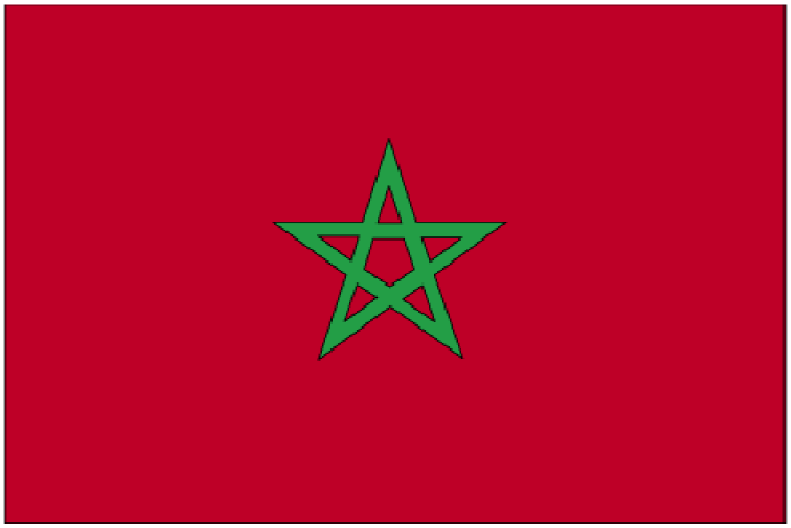
Rabobank

Country report

MOROCCO



Summary

Morocco's stable growth and banking sector, despite the global crisis, mark the county's present relatively sound economic state. Although Morocco suffered from lower inflows of remittances, less tourism and reduced textile exports related to contracting European markets, expansionary economic policies were feeding domestic demand and almost fully compensated for these external demand reductions. Growth reached over 5% in 2009.
Unemployment, already high among younger Moroccans, remains an urgent issue as failure to reduce it may lead to social unrest. Morocco's governance indicators are in line with most of its neighbouring countries, but clearly below the lowest west-European levels of Greece.
Compared with its immediate peers, Morocco's declining public debt at still 54% of GDP may be somewhat on the high side, but foreign debt is rather low at 20% of GDP. Foreign reserves are sufficient at 7 months of import value, indicating a favourable short term ability to pay. Economic policies and performance plus adequate political stability promise also favourable payment behaviour in the medium to longer term.

Things to watch:

- Growth in the European export markets
- Prominence of currently minor militant Islamist groups

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Morocco

National facts	
Type of government	Constitutional Monarchy
Capital	Rabat
Surface area (thousand sq km)	447
Population (millions)	31.6
Main languages	Arabic
	Berber dialects
	French
Main religions	Islam (99%)
	Christian (1%)
Head of State (King)	King Mohammed VI
Head of Government	Abbas-el-Fassi
Monetary unit	Dirhams (MAD)

Economy		2009
Economic size	*bn USD*	*% world total*
Nominal GDP	93	0.16
Nominal GDP at PPP	148	0.21
Export value of goods and services	27	0.17
IMF quotum (in mln SDR)	588	0.27
Economic structure	*2009*	*5-year av.*
Real GDP growth	5.2	4.9
Agriculture (% of GDP)	19	16
Industry (% of GDP)	32	29
Services (% of GDP)	49	56
Standards of living	*USD*	*% world av.*
Nominal GDP per head	2914	32
Nominal GDP per head at PPP	4616	42
Real GDP per head	2314	30

Social and governance indicators	rank / total
Human Development Index (rank)	130 / 182
Ease of doing business (rank)	128 / 183
Economic freedom index (rank)	91 / 179
Corruption perceptions index (rank)	89 / 180
Press freedom index (rank)	127 / 175
Gini index (income distribution)	40.9
Population below $1 per day (PPP)	2.5%

Foreign trade			2009
Main export partners (%)		*Main import partners (%)*	
Spain	19	France	16
France	17	Spain	14
Brazil	7	Italy	7
US	4	China	6
Main export products (%)			
Textiles			17
Phosphoric acid			9
Phosphoric rock			7
Fertilisers			6
Main import products (%)			
Capital goods			27
Semi-finished goods			24
Consumer goods			22
Energy products			17
Openness of the economy			
Export value of G&S (% of GDP)			29
Import value of G&S (% of GDP)			39
Inward FDI (% of GDP)			1.9

Source: EIU, CIA World Factbook, UN, Heritage Foundation, Transparency International, Reporters Without Borders, World Bank.

