Rabobank

# Country Report Morocco

Country Report
Other authors

In 2013, economic growth in Morocco accelerated, but it is likely to slow down somewhat in 2014. Morocco has been able to reduce its twin deficits somewhat, though these deficits remain sizeable.

This Country Report is the outcome of an internship by **Saskia Moser** at the Country Risk Research team at Rabobank Nederland.

## Strengths (+) and weaknesses (-)

### (+) Relatively well developed capital market

While the Moroccan government has posted high fiscal deficits, it has been able to finance these deficits to a large extent domestically thanks to the existence of a relatively well-developed local capital market.

### (+) The King acts as a stabilizing factor for political stability

Despite political tensions in the region, the monarchy remains popular and is having a stabilizing role as the 'mediator' between conflicting political parties.

### (-) Large share of youths economically and politically excluded

45% of the population is aged 25 or below, but they are hardly represented in politics and cannot earn a living (youth unemployment 19 %). This constitutes an environment prone to upheaval.

### (-) Large current account deficit and high fuel and food import dependency

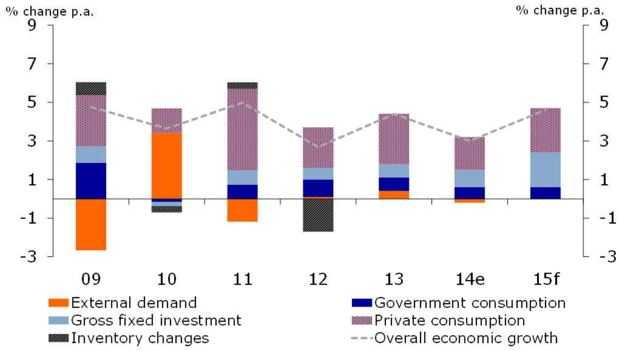
Morocco has had a large current account deficit in recent years. Its high fuel and food import dependency makes it highly vulnerable to commodity price volatility.

## Key developments

# 1. Growth picked up in 2013, but is likely to slow down

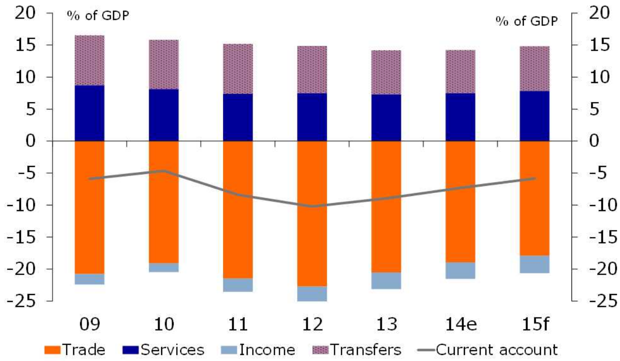
After economic growth fell to 2.7% in 2012, it accelerated to 4.4 % in 2013. This can largely be attributed to an exceptionally large crop, as agricultural output grew by about 14 % in 2013 thanks to favourable weather conditions. This partially explains why inflation remained firmly anchored below 3 %, even as the government started to reduce food and energy subsidies. Meanwhile, growth in the non-agricultural sector slowed down to 2.5% in 2013, down from 4.6% in 2012. This was partially due to weak performance of the phosphates industry, which declined 18.7% owing to falling prices and weakened global demand. On the demand side, private consumption was the largest contributor to economic growth with 2.6% of GDP. Private consumption was underpinned by the good harvest.

**Figure 1: Economic growth**




Source: EIU

**Figure 2: Current account balance**




Source: EIU

Looking forward, growth is likely to fall to roughly 3% in 2014, owing tighter fiscal policies, weather conditions that are unlikely to be as favourable to agricultural production as in 2013, and a sluggish international recovery. Morocco's significant dependence on economic activities in Europe, in particular trade, tourism and remittances leaves, its economy thereby susceptible to developments in the eurozone.

# 2. Morocco's large twin deficits have narrowed somewhat, but remain a vulnerability

Morocco's fiscal deficit fell slightly to 6.0% of GDP in 2013 after it had reached a record 8.3 % of GDP in 2012 due to a strong increase of government expenditure on wages and subsidies. The government aims to reduce the deficit further to 3.8% of GDP in 2014 by pulling back its food and fuel subsidies of food and fuel to USD 4.3bn (compared with USD 5.2bn in 2013 and USD 6.5bn in 2012). In 2013, under pressure of the IMF the government already started to phase out these subsidies to increase its creditworthiness and create fiscal space to invest in infrastructure and human capital. Additionally, to reduce the deficit, the government introduced a new fuel price indexation in September 2013 in order to shield the budget from international fuel price increases. Under this new pricing system the fuel prices will be reviewed on a monthly basis and altered if the international prices change more than 2.5 percent within two months. However, despite these structural reforms, an increase of government expenditure on job creation and wages prevented the deficit from declining further.

