Euler Hermes Economic Research

Country Report

Morocco

Relative stability in a troubled region

General Information

GDP	USD103.84 bn (World ranking 61, World Bank 2013)
Population	33 mn (World ranking 39, World Bank 2013)
Form of state	Constitutional Monarchy
Head of government	Abdelilah BENKIRANE
Next elections	2016, legislative (Chamber of Representatives)

Strengths

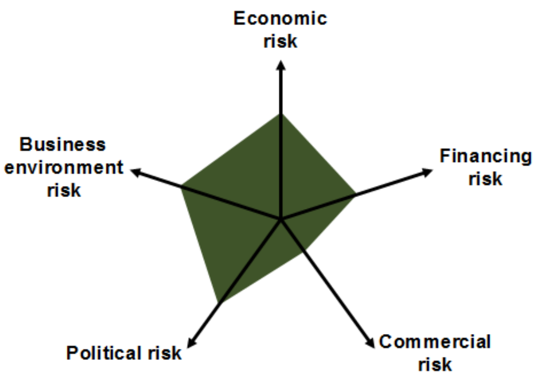
- King Mohammed VI remains generally popular and rule by the monarchy is an acceptable form of governance for the majority of the population.
- Sound commercial and diplomatic relations with the U.S. and the EU.
- Economic resilience to volatile agricultural output, particularly resulting from periodic drought.
- Geographic proximity to a very large potential market (Europe) for international investors and traders.
- Although external debt stock has increased in recent years, debt servicing obligations remain manageable.

Weaknesses

- Wide gulf between rural and urban standards of living. 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 neighboring 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



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
Spain	19%	1	16%	Spain
France	17%	2	11%	France
Brazil	7%	3	9%	China
Belgium	4%	4	6%	Saudi Arabia
Germany	4%	5	5%	United States

By product (% of total)

Exports		Rank		Imports
Electrical Apparatus	11%	1	10%	Crude Oil
Clothing	11%	2	10%	Refined Petroleum Prod.
Refined Petroleum Prod.	8%	3	5%	Yarns Fabrics
Edible Agricultural Prod.	8%	4	5%	Natural Gas
Fertilizers	8%	5	4%	Electrical Apparatus

Source: Chelem 2013

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Economic Overview

Greater resilience to negative climatic and regional influences

Economic growth was relatively weak in 2012 and 2014 (+2.7% and +2.5%, respectively), reflecting reduced agricultural output because of severe drought. 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, chemicals and aeronautical industries. Moreover, Morocco has remained relatively insulated from the worst effects of the Arab Spring and its regional repercussions.

The magnitude of GDP growth is forecast to bounce back to its long-term trend

With growth in the Eurozone expected to gain momentum, demand for Moroccan manufacturing, tourism and construction will improve. EH expects GDP growth of +4.5% in 2015 and a similar rate of growth in 2016. This rate of expansion compares with an annual average over a ten-year period to end-2014 of +4.2%.

Inflationary pressures are low, aided by currently weaker oil prices…and by sound economic management

Inflationary pressures increase during times of drought, reflecting the impact on food prices of the restrictions on agricultural output. Moreover, the government's actions to decrease subsidy provision (including on some fuels) increase prices to consumers and thereby exert inflationary pressures. Even so, inflation ended the drought years of 2012 and 2014 at just over 2.5% y/y and 1.6% and averaged only 1.3% and 0.4% in those two years, respectively. The generally-low inflationary environment partly reflects the controlled manner in which the state has reduced the subsidy system and also the sound macro-economic management by the central bank and government's economic ministries. Inflationary pressures have also eased because of relatively weak oil prices - crude oil and related products account for around 20% of total imports by value and oil prices at mid-June 2015 were down -43% y/y. Oil prices may have stabilised at USD60-70/barrel and are unlikely to revert to over USD100/b in the forecast period. As a result, EH expects inflation will end 2015 at around 0.5% and remain below 2% through 2016.

Fiscal deficits are declining

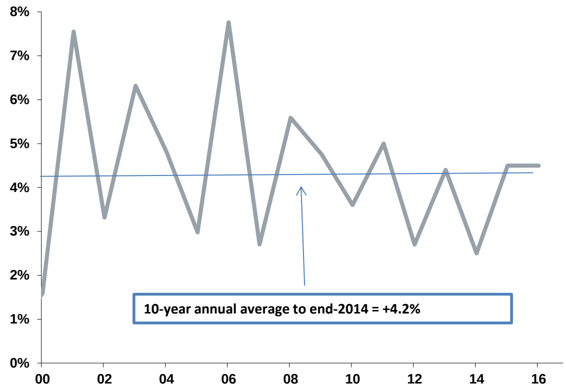
Fiscal consolidation is called for by the IMF and acknowledged as a policy need by local authorities. Indeed, despite the politically-sensitive issues around reductions in the subsidy bill, fiscal deficits have been reduced significantly, from -7.4% of GDP in 2012 to an estimated -4.7% in 2014. EH projections indicate that deficits will be <4% in 2015 and 2016 and perhaps as low as -3.4% of GDP in the latter year.