Economic structure and growth

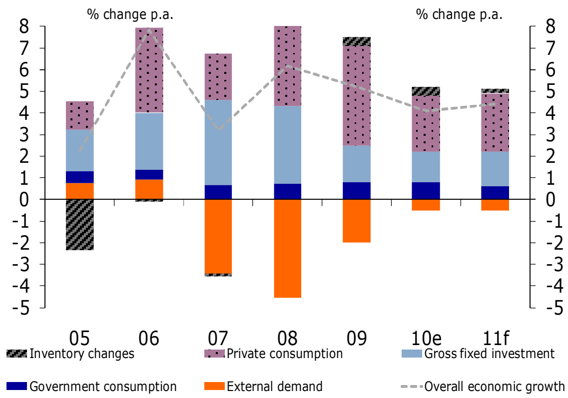
Economic policies pursued since 2003 have brought macroeconomic stability to the country with generally low inflation, improved financial sector performance and progress in developing the services, industrial and even agricultural sectors. Social welfare was improved through a rural electrification program and an urban social housing program.

Despite mentioned social and economic successes, Morocco continues to grapple with a high illiteracy rate, a low education enrolment rate and high urban youth unemployment (of around 30%). In order to reduce high levels of un- and underemployment, Morocco's GDP needs to grow at 5% to 6% per annum. Other long-term challenges include improving education for Morocco's youth, closing the income gap between the rich and the poor and combating corruption. Expanding and diversifying exports beyond phosphates and low-value added products would additionally improve its structural profile.

The growth performance has been impressive in the past decade with GDP increases of around 5% p.a. (see chart 1), just below the level needed to absorb new labour market entrants. Agriculture (19% of GDP) was the main growth sector in 2009, helped by favourable weather conditions and good prices on the markets for its output. 2010 is promising another good harvest for the sector. The industrial base is narrowly dominated by some textiles and clothing aimed at the European markets. Mining of phosphates is also important. Virtually all the world’s phosphates reserves are concentrated in only four countries: China, the US, South Africa and Morocco (including Western Sahara under Morocco’s effective control), with Morocco having a share of 37% in these reserves.

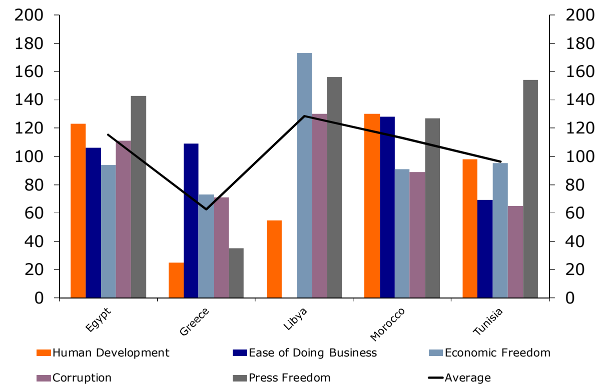
Phosphates are crucial inputs for artificial fertilizers, mainly exported to the EU economies and thus of vital and strategic importance to Europe's long-term food security.
Morocco entered a Free Trade Agreement (FTA) with the US in 2006 and in 2008 its Association Agreement with the EU obtained the advanced status.

Chart 1: Growth performance



Source: EIU

Chart 2: Social and governance indicators compared



Source: see fact sheet in report

The Moroccan banking system remained liquid during the global financial crisis and continued to grow, albeit at a much slower pace than in previous years. The banks are well capitalized and linkages to international financial markets are limited, in part thanks to restrictions on capital flows. This forced domestic banks to rely on domestic deposits to finance credit and it limited their international market exposure and rollover risk. In Basel II terms, the capital ratio is adequate. Risk management practices have improved and supervision has been strengthened. Nonetheless, concentration risk in real estate lending remains a risk. The NPL/total loans ratio has been on the decline in recent years: it stood at 5.5 % at end-2009 against 13% to 19% in other Maghreb countries.

