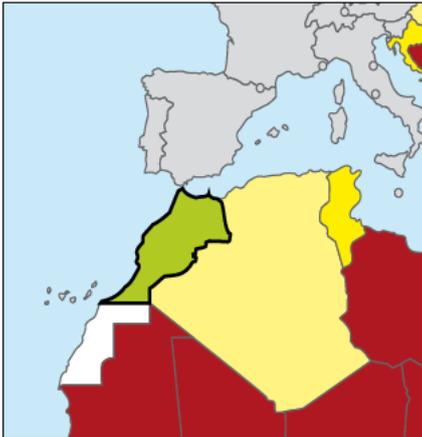




The country risk categories range from 0 to 7. The lower the number, the better the credit rating of the country.



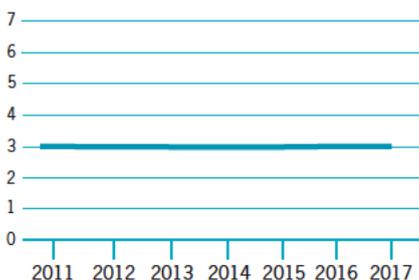
CONTACT

Country analyst: Victor Carstenius
Tel. +46 (0) 8 788 00 65
email: victor.carstenius@ekn.se

BASIC FACTS

Population	35 million
GDP, nominal	USD 101 billion
GDP/capita	USD 2,832

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Gradual reforms

Morocco has proven itself politically and economically stable despite the upheaval in the rest of North Africa and the weak European economy. Since the Arab Spring in 2011, and unlike its neighbours, Morocco has managed to transition into a more democratic system. At the same time, Morocco has over the last five years reduced its budget and current account deficits and carried out growth-promoting reforms. The high levels of poverty and unemployment in the country mean that further reforms are needed.

The economic growth is high, but the dependence on the agricultural sector leads to large fluctuations in the economy. Attempts to diversify the economy towards a more advanced production are underway, but it will take time. Efforts are also being made to reduce the economic dependence on Europe, primarily through increased trade and investment in Africa.

The demand for EKN guarantees for exports to Morocco is limited. Traditional industries like pulp, paper and timber represent the majority of exports guaranteed by EKN.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Gradual democratic reforms have preserved the political stability
- + A responsible economic policy over a longer period of time
- + Efforts to diversify the economy have started to yield results

WEAKNESSES

- The dependence on the agricultural sector makes the economy vulnerable to fluctuations
- High exposure to Europe has curbed growth and exports in the last decade
- Poverty and unemployment rates are relatively high

SWEDISH EXPORTS TO MOROCCO, MSEK

Morocco	MSEK
2016	3,290
2015	2,745
2014	3,750
2013	2,689
2012	2,907

Source: The National Board of Trade

EKN'S EXPOSURE

	MSEK
Guarantees	40
Offers	304

EKN'S POLICY

EKN classifies Morocco in country risk category 3 since 2006. This assessment is carried out in co-operation with the OECD. The favourable classification is motivated by the country's political and economic stability. EKN applies normal risk assessment for all types of transaction. Consequently, there are no predetermined limitations to the risk assessment. EKN does not cover any transactions to Western Sahara. Morocco's annexation of Western Sahara is not recognised by Sweden.

EKN'S COMMITMENT AND EXPERIENCE

During the period 2012–2016, EKN issued guarantees for 40 transactions, to a total amount of close to SEK 400 million, for Swedish companies exporting to Morocco. The forest industry and manufacturers of transport systems represent the majority of exports guaranteed by EKN. Experiences have been generally positive, with few delayed payments and claims paid out.

WHAT MIGHT CAUSE A CHANGE IN THE COVER POLICY?

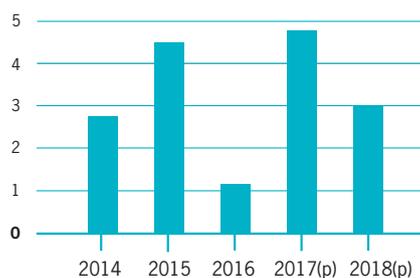
EASING OF RESTRICTIONS, IN THE EVENT OF:

- A continued responsible fiscal policy which leads to reduced debt.
- Growth that leads to reduced unemployment.

THE TIGHTENING OF RESTRICTIONS, IN THE EVENT OF:

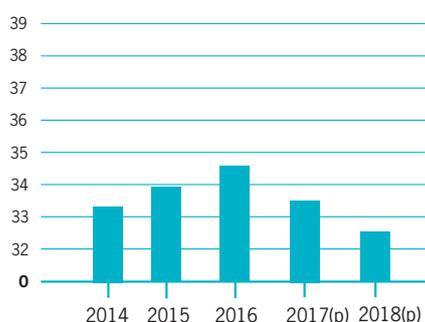
- A return to a more expansive fiscal policy that increases the budget deficit and the public debt.
- Deteriorated balance of payments as a result of, for example, higher oil prices or a transition to a floating exchange rate.

GDP GROWTH (% PER ANNUM)



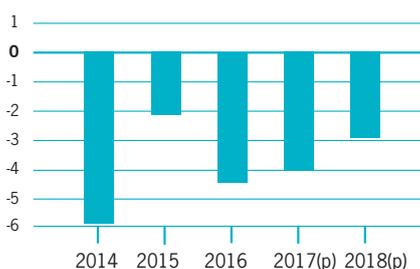
Source: IMF WEO 2017

EXTERNAL DEBT (% OF GDP)



Source: IMF September 2017

CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO 2017

COUNTRY ANALYSIS

BACKGROUND

King Mohammed VI is the dominant figure of the political system and enjoys popular support. Gradual democratic reforms undertaken as of 2011 have been well received and two general elections have been carried out without disruption. The king is considered to have contributed to the stability seen in Morocco since the Arab Spring, and he has utilised this stability to make the country a hub for European industrial companies and a gateway to business in West Africa. Morocco has also deepened its political and economic relations with the Arab Gulf States, all of which have an interest in supporting Morocco as an Arab and Muslim monarchy.

