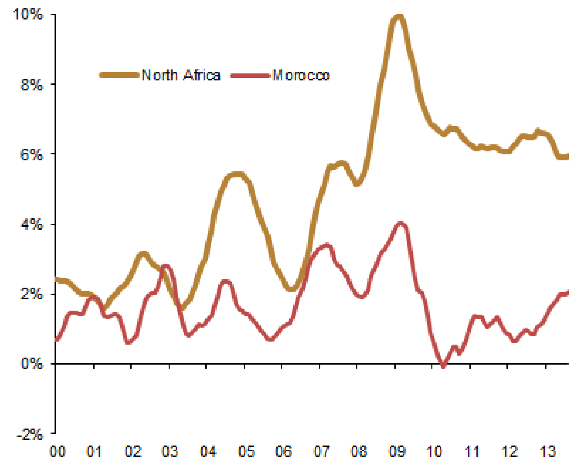
Inflationary pressures will increase, but remain relatively moderate

Inflationary pressures increased in 2012, reflecting the impact on food prices of the drought and its limits on agricultural output but also the government decision in mid-year to decrease subsidy provision on some fuels, thereby increasing prices to consumers. Even so, inflation, which ended the year at just over 2.5% y/y, averaged only 1.3% in 2012 (0.9% in 2011). The generally low inflationary environment partly reflects the state's subsidy system, particularly in offsetting the full impact of high international energy prices, but also the sound macro-economic management by the central bank and government's economic ministries.

Further reforms to the subsidy system are part of the government's policy agenda but, given the political and social sensitivities in relation to price pressures, sweeping reductions are unlikely to be implemented rapidly in the short term. The outlook for inflation is therefore for continuation of moderate price growth only, despite some upward pressures from imported goods because of a weakening dirham (MAD). EH expects inflation will end 2014 at around 3.7% and 2015 at 2.5%, with annual averages in the two years of 2.7% and 2.8%, respectively.

The exchange rate system is a managed MAD peg against a trade-weighted basket of currencies reflecting Morocco's trade and financial relations. Accordingly, Europe and the U.S. provide the heaviest weights in the basket, with the EUR given an 80% weighting. EH expects the current exchange rate system to be maintained in the period to end-2015, with the MAD tracking EUR developments.

Inflation rate (%)



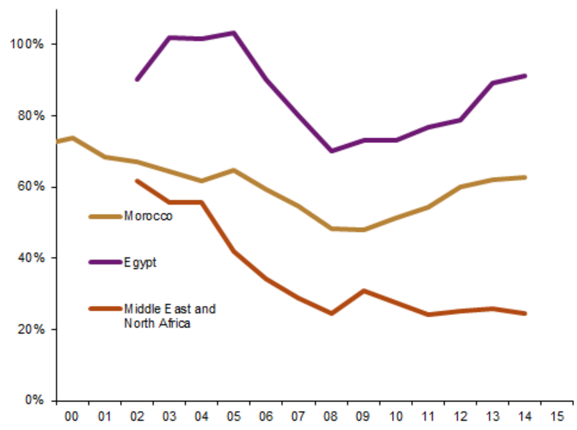
Sources: IHS Global Insight, Euler Hermes

Large (but declining) fiscal deficits

Fiscal consolidation is called for by the IMF and acknowledged as a policy need by local authorities. However, reining in the fiscal deficit (-7.7% of GDP in 2012) involves action on politically-sensitive issues such as reductions in the subsidy bill. Although the government commits itself to reducing the deficit (see also below) it remains to be seen whether it will have the resolve to implement in full its reform agenda. EH expects only limited action on subsidies, but the fiscal deficit will decline to around -5% in 2014 and -4.6% in 2015. A government target of a fiscal deficit of -3% of GDP by 2016 appears challenging.

Nevertheless, in H1 2014, the IMF issued positive statements, suggesting that Morocco has made progress in improving economic conditions and advancing important reforms. In particular, the Fund noted that "courageous subsidy reform" reduced the budgetary costs of subsidies (and of the overall fiscal deficit) by 2pps in 2013 and further improvements are expected. By the end of 2014, the prices of most petroleum-based products will be indexed to international prices. Given the potential for social dissent, the government is likely to maintain subsidies for basic foodstuffs and cooking fuels.

General government gross debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

External Sector

Large current account deficits, but strong international support

A two-year USD6.2 billion Precautionary and Liquidity Line (PLL) facility agreed with the IMF in August 2012 provides significant direct support (in need) for the economy and, indirectly, signals to investors and markets that the Fund is broadly positive in relation to the country's policies and its economic outlook. In addition, a GCC aid package (USD2.5 billion over a five-year period) provides additional support and the country's external accounts should be assessed in conjunction with these examples of international assistance and support for the economy.

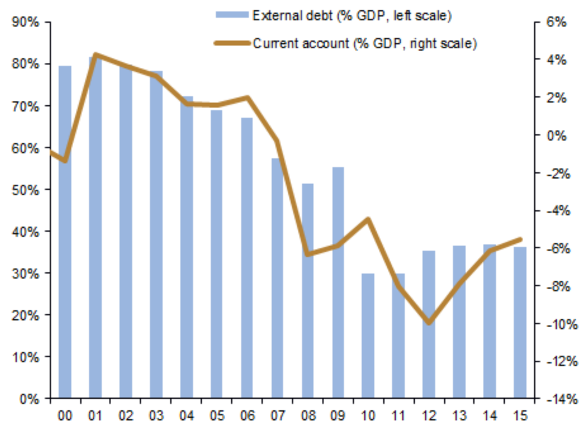
Current account deficits (almost -10% of GDP in 2012 and -7.9% in 2013) partly reflect high oil prices and a correspondingly large import bill (crude oil and related products account for around 17% of total imports by value). A moderate easing in oil prices in 2014-15 and export growth in sectors such as automotives will help reduce the overall current account deficit in 2014 (-6.1% of GDP) and again in 2015 (-5.6%). Revenues from tourism and inward flows of workers' remittances will be constrained by continuing weakness in key European markets. Of Morocco's top 10 export markets, seven are in Europe and account for more than half of total exports, with France and Spain accounting for 40%. Those two markets are also the source of approximately half of inward workers' remittances.

FX reserves of around USD17 billion provide an import cover of over four months, which is comfortable and suggests that there should not be trade-related payment problems, particularly given the depth of international support outlined above.

External debt commitments are comfortable

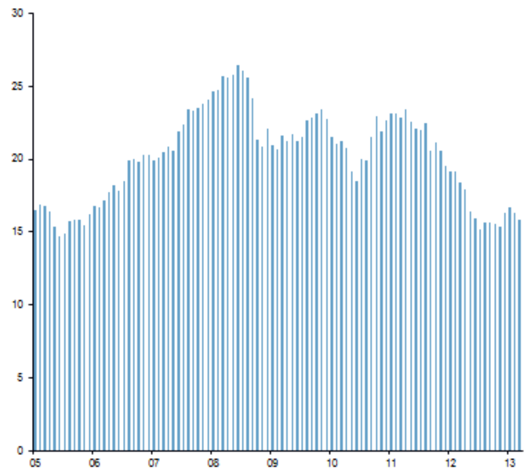
External debt at the end of 2013 was equivalent to over 36% of GDP (EH expects a similar rate in 2014 and 2015) and over 85% of export earnings. However, the repayment schedule on this debt is not onerous, with a debt servicing/export earnings ratio of 10% in 2013 (9% in 2014).

Current account and external debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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