

morocco



Demographics

Population:	32 987 206 (July 2014 est.)
Population: world ranking	39 out of 240 countries (CIA)
Life expectancy (years)	Total population: 76.51; male: 73.44; female: 79.74 (2014 est.)
Main ethnic groups	Arab-Berber 99%, other 1%
Business language	Arabic (official), Berber dialects, French (often the language of business, government, and diplomacy)
Urban population	57.4%
Population below national poverty line	9.0% (2007 est.)

Sources: CIA, World Bank

Geography

Area in sq km	446 550
Area: World ranking	58 out of 252 countries (CIA)
Climate	Mediterranean, becoming more extreme in the interior
Natural resources	Phosphates, iron ore, manganese, lead, zinc, fish, salt

Sources: CIA, World Bank

Sovereign ratings

S&P	BBB-/Stable
Fitch	BBB-/Stable
Moody's	Ba1/Negative

Source: NKC Research

Economy in 2013

Nominal GDP (US\$bn)	104.97	Total government debt as % of GDP	74.82
Nominal GDP: World ranking	62 out of 188 countries (IMF)	Total external debt as % of GDP	37.14
Real GDP (% change y-o-y)	4.36	Consumer price inflation (average, %)	1.86
GDP growth: World ranking	57 out of 189 countries (IMF)	Current account balance as % of GDP	-8.01
GDP per capita (US\$)	3,179.99	Equity market: Size in US\$	US\$56.9bn
Agriculture as % of GDP	16.74	Equity market: Listed companies	73 primary listings
Industry as % of GDP	27.72	Bond market size	US\$56.9bn govt bonds outstanding in the domestic market
Services as % of GDP	55.54		

Sources: IMF, NKC Research, Bloomberg, Reuters

Political environment

Government type	Constitutional monarchy
Head of state	King Mohammed VI
Head of government	Prime Minister Abdelillah Benkirane
Ruling political party	Party for Justice and Development (PJD)
Main opposition parties	Istiqlal (Independence) Party, National Rally of Independents (RNII), Authenticity and Modernity Party (PAM), Popular Movement (MP), Progress and Socialism Party (PPS)
Elections	Last held on 23 November 2011 (next to be held in 2016)

Source: NKC Research

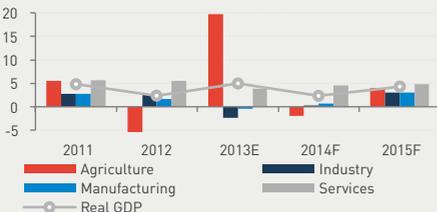
Economic outlook

GDP per capita vs real GDP



Source: NKC Research

Real GDP by sector (% change pa at factor costs)



Source: NKC Research

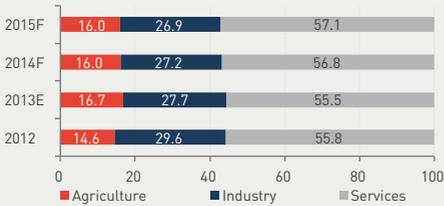
The Moroccan economy is relatively well diversified. It is, however, vulnerable in two main areas. Firstly, its external position is highly reliant on

the Eurozone, as most of its exports, foreign investments, tourism, and remittances inflows come from that region. Secondly, private consumption is dependent on the agricultural sector, since 40% of jobs are in that sector. Since the weather tends to be erratic and irrigation is not yet well-developed, growth in the agricultural sector tends to be volatile.

Furthermore, the outlook for Morocco's external payments position remains poor. Continued weak demand for Moroccan goods and services is expected to keep the current account deficit very wide in 2014, thereby leading to a further decline in foreign exchange reserves and an increase in external debt. By the end of 2014, we project that external debt will reach 39.4% of GDP, up from below 30% of GDP in 2011, while import cover is forecast to decline gradually from 4.7 months at the end of last year to 4.3 months by 2017. The risk of serious balance of payments troubles is mitigated by Morocco's access to a US\$6.2bn Precautionary Liquidity Line (PLL) from the International Monetary Fund. Under this facility, the government has the option of drawing on the liquidity line if it encounters a balance of payments crisis. The assurance given by the PLL is very important for investor sentiment in the country and significantly reduces the risk of severe external imbalances.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

GDP by sector (% of GDP)



Source: NKC Research

In 2013, Morocco's agricultural sector expanded by 19% on the back of an 87.8% increase in cereal production over the drought-affected 2012 season.

