EDC

Morocco

Economics

Economic

Credit Agencies

Moody's: Ba1

S&P: BB+

Fitch: BBB-

Nominal GDP (2006)

USD 63.3bn

Population (2006):

30.8 million

Total Trade / GDP:

51.1%

Currency:

Moroccan dirham

Exchange regime:

Managed peg

Merchandise imports from Canada (Domestic 2006):

CAD 158 million

Main sources of Foreign Exchange (excl. FDI):

Textiles, phosphate, tourism

Largest Merchandise Trading Partner:

France (21%)

Main imports:

Energy products (23%)

Semi-finished goods (25%)

Risks to the Outlook

No global uncertainties to affect tourism growth

Slower than expected economic growth in the Eurozone

October 2007
Ala Kassay
akassay@edc.ca

Market Spotlight: After an impressive performance in 2006, GDP growth is envisaged to subside markedly to 3.1% as Morocco's agricultural sector encountered another season of drought and severe cold earlier in the year. Given that agriculture accounts for about 14% of GDP, the consequent contraction in agricultural output is likely to take a toll on economic growth.

Recent Economic Developments: Aside from the contraction in agricultural output, consumer and business confidence remains robust. With healthy levels of public and private investment in addition to a decreasing unemployment rate, domestic demand is poised to remain the main engine of growth over the remaining months. However, unfavorable weather conditions will likely weaken rural consumption and by extension private consumption to 4.8%. This should temper domestic demand growth to 5.1% by year-end. Nonetheless, enhanced industrial performance and improvements in infrastructure have expanded job opportunities within the services sector, led by tourism, transport and telecommunications.

Monetary Policy: The Moroccan central bank (Bank al-Maghrib) maintains a tight monetary stance with the key policy rate currently at 3.25%. After surging by 3.4% in 2006, prices moderated in H107 thanks to the strengthening exchange rate, which rendered food imports inexpensive at a time when food demand was particularly strong. Given the government's decision not to pass on the higher costs of importing foodstuffs to the consumer, inflation growth is anticipated to remain negligible in H207, concluding the year at 1.6%. Meanwhile, capital restrictions have been eased as part of a gradual process towards capital account liberalization. Accordingly, firms can now retain 50% of export earnings in foreign currency while the list of overseas instruments banks and insurers can invest in has been extended. Furthermore, the Bank al-Maghrib is in the process of adopting a more flexible exchange rate regime and considering an inflation-targeting framework.

Fiscal Policy: On the fiscal front, the authorities have liberalized the transport, energy, and telecommunications industry; strengthened the financial sector; and opened up its trade regime. Given that attempts to reduce spending inefficiencies and raise revenues have been successful, the government's budget deficit is presaged to remain at an encouraging 2.1% of GDP with external debt-to-GDP maintaining its downward trend. In fact, the ratio is likely to remain comfortably below the emerging-market OECD average at 23% by year-end. Moreover, the declining deficit is progressively being financed by domestic sources rather than revenue generated from privatization. This improvement in Morocco's public finance is reflective of its efforts to abide to a fiscal consolidation strategy. Consequently, greater fiscal prudence has augmented private sector confidence.

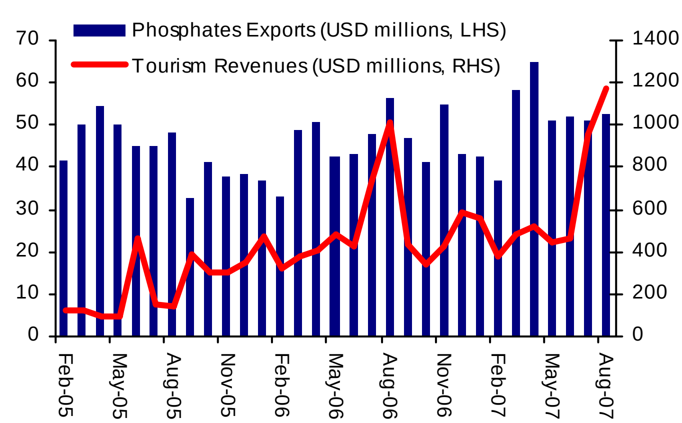
External Sector: The first half of 2007 has been promising as exports of goods and services have grown faster than imports, thanks to buoyant services. A merchandise trade deficit, however, is present as imports have surged by 20% y/y, with salient gains in foodstuffs and plastics, whereas exports have displayed slower growth at 12% y/y. Regardless, the current account remains in the black thanks to the strength of tourism receipts and remittances in H1 as they advanced 14% y/y and 22% y/y, respectively. The trade deficit is envisaged to continue widening into 2008 while the current account is to remain in surplus, aided by robust inflows of transfers and tourism receipts. In turn, this should bolster international reserves to 9.7 months of import cover.

Outlook: Overall, Morocco's economic prospects appear positive over the short- to medium-term. Export growth, however, is at risk if the Eurozone slows far below expectations amid a nervous US consumer and tight credit markets. Provided that the pace of fiscal and economic reform persists, Morocco should be better equipped to weather the global economic slowdown as it is expected to intensify over the remaining months and into next year.

Economic Indicators

	01-05 avg.	2006	2007(f)	2008(f)
GDP (% growth, real)	4.2	9.4	3.1	5.1
Inflation (%)	1.4	3.4	1.6	2.1
Fiscal Balance (% of GDP)*	-7.1	-1.8	-2.1	-1.6
Exports (% growth)	7.6	6.5	7.5	6.3
Imports (% growth)	12.1	10.9	6.5	4.0
Current Account (% of GDP)	3.0	0.4	0.7	1.4
Reserves (month of imports)	8.6	9.2	9.7	10.2
External Debt (% of GDP)	41.0	26.3	23.0	21.6
Debt Service ratio	17.6	10.4	9.2	9.0
Currency (Per USD, year-end)	9.6	8.5	8.4	8.8

Source: EIU, Bloomberg



Source: Bloomberg