Likewise, Morocco's sizeable current account deficit that is mainly driven by a large trade deficit fell slightly to 9.0% of GDP in 2013, down from 10.2% of GDP in 2012. The narrowing of the deficit was largely accounted for by a remarkable decrease of the import bill of food by 18% to USD 1.0bn reflecting the strong growth of the domestic agricultural output. Meanwhile, exports declined by 1.8%, mainly attributable to a drop in phosphate exports of 23 % resulting from a sharp decline in world prices. As imports declined by 2.8%, the current account improved slightly. Nevertheless, the current account deficit remained very large. Part of the current account deficit was financed by net direct investment inflows, which reached USD 3.2bn (3 % of GDP). Meanwhile, Morocco managed to increase its foreign-exchange reserves from USD 16bn in 2012 to almost USD 18.4bn in

2013, although the import cover of 4.7 months is still not extremely high. Morocco's external liquidity improved somewhat though when the country concluded an agreement with the IMF for a USD 6.2bna Precautionary Liquidity Line (PLL) in August 2013. In conclusion, Morocco's twin deficits remain a vulnerability.

## 3. Reaping benefits of political and economic stability

According to the UNCTAD World Investment Report, Morocco ranked first in North Africa in terms of the nominal amount of foreign direct investment (FDI) it received in 2013. The kingdom lured investment inflows worth USD 3.6bn in 2013. This good performance can partially be explained its relatively political and economic stability during the Arab Spring as well as the diversification of its export base. Furthermore, there are signs that Morocco improved its business climate, as it moved up 10 places from 97 in 2012 to 87 in 2013 on the Ease of Doing Business Index, as starting a business, paying taxes payments and registering property was made easier. Furthermore, a Deep and Comprehensive Free Trade Agreement (DCFTA) was launched in April 2013 in order to deepen and strengthen the trade relationship with the EU. Though Morocco's competitiveness and import dependency, things remain to be done, for example combating the level of corruption.

**National facts of Morocco**

**Morocco**

| National facts | |
|---|---|
| Type of government | Constitutional Monarchy |
| Capital | Rabat |
| Surface area (thousand sq km) | 447 |
| Population (millions) | 32.9 |
| Main languages | Arabic |
| | Berber dialects |
| | French |
| Main religions | Islam (99%) |
| | Christian (1%) |
| Head of State (King) | King Mohammed VI |
| Head of Government | Abdelillah Benkirane |
| Monetary unit | Dirhams (MAD) |

| Social and governance indicators | rank / total |
|---|---|
| Human Development Index (rank) | 130 / 187 |
| Ease of Doing Business Index (rank) | 87 / 189 |
| WEF Global Competitiveness Index (rank) | 77/148 |
| Corruption Perceptions Index (rank) | 82 / 180 |
| Press Freedom Index (rank) | 136 / 179 |
| Gini index (income distribution) | 40.88 |
| Population below $1.25 per day (PPP) | 2.5% |

| Foreign trade | | | 2012 |
|---|---|---|---|
| *Main export partners (%)* | | *Main import partners (%)* | |
| France | 21 | Spain | 13 |
| Spain | 17 | France | 12 |
| Brazil | 5 | China | 7 |
| India | 5 | US | 7 |

| Economy | | 2013 |
|---|---|---|
| *Economic size* | *bn USD* | *% world total* |
| Nominal GDP | 106 | 0.14 |
| Nominal GDP at PPP | 179 | 0.20 |
| Export value of goods and services | 33 | 0.14 |
| IMF quotum (in m SDR) | 588 | 0.27 |
| *Economic structure* | *2013* | *5-year av.* |
| Real GDP growth | 4.4 | 4.3 |
| Services (% of GDP) | 49 | 49 |
| Industry (% of GDP) | 28 | 28 |
| Agriculture (% of GDP) | 14 | 15 |
| *Standards of living* | *USD* | *% world av.* |
| Nominal GDP per head | 3,213 | 29 |
| Nominal GDP per head at PPP | 5,444 | 41 |
| Real GDP per head | 2,594 | 31 |

