

It's oh so quiet

General Information

GDP	USD100.6bn (World Ranking 60, World Bank 2015)
Population	34.8mn (World Ranking 39, World Bank 2015)
Form of state	Constitutional Monarchy
Head of state	King Mohammed VI
Head of government	PM Saadeddine Othmani
Next elections	October 2021



Strengths

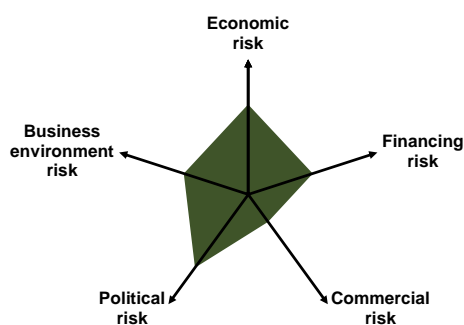
- King Mohammed VI remains generally popular and rule by the monarchy is an acceptable form of governance for the majority of the population.
- Sound commercial and diplomatic relations with the U.S. and the EU.
- Economic resilience to volatile agricultural output, particularly resulting from periodic 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 gap 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.
- 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	22% 1	14% Spain
France	19% 2	13% France
India	4% 3	8% China
United States	4% 4	7% United States
Italy	4% 5	6% Germany

By product (% of total)

Exports	Rank	Imports
Electrical machinery (and related)	15% 1	12% Petroleum and related products
Clothing and apparel	14% 2	8% Road vehicles
Road vehicles	10% 3	8% Electrical machinery (and related)
Vegetables and fruits	9% 4	6% Textile yarn and related products
Fertilizers	8% 5	4% Cereals, preparations

Source: UNCTAD 2015

Steady growth despite primary sector high volatility

The resilience of the Moroccan economy was remarkable during the last 20 years. This is a clear difference with the 1990's when Morocco experienced four years of recession. Growth remained robust in 2009, as well as during the Eurozone crisis (+4.2% in 2009, +3% in 2012). This is explained by the prudent policy-mix, as well as a good management of foreign exchange reserves (good import cover levels, about 7 months) which is a key buffer.

The main source of growth volatility was domestic, namely the agricultural sector. It accounts for about 13% of GDP and staggering 40% of employment. The unpredictable and sometimes bad weather had a massive impact on crops. In 2016, the poor output cut overall GDP growth by -3pp. In 2017, good crops and output recovery to 2015-highs explain our +4.5% GDP growth forecast. Moreover, the trend improvement in agricultural productivity (use of fertilizers, a key comparative advantage of Morocco among the main producers of phosphate) is a structural growth driver. Fertilizers are also among the main export sectors.

Compared to agriculture, the non-agricultural value added is growing at a steadier but more modest rate: 1.5-2% y/y over the last four years. Key successes aside (10% of Renault sales came from Morocco) growth is not broad-based. This quite poor performance points to the country's difficulty to ramp up value chains outside some traditional sectors. Investment is strong (30% of GDP in 2016) but too concentrated on low productivity sectors such as housing.

At the end of the day, the growth impact is poor. 10pp of investment are needed to generate 1pp of GDP growth in Morocco, an anaemic level compared to China (6pp of investment lead to 1pp of GDP growth).

Making the most of a pillar position in Africa

The World Bank's 2017 Doing Business survey ranks Morocco 68 out of 190 economies in terms of the overall ease of doing business, among some of the best African economies. Thus the country enjoys a comparative advantage which may help boost its trade and financial relationships in the region. Morocco's expected admission to the Economic Community of West African States (ECOWAS) is the latest step in the country's Pan-African strategy.

Trade relationships are still heavily biased towards European partners. Yet Western Africa is already among the top ten growing destinations for Moroccan exports in 2017. An additional +54M EUR may seem like a less-than-massive increase. Yet the rise is significant as compared to the humble starting point. It is set to accelerate during the next years.

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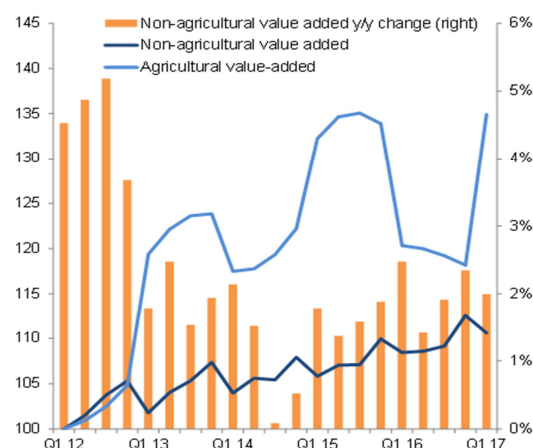
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Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	4.5	1.1	4.5	4.5
Inflation (%)	1.6	1.6	2.0	2.5
Fiscal balance (% of GDP)	-4.4	-4.2	-3.7	-3.4
Public debt (% of GDP)	64.0	65.0	64.3	63.5
Current account (% of GDP)	-2.2	-4.2	-2.7	-3.2
External debt (% of GDP)	40.2	38.5	38.0	37.0

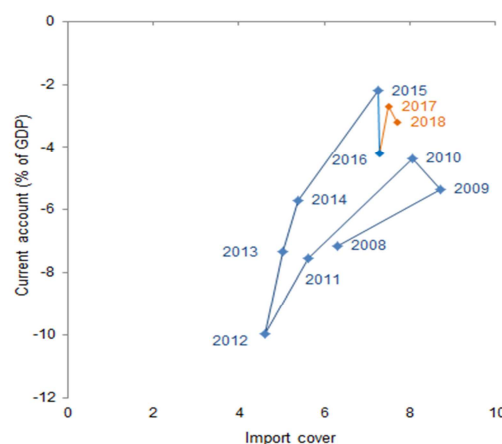
Sources: National sources, IHS, Euler Hermes

Value added: agriculture vs. non-agriculture



Sources: National sources, Euler Hermes

External balance: forex reserves and current account



Sources: IHS, Euler Hermes