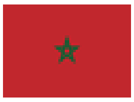
Euler Hermes Economic Research

Country Report

Morocco

Resilience tested by recurrent drought



General Information

GDP	USD107bn (World ranking 61, World Bank 2014)
Population	33.49mn (World ranking 39, World Bank 2014)
Form of state	Constitutional Monarchy
Head of state	King Mohammed VI
Head of government	PM Abdelilah BENKIRANE
Next elections	November 2016, legislative (Chamber of Representatives)

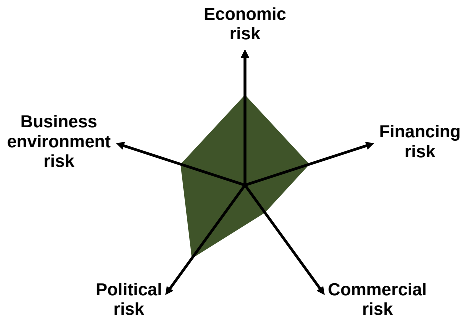
Strengths

- 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 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**



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Spain	22%	1	13%	Spain
France	21%	2	13%	France
Brazil	5%	3	8%	China
Italy	4%	4	7%	United States
United States	4%	5	5%	Saudi Arabia

By product (% of total)

Exports		Rank		Imports
Articles of apparel & clothing	17%	1	17%	Petroleum, petroleum products and
Electrical machinery, apparatus and	15%	2	7%	Road vehicles
Fertilizers other than group 272	9%	3	6%	Electrical machinery, apparatus and
Vegetables and fruits	8%	4	6%	Textile yarn and related products
Fish, crustaceans, molluscs and	8%	5	6%	Gas, natural and manufactured

Source: UNCTAD

EULER HERMES
Our knowledge serving your success

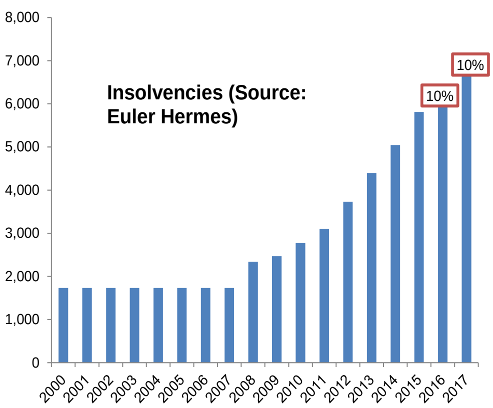
Greater resilience but still subject to the effects of drought

The agricultural sector accounts for around 13% of GDP, but 40% of employment - and poverty is pervasive in rural areas. Unemployment, a source of social discontent, is officially estimated at around 9.5% of the active work force. Since the 1990s, there has been a sustained improvement in agricultural productivity through the use of fertilisers, a more efficient irrigation system and adoption of other techniques and best practices. However, growth remains volatile (see chart), mainly because of periodic drought and despite improved agricultural management and an active policy of diversification. The latter (including development of sectors such as autos, electronics, aeronautics and chemicals) has provided the economy with a marked degree of resilience against the worst effects of that volatility in activity levels.

As a result of drought conditions (weaker agricultural output and reduced rural incomes that limit domestic demand) and relatively weak external demand (lacklustre European markets), GDP growth was +2.4% in 2014, compared with a long-term annual average of +4.4% (ten years to end-2015). A bounce back in agricultural output and in overall GDP took place in 2015 (+4.5%), only for severe drought to return in 2016 (the worst in three decades and associated with El Niño conditions worldwide). However, EH forecasts GDP growth of +4.5% in 2017, consistent with the longer-term average.

The business environment is improving but there remain challenges

The World Bank's 2016 Doing Business survey ranks Morocco 75 out of 189 economies in terms of the overall ease of doing business or operating in a country (up from 80 in 2015). This puts it below Qatar and Tunisia but above Malta and Saudi Arabia. Positive aspects include starting a business, obtaining construction permits and contract enforcement, which takes much less time than the Middle East & North Africa regional average. However, resolving insolvencies takes more time than the regional average and the cost involved is much higher. Indeed, EH data show that the business environment will be challenging in the short term, with insolvencies increasing by around +10% in both 2016 and 2017.



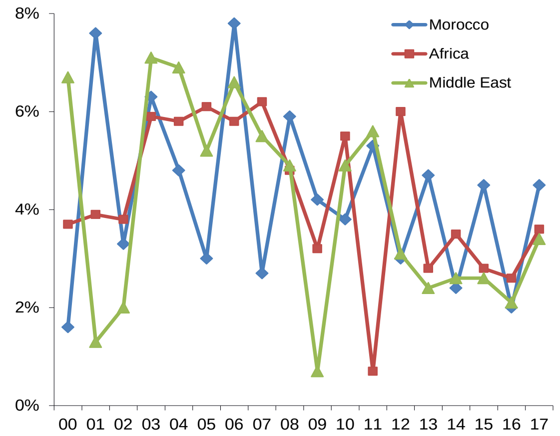
However, further data from EH show a moderate improvement in the Days Sales Outstanding for 2016 (83), compared with an annual average of 86.5 in the five-year period to end-2015.

Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	2.4	4.5	2.0	4.5
Inflation (%, end-year)	1.6	0.6	2.0	2.0
Fiscal balance (% of GDP)	-4.7	-4.4	-3.5	-3.5
Public debt (% of GDP)	63.4	62.9	62.5	60.5
Current account (% of GDP)	-5.7	-1.8	-0.5	-1.0
External debt (% of GDP)	38.9	38.5	38.0	37.5

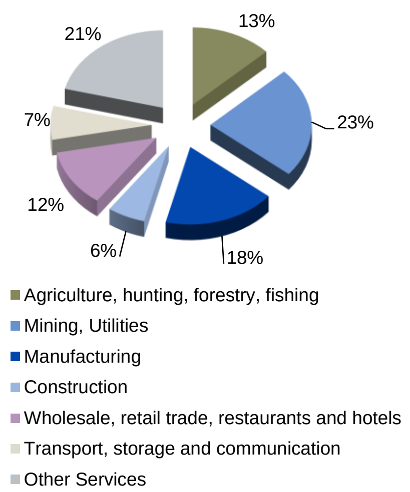
Sources: National sources, IHS, Euler Hermes

GDP growth (%)



Sources: National sources, IHS, Euler Hermes

GDP Breakdown (%, 2014)



Sources: UN, Euler Hermes

Current account deficits are supported by regional and multilateral support

A two-year USD6.2bn Precautionary and Liquidity Line (PLL) facility initially agreed with the IMF in August 2012 and extended in July 2014 (to expire end-July 2016 and likely to be extended) 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 (USD2.5bn 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.

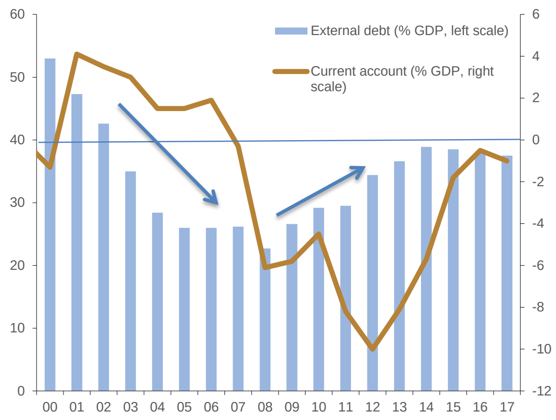
Current account deficits of -10% of GDP in 2012 and -8.1% in 2013) partly reflected high oil prices and a correspondingly large import bill (crude oil and related products account for around 17% of total imports by value). With benchmark oil prices at mid-June 2016 of around USD50/barrel and unlikely to recover to around USD100/b (as in 2011-2014) the impact of oil on the current account has improved markedly. Moreover, growth in export sectors such as automotives and aeronautics and recovery in European markets (albeit muted) will also help reduce the overall current account deficit. Of Morocco's top 10 export markets, six are in Europe and combined they account for almost 50% of total export receipts, with France and Spain accounting for 43% and 26% of exports and imports, respectively. Those two markets are also the source of approximately half of inward workers' remittances.

FX reserves provide good import cover and external debt obligations are not onerous

FX reserves of around USD21.6bn at end-2015 (up from USD16bn in 2012) provide an import cover of over six months, compared with an international "comfort" benchmark of three months. Indeed, Morocco has consistently registered import cover above that benchmark in the period since 2000 (see chart). This suggests that there will not be trade-related payment problems, particularly given the depth of international support outlined above.

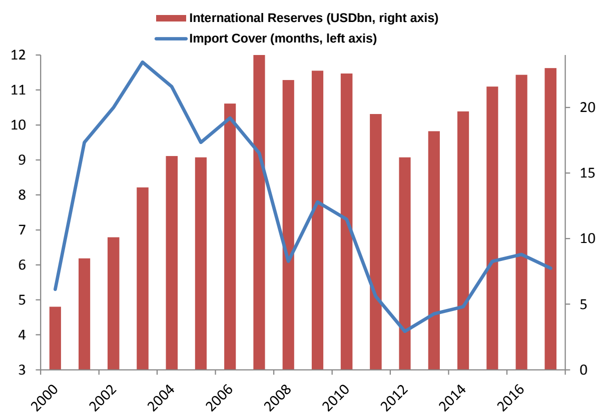
External debt at the end of 2015 was equivalent to 38.5% of GDP (34.7% in 2012) and 89% of export earnings (77%). EH expects debt stock will increase further in the forecast period but without creating systemic financing problems, particularly as the repayment schedule on existing debt is not onerous, with a debt servicing/export earnings ratio of just under 10%.

Current account and external debt (% of GDP)



Sources: National sources, IHS, Euler Hermes

International Reserves (USDbn) and Import Cover (months)



Sources: National sources, IHS, Euler Hermes

Last review: 2016-06-22
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com