Morocco has implemented a responsible economic policy over several years, which has reduced the vulnerability of its public finances. The country has been working closely with the IMF since 2012. The efforts to diversify the economy and the exports to sectors other than phosphates, agriculture and textiles have started to give results. The automotive industry has increased its share of the exports and has now surpassed the traditional export goods. The agricultural sector still constitutes a large part of the economy and is the largest employer, which exposes Morocco's economy to fluctuations directly linked to annual weather changes.

Despite an increased export diversification, the EU still stands for the majority of exports, tourism and remittances. The strong ties to the EU and the weak growth within the union in the last decade have curbed Morocco's exports and growth. Other weaknesses lie in the country's rigid labour market and inadequate education system, which have led to a low per-capita income and high unemployment rates.

RECENT DEVELOPMENTS

In April 2017, a new Moroccan government was finally appointed after several failed attempts following the election of October 2016. The new government is a coalition of six parties representing different ideologies. The government is led by the Islamic party PJD, which has been the largest party ever since the constitutional reform of 2011. The government is expected to continue focusing on reducing the budget deficit and implementing reforms in accordance with the recommendations of the IMF. The protests in northern Morocco over the last year underline the need to reduce unemployment rates among young people and income disparities between different regions. The king has tried to blame the protests on the government, which has weakened the already fragile coalition. It is uncertain whether the government will survive 2018 in its current form.

Despite the political turbulence, the Moroccan economy is continuing its positive development. Growth is expected to be close to five per cent in 2017, which is a significant increase compared to earlier years.

The improvement is due to the recovery of agricultural production after the drought in 2016 as well as the continued implementation of reforms under the IMF programme. The growth rate over the next three years is expected to be between three and four per cent, but the dependence on the agricultural sector makes this prognosis uncertain.

Government subsidies on fuel and food were raised in 2011 in response to the Arab Spring. Together with the high oil price at the time, this led to large budget deficits and growing public debt. The government has since then significantly reduced the subsidies and other public expenditure while the financial support from the Gulf States has increased. The prognosis for the public finances is cautiously positive. The budget deficit is currently 3.5 per cent of GDP and shrinking. The public debt is expected to stabilise around a manageable 60 per cent of GDP.

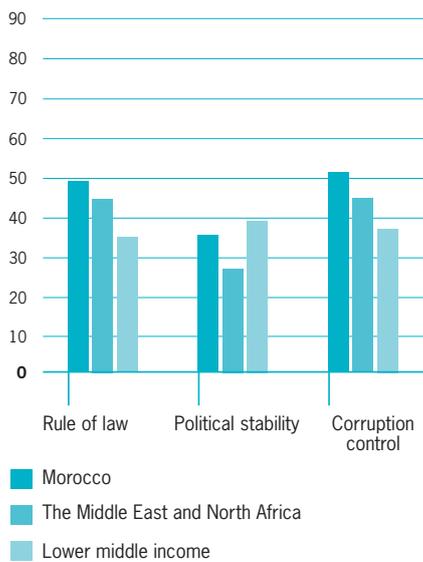
External imbalances continue to decrease. The current account deficit has been steadily decreasing since 2012 thanks to lower oil prices, increased exports and stable remittances. At the same time, the rate of foreign direct investment has been high. The international reserves remain at a satisfactory level corresponding to six months' imports. Another buffer is provided by the IMF lending facilities, even if Morocco does not intend to use it.

THE LONG-TERM TREND

Morocco's growth potential will benefit in the long term from an increasingly diversified economy and long-term investments within energy and infrastructure. The geographical location of the country puts it in an excellent position to function as a hub for the European market and for the growth economies in the Middle East and Africa. The deeper political relationships formed by Morocco with West and East Africa have begun to create opportunities for Moroccan businesses in banking, telecommunications and aviation, among other sectors. The economic ties between the countries will get even stronger over time and create opportunities in sectors such as agriculture, infrastructure and manufacturing.

The Moroccan dirham has long been pegged to a currency basket consisting of the euro and the US dollar. The Central Bank has announced that the currency will eventually be allowed to float freely. The plan for a floating exchange rate was put on hold in 2017, but will likely be resumed. When this happens, the process will take several years and is not expected to entail any drastic changes to the exchange rate. A more flexible exchange rate will increase the country's international competitiveness and provide a buffer against uncertainties in terms of oil prices, increased sociopolitical risks and a weak level of growth in Europe. The dirham has a high degree of convertibility and can be considered by EKN in transactions financed in local currency.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

BUSINESS ENVIRONMENT

The Moroccan business environment is generally favourable. The country is ranked at no. 69 of 190 countries by the World Bank, which is above average for the Middle East and North Africa. Improvements have been made in terms of property registration, business start-up and the reduction of delayed payments in the public sector. Work is underway to improve access to financing, among other ways by reinforcing credit information systems and framework for loan collateral.

On the whole, Moroccan banks have satisfactory capital buffers and access to stable and inexpensive financing through their deposits. The banking sector is fairly concentrated. The three largest banks represent two thirds of the sector's assets. All three have made large expansions in Sub-Saharan Africa, which has resulted in a deteriorated quality of assets. Monitoring of the expansion in Africa has therefore been increased, among other ways in collaboration with supervisory authorities in the host countries, and stricter requirements on capital and provisions have been introduced. IMF stress testing has shown that the banking system can withstand deteriorated external conditions.