Political and social situation

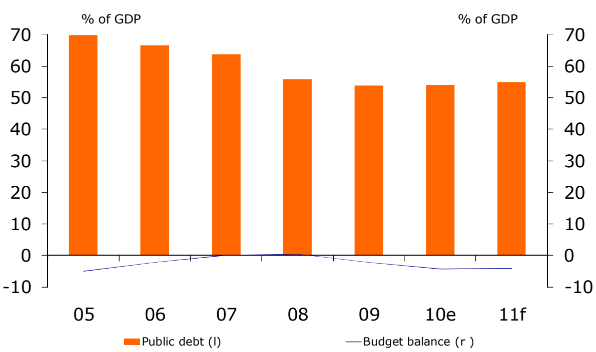
The political scene is expected to remain generally stable, with no serious challenges to the central role of the king, Mohammed VI, who will thus continue to set the policy agenda. The king is relatively well liked, but tight restrictions will remain on public criticism of the monarchy. Elections are set for 2012, but parliament will remain weak and there will be widespread public disaffection with formal politics. Some Moroccans have turned to Islamist political movements as a result of discontent about poverty and unemployment, but only a small minority is likely to support militant groups. The country has made improvements in human rights under the king and the press is moderately free, but three subjects are considered political taboos: the monarchy, Islam and the status of Western Sahara. All in all, authority ultimately remains in the hands of the monarch and his court entourage.
The government is aware that its popular support will largely depend on its success in dealing with social and economic problems. This forces it to maintain high social spending on slum clearances, rural infrastructure, education and health. However, given limited resources, an inefficient bureaucracy and widespread nepotism and corruption, the state of the country's physical and institutional infrastructure will hamper progress in these areas.
In terms of governance, the country is an average performer among the North-African states (chart 2).

The medium-sized economy is situated on a strategic location and holds strategically large stocks of phosphates. It maintains good relations with the EU and the US. Partly thanks to this geopolitical position and its control over mineral resources, Morocco escaped Western scorn when it annexed phosphate-rich Western Sahara during the late 1970s. Relations with neighbouring Algeria are tense, because of the dispute over Western Sahara. Algeria supports the Polisario Front's quest for full independence, while Morocco opts for limited autonomy only. Recent UN-mediated talks failed to resolve the conflict and the ongoing tensions between Morocco and Algeria also hold back attempts to boost regional trade co-operation in the Arab Maghreb Union with land borders closed for trade with Algeria.

Economic policy

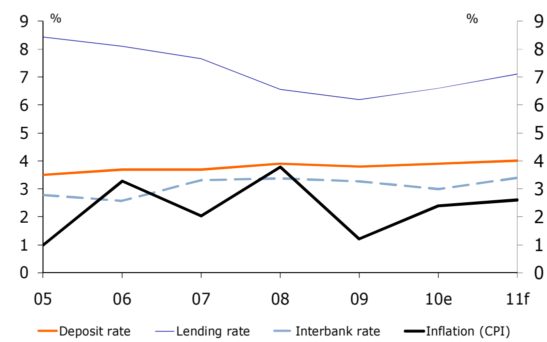
Since 2000, the government's program of economic reforms has contributed to the improved macroeconomic performance. The growth rate has picked up and there has been modest growth in incomes and a gradual but steady fall in unemployment. However, the economy remains vulnerable to swings in demand in Europe, which is its main export market. Europe is also the main source of tourists, foreign investment and workers' remittances.

Chart 3: Public finances



Source: EIU

Chart 4: Inflation and interest rates



Source: EIU

In the past decade, public finances have shown a trend of lower annual deficits from around 6% of GDP in 2002 to 2% of GDP in 2009 with small surpluses in 2007 and 2008. Public debt/GDP ratios have, as a consequence, improved from almost 85% in 2000 to 55% in 2009 (chart 3). These are projected to stabilise in the coming years, despite expected deficits, as they are compensated by nominal GDP growth of around 6%.

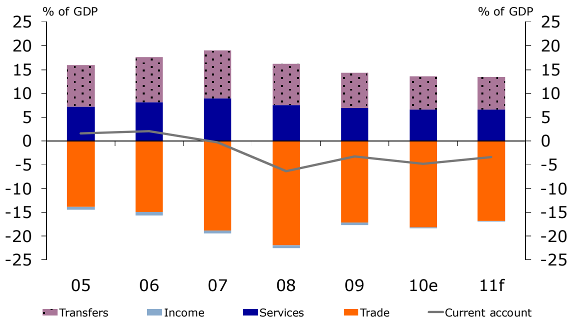
Monetary policy has been helpful to contain annual inflation at low levels between 1% and 4% over the past ten years. The authorities are preparing a shift from the current pragmatic and eclectic monetary policy approach (targeting the exchange rate and money supply growth) to more explicit inflation targeting, but this is considered to require a deeper bond market and a freer exchange rate than currently available. As nominal interest rates exceed consumer price inflation, the real interest rates were and will remain in all likelihood positive (chart 4).

In recent years the exchange rate has remained stable, because of the dirham's stable peg with the euro (80% weight in the basket) and the dollar (20%). This stability helped inflows of foreign direct investment, which were quite substantial (at almost 2% of GDP). But to protect the currency and despite standard recommendations by IMF, World Bank and the Paris Club of official bilateral creditors, the dirham is only fully convertible for current transactions, not for capital and investment purposes.

