Euler Hermes Economic Research

Country Risk Analysis

Morocco

Europe-Africa interface

General Information

GDP	USD100,2bn (World ranking 61, World Bank 2011)
Population	32.27 million (World ranking 40, World Bank 2011)
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 EU and US.
- 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 much improved external debt and debt service ratios.

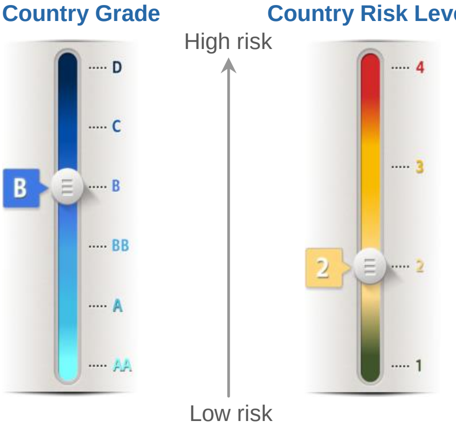
Weaknesses

- Poverty and unemployment remain high and are a principal cause of social discontent and provide a breeding ground for religious militancy.
- Long-running dispute over the sovereignty of Western Sahara affects adversely relations with neighbouring Algeria and prevents 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.

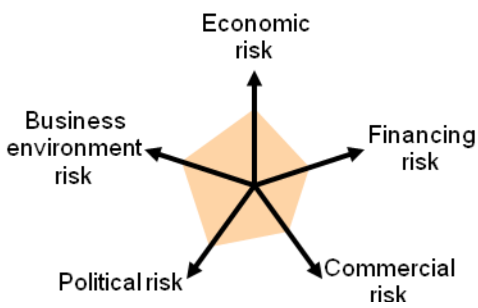
Country Rating

B2

Country Grade **Country Risk Level**

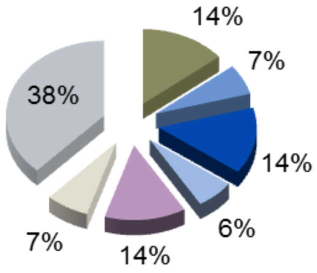


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2010)



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

Trade structure (% of total, 2010)

By destination / origin

Exports		Rank		Imports
France	21%	1	16%	France
Spain	20%	2	14%	Spain
India	4%	3	8%	China
Germany	4%	4	6%	United States
Brazil	4%	5	6%	Italy

By product

Exports		Rank		Imports
Clothing	13%	1	7%	Crude Oil
Electrical Apparatus	11%	2	6%	Refined Petroleum Products
Other Edible Agricultural Prod	9%	3	6%	Yarns Fabrics
Basic Inorganic Chemicals	8%	4	4%	Natural Gas
Fertilizers	7%	5	4%	Electrical Apparatus

Economic Forecast

	Average 2000-08	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	4.7	4.8	3.6	5	2.5	4.5	4.5
Inflation (%, end-year)	2.1	2.1	6	3.1	2.6	2.6	1.7
Fiscal balance (% of GDP)	-3	-1.8	-4.4	-6.8	-8.3	-5.2	-4.8
Public debt (% of GDP)	62.5	48	51.3	54.4	60.1	60.7	61.7
Current account (% of GDP)	0.9	-5.9	-4.5	-8	-9	-8.6	-6.2
External debt (% of GDP)	35.9	27.8	29.8	29.8	33.4	31.7	32.3

Source: IHS Global Insight, National sources, Euler Hermes

Economic Growth

Bounce back from drought-affected downturn in 2012

Annual average GDP growth over a ten-year period to 2012 was +4.6%. However, economic growth was relatively weak in 2012, reflecting reduced agricultural output because of severe drought conditions. Despite economic diversification, agriculture remains a significant sector, accounting for 14% of GDP but around 40% of employment and therefore has a greater weighting in terms of the demand component of economic growth. Rural incomes and spending power are closely aligned with the fortunes of the largely rain-fed agricultural sector. In Q1 2012, agricultural output contracted by a marked -13.3% q/q. Overall, GDP increased in 2012 by an estimated +2.5%.

Climatic conditions since then have been more favourable and a rebound in agricultural output will enable overall growth to be stronger. However, GDP growth is likely to remain below potential, reflecting continuing weakness in key European countries. EH expects GDP growth of around +4.5% in both 2013 and 2014.

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

Sources: IHS Global Insight, Euler Hermes

Economic Policies

In a recent assessment (April 2013) of the Moroccan economy the IMF noted that the country's economic plan is on track and that a generally sound macro-economic management and policy mix are in operation. The Fund is providing a two-year Precautionary and Liquidity Line (PLL) facility and Morocco is fulfilling qualification criteria for this support. However, the IMF also stresses the need for further reforms.