Key economic forecasts

	2013	2014	2015f	2016f
GDP growth (% change)	4.4	2.5	4.5	4.5
Inflation (%, end-year)	0.4	1.6	0.5	2.0
Fiscal balance (% of GDP)	-5.5	-4.7	-3.6	-3.4
Public debt (% of GDP)	63.5	64.8	67.6	66.8
Current account (% of GDP)	-7.4	-5.6	-3.8	-4.9
External debt (% of GDP)	37.2	42.6	47.6	45.6

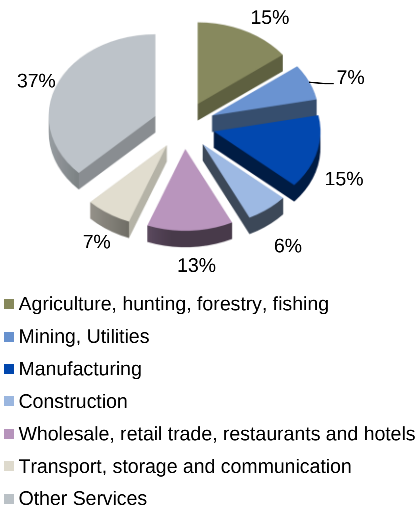
Sources: IHS, national sources, Euler Hermes

GDP profile (%)



Sources: IHS, Euler Hermes

GDP breakdown (%)



Sources: UNCTAD

Current account deficits are supported by regional and multilateral support mechanisms

A two-year USD6.2 bn Precautionary and Liquidity Line (PLL) facility initially agreed with the IMF in August 2012 and extended in July 2014 (to expire end-July 2016) 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 bn 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.

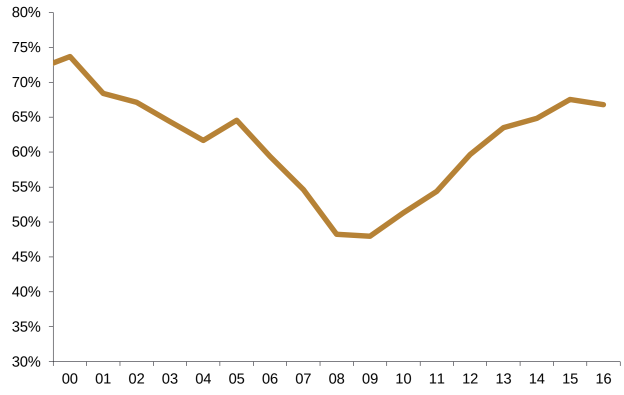
Current account deficits (almost -10% of GDP in 2012 and -7.4% in 2013) partly reflect high oil prices and a correspondingly large import bill (crude oil and related products account for around 20% of total imports by value). With benchmark oil prices at mid-June 2015 (USD65/barrel) down -43% y/y and unlikely to recover to around USD100/b (as in 2011-14) the current account deficit will be markedly less (-3.8% of GDP in 2015). Growth in export sectors such as automotives and aeronautics will also help reduce the overall current account deficit, which may increase again in 2016 as growth induces import acceleration, but at -4.9% of GDP will be half as large as the 2012 deficit. Revenues from tourism and inward flows of workers' remittances will be boosted by signs of an entrenched recovery in key European markets (although there are downside risks here) and some cutbacks in GCC expenditures. Of Morocco's top 10 export markets, six are in Europe and combined they account for around 50% of total export receipts, with France and Spain accounting for 36% and 27% of exports and imports, respectively. Those two markets are also the source of approximately half of inward workers' remittances.

FX reserves of around USD20 bn (up from USD16 bn in 2012) provide an import cover of 4-5 months, compared with an international "comfort" benchmark of three months. This suggests that there will not be trade-related payment problems, particularly given the depth of international support outlined above.

External debt commitments, although increasing, remain comfortable

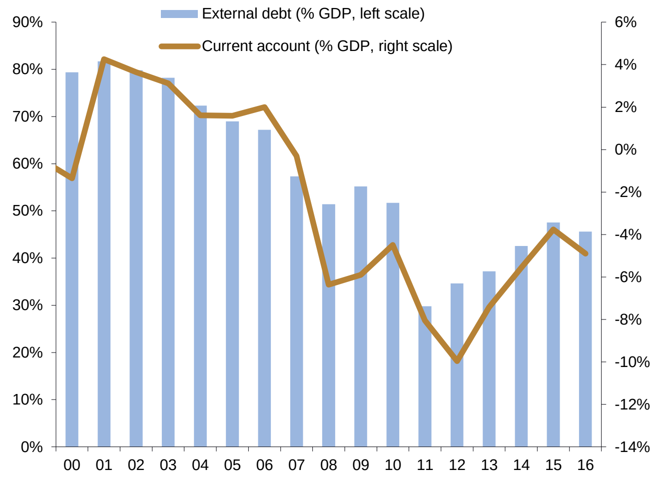
External debt at the end of 2014 was equivalent to 42.6% of GDP (34.7% in 2012) and 98% of export earnings (77%). EH expects debt stock will increase further. However, the repayment schedule on this debt is not onerous, with a debt servicing/export earnings ratio of around 10-12% in 2015-16.

General government gross debt (% of GDP)



Sources: IHS, Euler Hermes

External debt and current account balance (% of GDP)



Sources: IHS, Euler Hermes

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