Balance of Payments

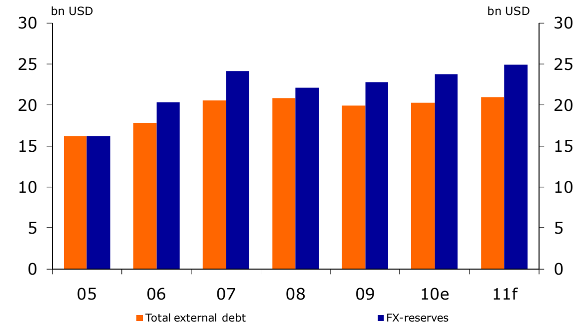
Moroccan exports values and volumes have dropped sharply since mid-2008 as a result of the decline in world market prices of phosphates and derived products - a quarter of Moroccan exports by value - and the global economic slowdown. With GDP growth likely to be around 5% in 2010 again, mainly driven by domestic consumption and investments, the volumes of merchandise imports will rise faster than those of exports. As a result, the usual very substantial deficits on the trade balance (of around 18% of GDP) will persist (chart 5).

Chart 5: Current account



Source: EIU

Chart 6: Assets and Liabilities



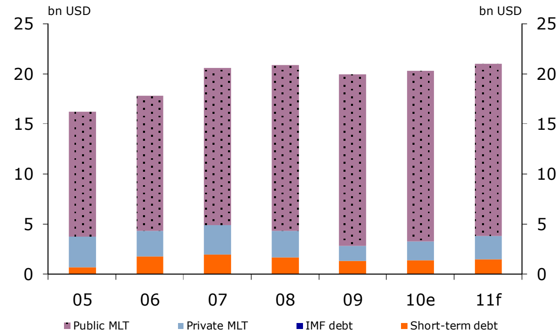
Source: EIU

The 2009 recession in Europe - Morocco's main export market - also prompted a decline in the number of foreign tourists and the value of incoming remittances, two other important sources of net foreign currency inflows. Net interest and profit flows are in deficit but not significant.
The current account has shown surpluses in the first and deficits in the last years of the past decade. 2008 recorded a deficit of over 6% of GDP whereas in 2004 the current account surplus amounted to 2% of GDP.
Financing the external deficit was realised by means of foreign direct investments, roughly a third of the required funding with very low inflows and almost absent outflows of registered portfolio investment. Net inflows of debt financing will take account of a quarter of needs, but a still substantial part was covered by net inflows of miscellaneous "other capital". Projections are that this pattern will continue. These net inflows are mirrored in the increase of the central bank's foreign reserves position from almost USD 5bn in 2000 to USD 23bn at the end of 2009. With the expected modest deficits on the current account in 2010 and 2011 and assuming the pattern of financial inflows will be repeated, FX reserves are expected to increase further.

External position

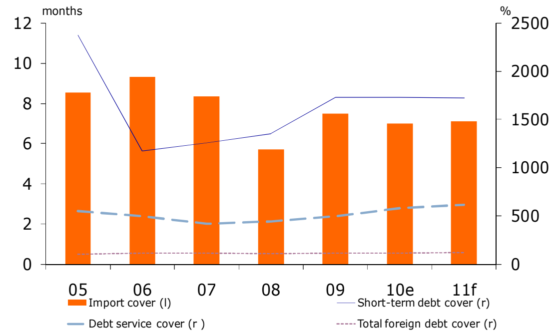
Chart 6 shows that the country is already a net creditor nation, but when estimates of substantial inward portfolio and direct investments are included the net investment position is strongly negative (see table with indicators).
Total external debt stood at almost USD 20bn at the end of 2009, only marginally different from its level ten years ago. As nominal GDP and export revenues increased, this translated in halving the foreign debt ratios over the last ten years.
Most of the debt (90%) has a medium to long term tenor and is for 70% owed to official creditors. The average effective maturity (annual repayments due in percent of total debt) is around eight years and an effective interest is estimated to be just below 4% p.a., indicating relatively favourable external borrowing conditions.

Chart 7: Foreign debt



Source: EIU

Chart 8: External liquidity



Source: EIU

Borrowers are for only 10% private entities, although this may increase to a still meagre 15% in some years time in line with planned privatisations of public entities.
Debt service is moderately low at just over 13% of export revenues (down from over 40% in 2000), with the latest payment arrears reported for 2004 with a value of just USD 24m (<0.1% of total external debt). In view of currently available liquidity with FX reserves covering over 7 months of imports (see chart 8), there are no indications of any impending payment problems in the short run. Neither inability nor unwillingness to honour external obligations is expected. With a longer term view, repayment capacity and willingness should also remain moderately strong based on projected and expected economic policies and political developments, which are quite acceptable.