| | 2013 |
|---|---|
| *Main export products (%)* | |
| Fertilisers and chemicals | 12 |
| Finished clothes | 11 |
| Phosphate rock | 5 |
| Phosphoric acid | 6 |
| *Main import products (%)* | |
| Fuel and lubricants | 26 |
| Semi-finished goods | 21 |
| Capital goods | 19 |
| Consumer goods | 18 |
| *Openness of the economy* | |
| Export value of G&S (% of GDP) | 31 |
| Import value of G&S (% of GDP) | 45 |
| Inward FDI (% of GDP) | 3.5 |

Source: EIU, CIA World Factbook, UN, World Economic Forum, Transparency International, Reporters Without Borders, World Bank.

# Background information

In Morocco, services is the largest sector (49% of GDP). Tourism represents an important FX earner and employs around 40% of the labor force. The industrial sector (28% of GDP) is dominated by the textile and clothing sector targeting European markets, but has diversified in recent years. Morocco is the largest phosphate producer in the world (75% of total phosphate reserves are located in Morocco), which makes it a vital trade partner for Europe. In the past decade, the good economic performances of Morocco contributed to reduction and poverty and unemployment. Social development has been supported through national programs for access to water, energy and transportation. Despite this, social development is still rather low (see indicators), also due to issues such as illiteracy and gender inequality. Freedom of speech is limited as critics of the King, government and Islam can face criminal charges. Historically, the King was named commander of the faithful and seen as descendant of the prophet Mohammed. It is estimated that over 10% of Moroccans live abroad, mainly in Europe. These Moroccans are not allowed by the King to give up their Moroccan nationality. This large expatriate population is economically important, as it is a major source of remittances and tourism. Morocco has an ongoing conflict with Algeria about sovereignty in Western Sahara. UN peace keeping resolutions are used to manage this conflict and little change is expected for the near future after a new peacekeeping resolution was adopted on April 25th 2013.

