Euler Hermes Economic Research

Country Risk Analysis

Morocco

Return to stronger growth in North African safe haven

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 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.

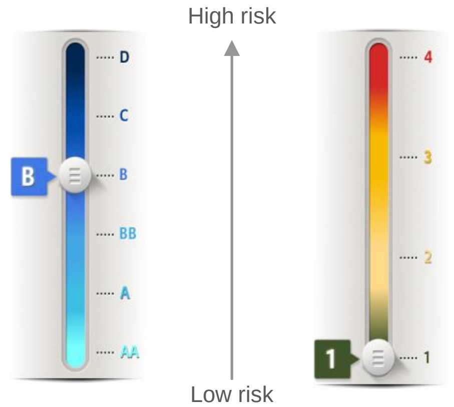
Weaknesses

- 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 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.

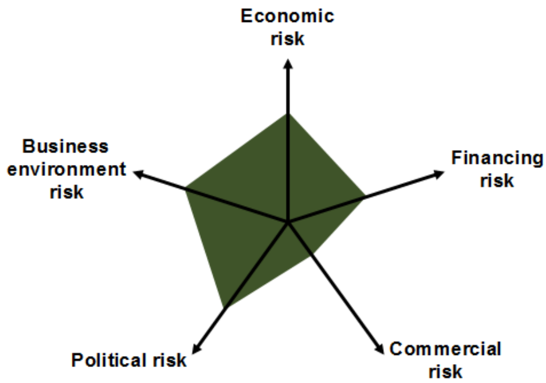
Country Rating

B1

Country Grade **Country Risk Level**



Risk Dimensions



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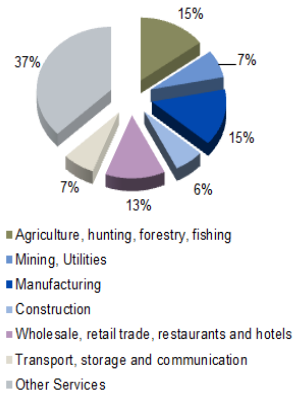
Economic Structure

GDP breakdown (% of total, 2011)



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

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

Economic Forecast

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	4.8	3.6	5.0	2.7	4.5	4.5
Inflation (%, end-year)	-1.6	2.2	0.9	2.6	2.9	3.5
Fiscal balance (% of GDP)	-1.8	-4.4	-6.7	-7.6	-6.6	-5.4
Public debt (% of GDP)	48.0	51.3	54.4	59.6	62.5	63.6
Current account (% of GDP)	-5.9	-4.5	-8.0	-10.0	-8.1	-6.5
External debt (% of GDP)	27.8	29.8	29.8	35.4	34.4	33.3

Sources: IHS Global Insight, National sources, Euler Hermes

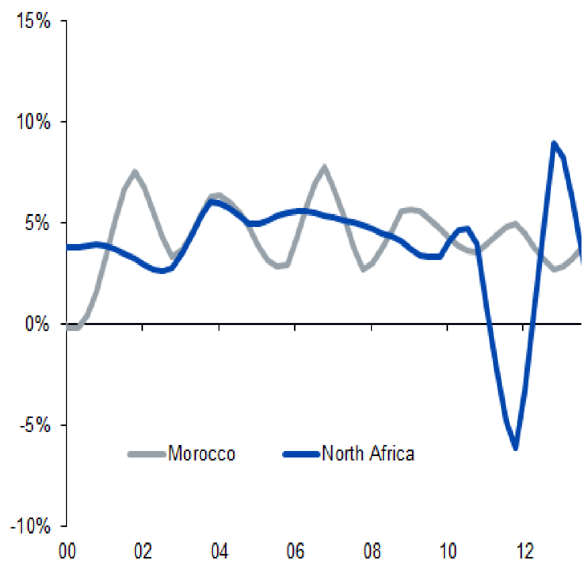
Economic Growth

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 15% 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 +2.7%.

Climatic conditions since then have been more favourable and a rebound in agricultural output enabled overall growth to be stronger in H1 2013 (Q2 GDP growth was +4.3%, up from +3.8% in Q1). The economy is also now more relatively diversified, with higher value-added sectors, including automotives, electronics and aeronautical industries, to balance against the large agricultural sector. Although GDP growth is likely to remain below potential, reflecting continuing weakness in key European countries, EH still 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 (September 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 relatively 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 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 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 2.9% and 2014 at 3.5%, with annual averages in the two years of 2.4% and 3.2%, respectively.