Morocco

Selection of economic indicators	2005	2006	2007	2008	2009	2010e	2011f
Key country risk indicators							
GDP (% real change pa)	2.2	7.8	3.2	6.2	5.2	4.1	4.4
Consumer prices (average % change pa)	1.0	3.3	2.0	3.8	1.2	2.4	2.6
Current account balance (% of GDP)	1.6	2.0	-0.3	-6.4	-3.3	-4.8	-3.4
Total foreign exchange reserves (mln USD)	16187	20341	24123	22104	22797	23710	24890
Economic growth							
GDP (% real change pa)	2.2	7.8	3.2	6.2	5.2	4.1	4.4
Gross fixed investment (% real change pa)	7.4	9.7	14.3	11.7	5.4	4.2	5.0
Private consumption (real % change pa)	2.3	6.9	3.8	9.4	7.9	4.3	4.5
Government consumption (% real change pa)	3.5	2.9	4.4	4.8	5.2	5.0	3.6
Exports of G&S (% real change pa)	13.3	11.6	5.2	-1.1	-10.0	3.5	4.9
Imports of G&S (% real change pa)	9.6	8.2	15.0	10.9	-3.0	4.0	5.0
Economic policy							
Budget balance (% of GDP)	-5.0	-2.1	0.2	0.4	-2.1	-4.3	-4.1
Public debt (% of GDP)	70	67	64	56	54	54	55
Money market interest rate (%)	2.8	2.6	3.3	3.4	3.3	3.0	3.4
M2 growth (% change pa)	14	17	16	11	5	10	11
Consumer prices (average % change pa)	1.0	3.3	2.0	3.8	1.2	2.4	2.6
Exchange rate LCU to USD (average)	8.9	8.8	8.2	7.8	8.1	7.9	8.0
Recorded unemployment (%)	11.0	9.7	9.8	9.6	9.1	9.8	9.6
Balance of payments (mln USD)							
Current account balance	949	1315	-224	-5659	-3112	-4900	-3650
Trade balance	-8204	-9757	-14170	-19497	-15997	-18450	-18030
Export value of goods and services	10690	11926	15146	20330	14749	16010	17610
Import value of goods and services	18894	21683	29316	39827	30746	34460	35640
Services balance	4253	5316	6749	6722	6420	6650	7000
Income balance	-383	-477	-404	-522	-412	-220	-90
Transfer balance	5283	6233	7601	7638	6877	7120	7460
Net direct investment flows	1546	1915	2175	2150	1411	1620	1930
Net portfolio investment flows	101	-295	-760	396	150	150	170
Net debt flows	821	692	858	1432	1121	1050	1190
Other capital flows (negative is flight)	-3525	697	1876	-318	1293	3020	1600
Change in international reserves	-109	4324	3925	-1999	863	940	1230
External position (mln USD)							
Total foreign debt	16174	17815	20544	20825	19910	20260	20960
Short-term debt	682	1732	1919	1631	1319	1370	1440
Total debt service due, incl. short-term debt	2930	4084	5732	4996	4599	4070	4040
Total foreign exchange reserves	16187	20341	24123	22104	22797	23710	24890
International investment position	-17297	-22275	-28718	-32620	n.a	n.a	n.a
Total assets	20823	26411	32455	30298	n.a	n.a	n.a
Total liabilities	38119	48687	61173	62917	n.a	n.a	n.a
Key ratios for balance of payments, external solvency and external liquidity							
Trade balance (% of GDP)	-13.8	-14.9	-18.9	-21.9	-17.2	-18.2	-16.8
Current account balance (% of GDP)	1.6	2.0	-0.3	-6.4	-3.3	-4.8	-3.4
Inward FDI (% of GDP)	2.7	3.6	3.7	2.8	1.9	1.9	2.1
Foreign debt (% of GDP)	27	27	27	23	21	20	20
Foreign debt (% of XGSIT)	65	62	57	49	57	54	53
International investment position (% of GDP)	-29.1	-33.9	-38.2	-36.7	n.a	n.a	n.a
Debt service ratio (% of XGSIT)	12	14	16	12	13	11	10
Interest service ratio incl. arrears (% of XGSIT)	2	2	2	2	2	2	1
FX-reserves import cover (months)	8.5	9.3	8.3	5.7	7.5	7.0	7.1
FX-reserves debt service cover (%)	552	498	421	442	496	583	616
Liquidity ratio	165	167	154	128	144	141	145

Source: EIU 100504