**Economic indicators of Morocco**

**Morocco**

| Selection of economic indicators | 2009 | 2010 | 2011 | 2012 | 2013 | 2014e | 2015f |
|---|---|---|---|---|---|---|---|
| *Key country risk indicators* | | | | | | | |
| GDP (% real change pa) | 4.8 | 3.6 | 5.0 | 2.7 | 4.4 | 3.0 | 4.6 |
| Consumer prices (average % change pa) | 0.9 | 1.0 | 0.9 | 1.3 | 1.9 | 3.0 | 2.8 |
| Current account balance (% of GDP) | -5.9 | -4.6 | -8.4 | -10.2 | -9.0 | -7.3 | -5.8 |
| Total foreign exchange reserves (m USD) | 22,797 | 22,613 | 19,526 | 16,356 | 18,404 | 18,550 | 19,480 |
| *Economic growth* | | | | | | | |
| GDP (% real change pa) | 4.8 | 3.6 | 5.0 | 2.7 | 4.4 | 3.0 | 4.6 |
| Gross fixed investment (% real change pa) | 2.6 | -0.7 | 2.5 | 1.9 | 2.4 | 3.1 | 6.0 |
| Private consumption (real % change pa) | 4.6 | 2.2 | 7.4 | 3.6 | 4.4 | 2.9 | 3.9 |
| Government consumption (% real change pa) | 12.1 | -0.9 | 4.6 | 5.9 | 4.3 | 3.5 | 3.8 |
| Exports of G&S (% real change pa) | -14.8 | 16.6 | 2.1 | 2.7 | 0.9 | 3.0 | 7.5 |
| Imports of G&S (% real change pa) | -6.0 | 3.6 | 5.0 | 2.0 | -0.2 | 3.0 | 6.5 |
| *Economic policy* | | | | | | | |
| Budget balance (% of GDP) | -2.2 | -4.6 | -7.1 | -8.3 | -6.0 | -5.2 | -4.5 |
| Public debt (% of GDP) | 57 | 61 | 65 | 71 | 75 | 79 | 80 |
| Money market interest rate (%) | 3.3 | 3.3 | 3.3 | 3.2 | 3.1 | 3.0 | 3.5 |
| M2 growth (% change pa) | 8 | 5 | 7 | 5 | 3 | 5 | 6 |
| Consumer prices (average % change pa) | 0.9 | 1.0 | 0.9 | 1.3 | 1.9 | 3.0 | 2.8 |
| Exchange rate LCU to USD (average) | 8.1 | 8.4 | 8.1 | 8.6 | 8.4 | 8.3 | 8.7 |
| Recorded unemployment (%) | 9.1 | 9.1 | 8.9 | 9.0 | 9.2 | 9.1 | 8.8 |
| *Balance of payments (m USD)* | | | | | | | |
| Current account balance | -5,361 | -4,209 | -8,337 | -9,843 | -9,456 | -8,320 | -6,770 |
| Trade balance | -18,861 | -17,318 | -21,387 | -21,885 | -21,655 | -21,540 | -20,790 |
| Export value of goods | 9,166 | 12,309 | 15,946 | 16,992 | 17,247 | 18,400 | 20,240 |
| Import value of goods | 28,027 | 29,627 | 37,333 | 38,877 | 38,902 | 39,940 | 41,040 |
| Services balance | 7,935 | 7,365 | 7,325 | 7,210 | 7,720 | 8,530 | 9,100 |
| Income balance | -1,495 | -1,242 | -2,052 | -2,283 | -2,770 | -2,920 | -3,150 |
| Transfer balance | 7,061 | 6,986 | 7,778 | 7,115 | 7,249 | 7,610 | 8,080 |
| Net direct investment flows | 1,491 | 661 | 2,273 | 2,483 | 3,194 | 2,800 | 3,190 |
| Net portfolio investment flows | -17 | -1,217 | -234 | -1,506 | 145 | 220 | 250 |
| Net debt flows | 2,390 | 2,192 | 3,300 | 4,491 | 5,523 | 5,280 | 4,000 |
| Other capital flows (negative is flight) | 2,360 | 2,606 | 26 | 1,269 | 2,316 | 220 | 260 |
| Change in international reserves | 863 | 33 | -2,971 | -3,107 | 1,721 | 200 | 930 |
| *External position (m USD)* | | | | | | | |
| Total foreign debt | 24,631 | 26,303 | 29,096 | 33,816 | 38,324 | 42,340 | 44,370 |
| Short-term debt | 2,179 | 1,800 | 3,030 | 4,167 | 4,250 | 4,340 | 4,470 |
| Total debt service due, incl. short-term debt | 5,045 | 5,485 | 5,032 | 6,711 | 8,072 | 8,140 | 8,390 |
| Total foreign exchange reserves | 22,797 | 22,613 | 19,526 | 16,356 | 18,404 | 18,550 | 19,480 |
| International investment position | -40,807 | -46,584 | -51,150 | -58,915 | n.a | n.a | n.a |
| Total assets | 30,750 | 29,829 | 27,510 | 23,974 | n.a | n.a | n.a |
| Total liabilities | 71,557 | 76,413 | 78,660 | 82,889 | n.a | n.a | n.a |
| *Key ratios for balance of payments, external solvency and external liquidity* | | | | | | | |
| Trade balance (% of GDP) | -20.8 | -19.1 | -21.5 | -22.7 | -20.5 | -19.0 | -17.9 |
| Current account balance (% of GDP) | -5.9 | -4.6 | -8.4 | -10.2 | -9.0 | -7.3 | -5.8 |
| Inward FDI (% of GDP) | 2.2 | 1.4 | 2.5 | 3.0 | 3.5 | 2.9 | 3.3 |
| Foreign debt (% of GDP) | 27 | 29 | 29 | 35 | 36 | 37 | 38 |
| Foreign debt (% of XGSIT) | 76 | 75 | 71 | 84 | 93 | 96 | 94 |
| International investment position (% of GDP) | -44.9 | -51.4 | -51.4 | -61.2 | n.a | n.a | n.a |
| Debt service ratio (% of XGSIT) | 16 | 16 | 12 | 17 | 20 | 19 | 18 |
| Interest service ratio incl. arrears (% of XGSIT) | 2 | 2 | 2 | 2 | 3 | 3 | 3 |
| FX-reserves import cover (months) | 7.6 | 7.4 | 5.9 | 5.0 | 4.2 | 4.6 | 4.5 |
| FX-reserves debt service cover (%) | 452 | 412 | 388 | 244 | 228 | 228 | 232 |
| Liquidity ratio | 138 | 140 | 124 | 112 | 106 | 111 | 113 |

Source: EIU

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