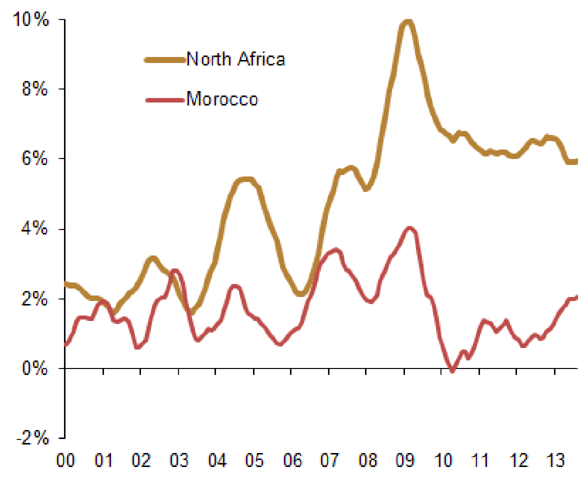
The exchange rate system is a managed MAD peg against a trade-weighted basket of currencies reflecting Morocco's trade and financial relations. Accordingly, Europe and the US provide the heaviest weights in the basket, with the EUR given an 80% weighting. EH expects the current exchange rate system to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

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 (-7.6% 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 in full its reform agenda. EH expects only limited action on subsidies, with the fiscal deficit declining to around -6.6% in 2013 and -5.4% 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.

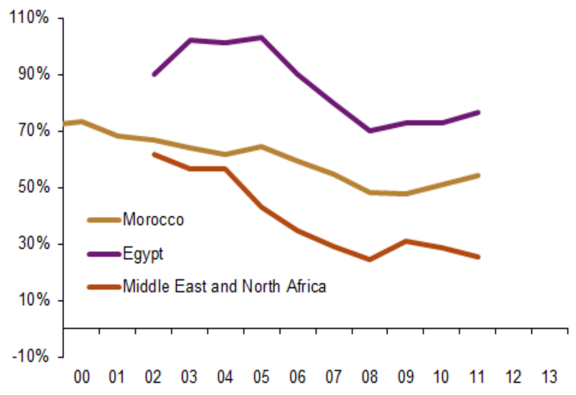
Partly reflecting the government's financing needs, a EUR1 billion Eurobond issue is planned, perhaps in early 2014. Morocco is rated BBB- by S&P and Fitch and Ba1 by Moody's and has two outstanding EUR issues due in 2017 (EUR500 million) and 2020 (EUR1 billion), as well as two USD bonds (USD1.5 billion due in 2022 and USD750 million due in 2042). The new bond is expected to be a 10-year instrument and with it Morocco will become the second largest sovereign eurobond issuer in Africa, after South Africa.

Inflation rate (%)



Sources: IHS Global Insight, Euler Hermes

General government gross debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Strong IMF and other agency support

A two-year USD6.2 billion Precautionary and Liquidity Line (PLL) facility with the IMF 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, 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.

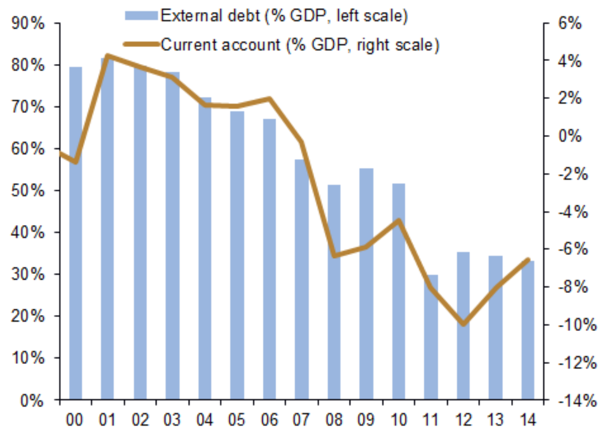
Current account deficits (over -9.9% of GDP in 2012) partly reflect high oil prices and a correspondingly large import bill (crude oil and related products account for around 17% of total imports by value). A moderate easing in oil prices in 2013-14 and export growth in sectors such as automotives will reduce the overall current account deficit, but only moderately in 2013 (-8.1% of GDP) and it will remain elevated in 2014 (-6.5%). 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 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, particularly given the depth of international support outlined above.

External debt servicing is manageable

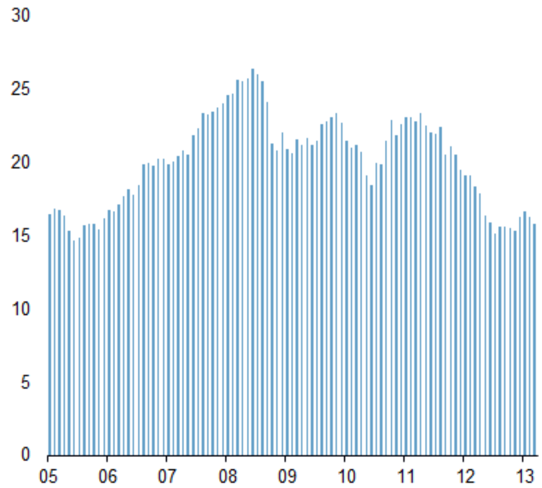
External debt at the end of 2012 was USD32 billion, equivalent to 35% of GDP (EH expects 34% in 2013) and 73% of export earnings (EH expects 71% in 2013). However, the repayment schedule on this debt is not onerous, with the debt servicing/export earnings ratio of 11% in 2012 (10% by 2014).

External debt (% of GDP)



Sources: IHS Global Insight, Euler Hermes

FX reserves (USDbn)



Sources: IHS Global Insight, Euler Hermes

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