This had a positive effect on Moroccans' incomes and therefore on household expenditure. In contrast, non-agricultural growth slowed from 4.3% in 2012 to 2% last year due to the following: weak Eurozone demand, which constrained manufacturing exports; weak global demand for phosphates and fertilisers, which are Morocco's biggest export category; and tight liquidity conditions in the banking sector, which constrained private sector credit growth. Overall, real GDP growth was 4.4%. Non-agricultural growth is forecast to improve to 3.5% to 4% this year on the back of a stronger expansion in the Eurozone economy. However, overall real GDP growth is forecast to slow to 3.1% due to a contraction in farming output.

International trade

Despite a large decline in phosphate and phosphate-derivative exports last year, total exports increased by 2.7% to almost US\$22 billion on the back of increases in agricultural, automobile, aeronautic and electrical equipment exports. The development of new manufacturing industries, such as aeronautics, automobile manufacturing, and electronics, is particularly encouraging and is showing strong signs of growth. According to a January 2014 Autofacts report by PricewaterhouseCoopers (PwC), Morocco assembled 156 000 vehicles in 2013, which made the country the 30th largest supplier in the world, and second in Africa after South Africa. The PwC study also projects that Morocco will produce over 230 000

units in 2014. Renault has also stated that it plans to add another 200 000 unit per annum manufacturing line in Morocco in 2015. Apart from vehicle assembly, Morocco produces parts and equipment for various auto companies. In turn, Morocco's import bill increased by 2.3% to US\$42.4 billion in 2013. The slow rate of increase compared to previous years stems from a tighter fiscal stance, an excellent domestic cereal harvest, and a decline in international commodity prices. The country's large trade deficit was partly financed by US\$6.9 billion worth of tourism revenues, US\$8.3 billion worth of remittances, and US\$3 billion in net foreign direct investment (FDI).

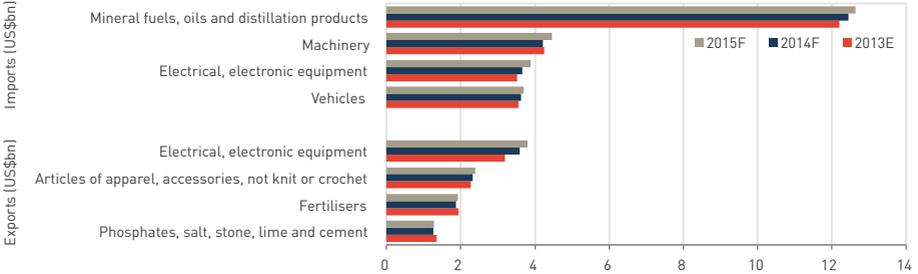
Foreign trade flows, 2013

Main exports	(US\$ billion)	Main imports	(US\$ billion)
Electrical, electronic equipment	3.20	Mineral fuels, oils, distillation products	12.21
Articles of apparel, accessories, not knit or crochet	2.28	Machinery	4.25
Fertilisers	1.94	Electrical, electronic equipment	3.62
Phosphates, salt, sulphur, earth, stone, plaster, lime and cement	1.36	Vehicles	3.56

Source: NKC Research

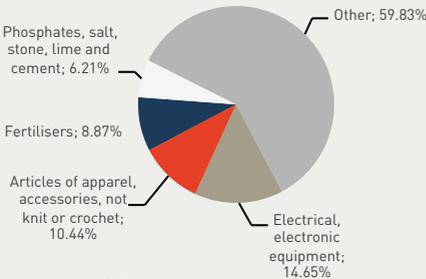
Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Morocco top four exports and imports (US\$ billion)



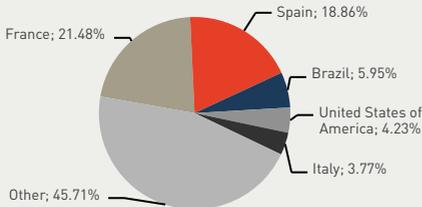
Source: NKC Research

2013 exports (% of total)



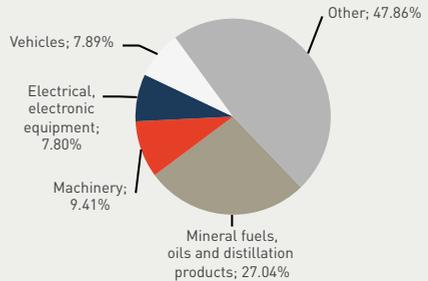
Source: NKC Research

2013 top destinations of exports (% of total)