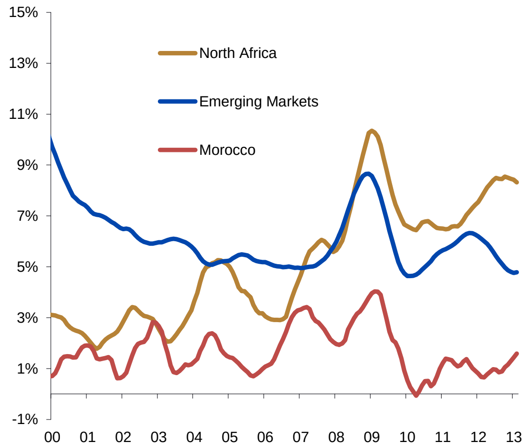
Inflationary pressures but growth in prices to remain low

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 2.6% 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 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 to end 2013 at around 2.6% and 2014 at 1.7%, with annual averages in the two years of 2.7% and 2.4%, respectively.

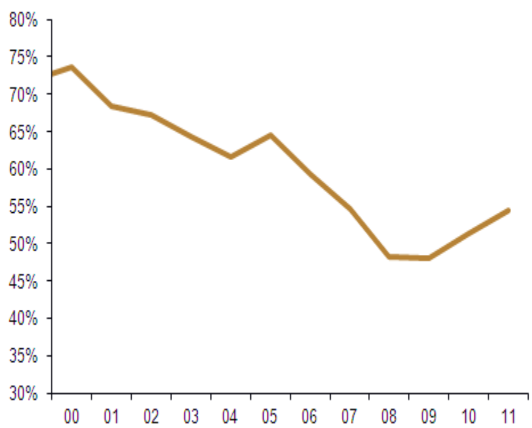
The exchange rate system is a managed MAD peg against a trade-weighted basket of currencies reflecting Morocco's trade and financial relations. Accordingly, Europe and the US provide the heaviest weights in the basket, with the EUR given an 80% weighting. EH expects the current exchange rate system to be maintained in the period to end-2014, with the MAD tracking EUR developments.

Inflation rate (% y/y)



Sources: IHS Global Insight, Euler Hermes

General government debt (% of GDP)



Large 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 (-8.3% 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 it remains to be seen whether it will have the resolve to implement reforms. EH expects only limited action on subsidies, with the fiscal deficit declining to around -5.2% in 2013 and -4.8% in 2014. The government aims to reduce the fiscal deficit to -3% of GDP by 2016 but attainment of this target is likely to be challenging.

External Sector

Strong IMF and other agency support

A two-year Precautionary and Liquidity Line (PLL) facility with the IMF provides significant direct support 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, in February 2013, the first part of a GCC aid package (USD2.5 billion over a five-year period) was reportedly delivered to the Moroccan authorities. The country's external accounts should be assessed in conjunction with these examples of international assistance and support for the economy.

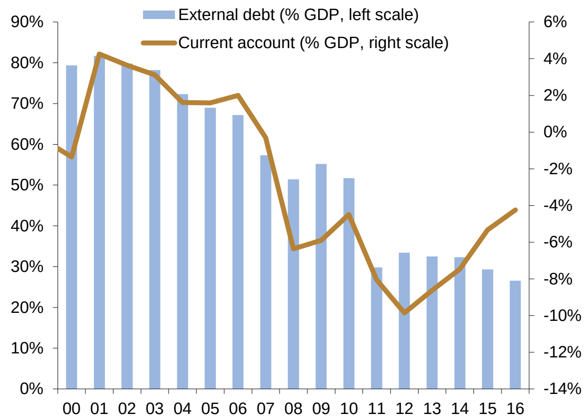
Current account deficits (-9% of GDP in 2012) partly reflect high oil prices and a correspondingly large import bill (crude oil and related products account for around 13% of total imports by value). A moderate easing in oil prices in 2013-14 and export growth in sectors such as automotives will reduce the overall current account deficit, but only moderately in 2013 (-8.3% of GDP) and it will remain elevated in 2014 (-6.2%). 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 over 40%. Those two markets are also the source of approximately half of inward workers' remittances.

FX reserves of around USD16 billion provide an import cover of just below four months, which is comfortable and suggests that there should not be trade-related payment problems.

External debt servicing is manageable

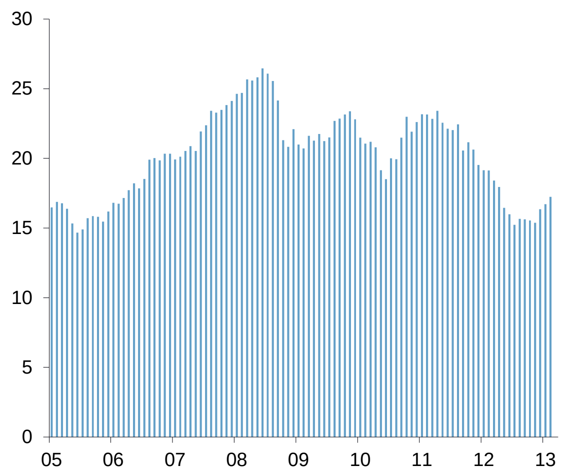
External debt at the end of 2012 was USD32 billion, equivalent to 33% of GDP and 73% of export earnings. However, the repayment schedule on this debt is not onerous, with the debt servicing/export earnings ratio of 11% in 2012.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

Contact Euler Hermes Economic Research Team
research@eulerhermes.com

Last review: 2013-06-07
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com