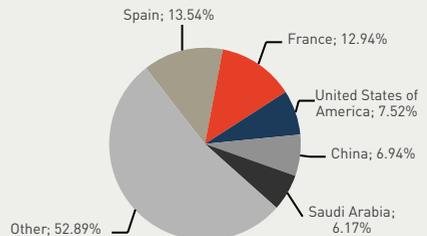
Source: Trade Map

2013 imports (% of total)



Source: NKC Research

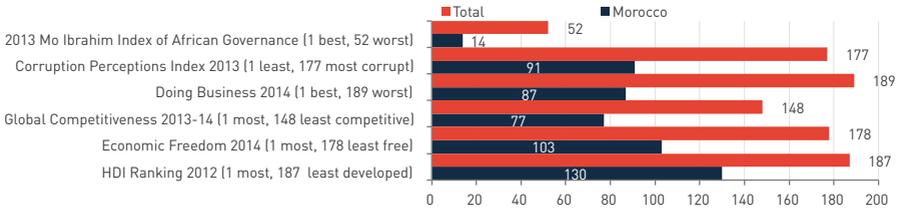
2013 top origins of imports (% of total)



Source: Trade Map

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Business development indicators



Source: NKC Research

Policy environment

Monetary policy:

Morocco has a history of low and stable inflation. Consumer price inflation averaged only 1.2% per annum from 2009-13. Commercial banks have struggled with tight liquidity conditions in recent years, mainly due to a drop in foreign currency inflows. Increased treasury bill purchases by banks have also been a drain on liquidity. To fill the shortage in bank liquidity, the Bank al Maghrib (BAM) has injected liquidity for the past few years, mainly through seven-day advances. Furthermore, with inflation expected to remain low and the BAM looking at ways to stimulate credit growth, it decided to lower the required reserve ratio from 4% to 2% at its monetary policy meeting in March 2014. The policy interest rate has, however, been kept unchanged at 3%.

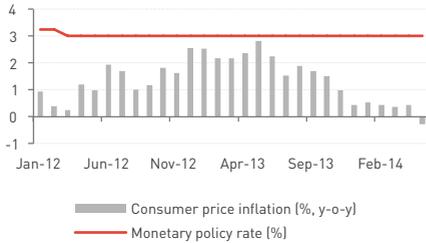
Exchange rate policy:

The Moroccan currency, the dirham, is actively pegged against a basket of currencies, namely the euro (80%) and the US dollar (20%). The BAM has been successful in maintaining the currency peg, which has effectively anchored inflation expectations, thus creating stable monetary conditions while facilitating trade between Morocco and its main trading partner, Europe. However, the current account balance has continued to deteriorate due to loss of competitiveness.

Fiscal policy:

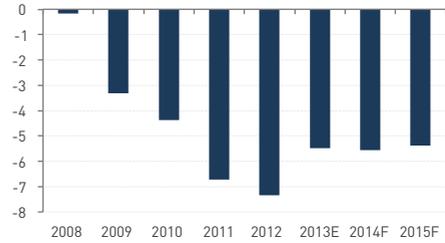
In recent years, subsidies – especially energy subsidies – have risen markedly as a result of rising international oil prices and a fear of social unrest if subsidies are removed. From 2007 to 2012, the subsidy bill increased by an average of 27.4% per annum to MAD54.9 billion (6.6% of GDP). However, since 2012, the government has gradually implemented reforms. It started by increasing fuel prices (petrol, diesel and fuel oil) by more than 20% in June 2012 and by another 5% to 10% in September 2013. In January 2014, the government went even further, by announcing that it would completely remove all subsidies on petrol and fuel oil. The government also announced at that time that the per-unit subsidy on diesel would be gradually lowered from MAD2.15/litre [26 US cents/litre] at that stage to MAD0.80/litre by October. Subsidy reforms, combined with lower international fuel prices, ensured that the subsidy bill declined from 6.6% of GDP in 2012 to 4.7% of GDP in 2013, and the government aims to reduce it to 3% of GDP by 2016. In order to mitigate the impact on the poor and to minimise the likelihood of large-scale social unrest, the government has announced various measures, including keeping public transport tariffs unchanged. We expect growth in fiscal revenues to remain weak in 2014, which will make it challenging for the government to reduce the deficit much this year – instead we project that it will widen marginally to 5.56% of GDP. We expect stronger revenue growth from 2015 onwards as economic activity improves, thereby leading to a narrowing of the fiscal deficit.

Consumer price inflation and monetary policy rate



Sources: Bank al Maghrib & Haut Commissariat au Plan

Budget balance (% of GDP)



Source: NKC Research

Regulatory and tax environment:

Morocco has been one of the best reformers in the world on the World Bank’s Doing Business index over the last five years, with its ranking improving from 130th in the world in the 2009 survey to 87th in the 2014 survey. The good performance is sure to improve Morocco’s attractiveness as an investment destination and help develop the private sector over the medium term. In the latest survey, Morocco’s ranking for ‘Paying Taxes’ improved considerably – from 115th to 78th – partially because the government made it easier for companies to pay taxes by increasing the use of the electronic filing and payment system for social security contributions. Nevertheless, according to the World Bank, the total tax rate is equivalent to 49.6% of profits, compared to 41.3% on average in Organisation for Economic Cooperation and Development (OECD) countries; it also takes 33% longer to pay taxes per year than on average in the OECD.

Political environment

Prime Minister Abdelilah Benkirane lost his parliamentary majority last year when the Istiqlal party walked out of his coalition; he regained his majority by striking a deal with the National Rally of Independents (RNI), but lost some power by doing so, letting Morocco’s old guard, the Makhzen, take back ground.

As has been the case to a greater or lesser degree since his election in 2011, Mr Benkirane looks like an Islamist figurehead put forward to take the blame for unpopular measures, while King Mohammed VI and the Makhzen run the country from behind the scenes. The subsidy cuts implemented so far have had little effect on the cost of living, and the government is categorical that subsidies on food will be kept in place, so it seems unlikely that the opposition, which has problems of its own, will be able to use this subject to rally mass popular opposition against the government.

Security issues – crime and terrorism – remain a concern. In 2014, Casablanca experienced a wave of violent crime, involving gangs of young thugs armed with knives mugging people in the streets. There has been no real news about Islamic terrorism recently, but the threat of a deadly terror attack is still present. The Western Sahara issue has shown no signs of moving closer to a resolution, although there seems to have been an improvement in human rights in the territory.

Note: In the graphs above, E and F are the abbreviations for estimate and forecast respectively.

Economic environment

Ratings:

Both Standard and Poor's (S&P) and Fitch rates Morocco 'BBB-', which is the lowest possible investment grade rating. In October 2012, S&P revised the outlook on the rating from stable to negative, since a challenging external environment made it more difficult for the Moroccan authorities to reduce the budget and current account deficits. Then, in May 2014, S&P revised the outlook back to stable to reflect the agency's view that fiscal and external deficits will continue to narrow on the back of fiscal reforms. Meanwhile, Fitch has maintained the rating outlook at stable thanks to the country's resilience during the Arab Spring, with political and social

stability helping to keep economic growth and FDI inflows at high levels. In April 2014, Fitch also noted its optimism about the trend in the budget balance. Moody's Investors Service revised the outlook on Morocco's credit rating from stable to negative on 11 February 2013 due to two main factors: widening budget deficits since 2011, and a very large current account deficit. The rating itself was affirmed at 'Ba1', which is one notch below investment grade. On 13 March 2014, Moody's kept the rating and the outlook unchanged, and noted that Morocco's credit rating is constrained by 'persistently low per-capita GDP levels and significant structural rigidities that limit competitiveness'.

Key indicators to watch

Current account	The current account deficit has been very wide in recent years (average of 8.7% of GDP in 2011-13). This has led to a marked increase in external debt and has put pressure on Morocco's sovereign credit rating. A sustained increase in tourism revenues and export earnings is needed to improve the current account balance over the medium term.
Foreign exchange reserves	Foreign exchange reserves have declined significantly in recent years due to a sharp widening of the current account deficit. Reserves are still sufficient at present (covering 4.7 months of imports), but with the country forecast to record large current account deficits over the medium term, reserves could fall further. The country does, however, have access to a US\$6.2 billion Precautionary Liquidity Line from the International Monetary Fund if it encounters a balance of payments crisis.
Euro zone economic growth	Morocco is dependent on the Eurozone for the bulk of its export earnings, tourism inflows and remittances. As such, an economic recovery in that region will be good news for Morocco.

Source: NKC Research

Key vulnerabilities

Trade and tourism heavily dependent on the EU.

What is the government doing to address this?

Strengthening ties with Arab and Asian countries, which are becoming increasingly important players in the global economy. Even so, Europe will remain a key trading partner.

Key vulnerabilities

State subsidies for food and fuel make the fiscal position vulnerable to increases in commodity prices. Moreover, the public sector is large, resulting in a large wage bill.

Economic growth is heavily dependent on the agricultural sector, which in turn is volatile due to erratic rainfall in the region.

What is the government doing to address this?

The government has made good progress in addressing energy subsidies.

The government has made agricultural development a priority, by implementing advanced irrigation plans and increasing the research and development spending in the sector.

Source: NKC Research

Market participation

Foreign investors

There are no direct restrictions on foreign investor participation in Moroccan capital markets. However, when it comes to forex restrictions and profit repatriation, some restrictions do exist on the convertibility of capital accounts. Conversion is allowed if the original investment is registered with the foreign exchange office.

Local investors

The local investor base is mainly made up of the pension and mutual fund industry, commercial banks and insurance companies.

Source: NKC Research

Financial market

Foreign exchange

Security	Average size of a single transaction	Average daily turnover range	Bid/offer spread	Tenor/maturity	Quotation/settlement	Reuters page	Additional information
Spot	N/A	N/A	2.87 bps (average since 2012)	Liquid up to 1 year	T+3	MAD=	Main cross is US\$/MAD

Sources: Reuters

The Moroccan monetary authorities manage the dirham exchange rate, maintaining it at a roughly fixed rate against a basket of currencies. The basket is made up of the euro, which has an 80% share, and the US dollar, which makes up the remaining 20% of the basket. The euro's large weight in the basket means that the dirham's exchange rate against the greenback has a large positive correlation with the exchange rate of the Eurozone currency against the greenback. As a result, the dirham has strengthened against the dollar over the past two years – from as weak as MAD9.09/US\$ in July 2012 to MAD8.08/US\$ in early May 2014. Since then, however, the dirham has depreciated to above MAD8.20/US\$ as a further loosening in the monetary policy stance of the European Central Bank (ECB) has weakened the euro.

Exchange rate
Moroccan dirham



Source: Reuters

Equities

Stock market	Listed companies	Liquidity	Total market capitalisation	Settlement	Most liquid sector	Daily trading volume
Casablanca Stock Exchange	73	Liquid	US\$56.9bn	T+3	Financials	400 000 shares

Sources: Bloomberg

The Bourse de Casablanca (Casablanca Stock Exchange, CSE) is one of four African stock exchanges that are members of the World Federation of Exchanges. The bourse is liquid in an African context, and there are currently 73 companies listed on the bourse, with a combined market capitalisation of US\$56.9 billion at the end of May. According to the WEF's Global Competitiveness Report, Morocco is ranked 39th in the world in terms of the ease of raising money through the local equity market. Nevertheless, the country's close economic ties with Europe, as well as political instability in neighbouring countries, have decreased the attractiveness of the stock exchange in recent years. Developments in Europe threaten to lower profits in numerous industries, particularly tourism, textiles, and electronic goods. Apart from these factors, tight liquidity in the Moroccan banking system has also contributed significantly to the CSE's poor performance. Meanwhile, stock market liquidity

has also fallen in recent years. In fact, it declined to such an extent that MSCI downgraded the CSE from emerging market status to frontier market status in June 2013. The All Share Index (MASI) decreased from a high of 13 400 points before the Arab Spring in January 2011 to a low of 8,334.5 points at the end of August 2013 (i.e. a 60% drop in two-and-a-half years). Since then, however, the MASI has rebounded to around 9 400 points in early June 2014.

Top-five listed companies	Market capitalisation
Maroc Telecom	US\$10.3bn
Attijariwafa Bank	US\$7.7bn
BMCE Bank	US\$4.6bn
BCP Bank	US\$4.0bn
Lafarge Morocco	US\$3.0bn

Source: Bloomberg

North Africa SEs performance indices



Source: NKC Research, Reuters

Casablanca Stock Exchange - MASi



Source: Reuters

Fixed income

Security	Tenor/ maturity	Auction frequency	Liquidity	Quotation/ settlement	Auction participation	Bid/offer spread
Treasury bill	7 to 364 days	Weekly	Liquid	T+6	Licensed primary dealer	N/A
Treasury bonds	2 to 30 years	Fortnightly	Liquid	T+6	Licensed primary dealer	N/A

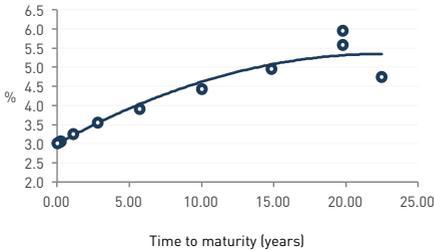
Sources: Bank al Maghrib, Bloomberg, Reuters

Morocco boasts a relatively sophisticated debt market, supported by a well-developed and well-capitalised banking sector, which generally keeps debt interest costs low for the government. There was, however, a sharp increase in bond yields from April 2012 to early in 2013 due to a widening budget deficit and tightening domestic liquidity conditions.

Yields stabilised at high levels for most of 2013, before declining substantially in the fourth quarter of 2013 and at the start of 2014. Borrowing costs have now reached levels last observed in 2012.

This decline since the fourth quarter of 2013 was mainly due to a large increase in external borrowing by the state, which meant that its domestic borrowing needs had declined. A lowering of banks' minimum reserve requirements from 4% to 2% in March 2014 will boost liquidity and could therefore help to reduce yields further.

Morocco yield curve (as at June 2014)



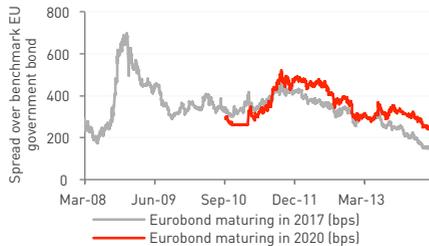
Sources: Bank al Maghrib

Treasury bill yields



Source: Bank al Maghrib

Eurobond yield spread



Sources: NKC Research, Reuters

The Moroccan government issued a 10-year Eurobond in June 2014. The bond has a value of €1 billion, a coupon of 3.5%, and a spread of 233.5 basis points above German Bunds. According to Reuters, bids totalled €2 billion, showing that demand for the issuance was strong. Morocco has four other Eurobonds outstanding; these are maturing in June 2017, October 2020, December 2022, and December 2042 respectively. Despite an increase in credit risk – as measured by our sovereign credit rating for Morocco – there has been a downward trend in Morocco’s yield spreads (compared to benchmark European or US government bonds) since the third quarter of 2011. This largely reflects the shift by investors globally towards emerging market assets in recent years, due to aggressive monetary easing measures by developed economies’ central banks. Following the Eurobond issuance in June, Morocco’s finance minister said that there are no plans to issue more international bonds this year.

Macroeconomic data and forecasts

Key annual economic data	2009	2010	2011	2012	2013E	2014F	2015F
Real GDP (% change)	4.76	3.64	4.86	2.74	4.36	3.06	4.47
Nominal GDP (US\$bn)	90.91	90.77	99.21	95.98	104.97	109.84	110.32
Consumer price inflation (average, %)	0.99	0.99	0.92	1.28	1.86	2.52	2.89
Budget balance, incl grants (% of GDP)	-3.30	-4.38	-6.72	-7.35	-5.48	-5.56	-5.39
- Revenue (% of GDP)	26.39	27.53	27.82	28.70	28.02	27.85	28.49
- Expenditure (% of GDP)	29.69	31.91	34.54	36.06	33.50	33.40	33.88
Government debt (% of GDP)	57.17	61.00	64.84	71.18	74.82	78.40	81.22
Current account balance (% of GDP)	-5.46	-4.16	-8.06	-9.96	-8.01	-7.64	-7.41
Trade balance (% of GDP)	-17.91	-16.50	-19.61	-20.85	-18.81	-18.38	-18.37
MAD/US\$	8.06	8.42	8.09	8.63	8.40	8.39	8.77
Short-term interest rate (%)	6.20	6.30	6.50	6.30	6.30	6.40	6.50
Foreign reserves (US\$bn)	22.80	22.61	19.53	15.87	18.09	18.05	18.13
Months of import cover	7.60	7.06	4.99	4.25	4.74	4.62	4.49

Source: NKC Research

Key monthly indicators	End-10	End-11	End-12	End-13	Mar-14	Apr-14	May-14
Consumer price inflation (% yoy)	2.00	0.92	2.55	0.44	0.36	0.45	-0.27
Monetary policy rate (%)	3.25	3.25	3.00	3.00	3.00	3.00	3.00
Foreign reserves (US\$bn)	22.61	19.53	15.87	18.09	17.78	19.42	19.56
91-day treasury bill rate (% eop)	3.28	3.36	3.43	3.45	3.25	3.10	3.08
MAD/US\$ (eop)	8.33	8.59	8.45	8.17	8.12	8.08	8.22
Phosphate rock (US\$/tonne, eop)	140.0	202.5	185.0	101.0	108.0	108.0	112.0

Source: NKC Research, Reuters, Bank al Maghrib, HCP

Note: In the table above, E and F are the abbreviations for estimate and forecast respectively.