

Morocco Business Forecast Report Q1 2015

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Abstracts

Core Views

Despite Morocco not possessing hydrocarbon wealth, the country's economy will remain a relative outperformer in North Africa over the medium term. Investor interest in the country as an exportoriented manufacturing hub for the European market, coupled with a burgeoning tourism industry, bode well for Morocco's underlying growth momentum in the next few years.

Economic activity in Morocco will pick up from 2015 onward, driven by improvements in the external sector and investment outlook. Real growth will return to 4.0% in 2015 and 2016 – close to the past decade's annual average, and up sharply from our estimate of 2.6% for 2014.

The renewal in July 2014 of Morocco's credit line with the IMF will help to support the economic recovery that we forecast from 2015 onward. Although less necessary than the original arrangement reached in August 2012, the new IMF deal marks a coup for the government and gives it a credible policy anchor to continue its programme of economic reform.

Morocco continues to benefit from the global trend of tumbling bond yields, as well as its stronger investor profile relative to other North African countries. That said, we retain our view that most of the gains are now behind us, with upside pressure on Morocco's eurobond yields set to increase over 2015.

We believe that Morocco is ready to transition towards a more flexible exchange rate policy by 2017, a move that would lead to a depreciation of the dirham against both the euro and the dollar over the remainder of our forecast period. Moving away from the current basket peg system would help to improve export competitiveness and reduce

the country's high labour costs.

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Economic activity in Morocco will pick up from 2015 onward, driven by improvements in the external sector and investment outlook. Real growth will return to 4.0% in 2015 and 2016 - close to the past decade's annual average, and up sharply from our estimate of 2.6% for

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Morocco is ready to transition towards a more flexible exchange rate policy by 2017, a move that would lead to a depreciation of the dirham against both the euro and the dollar over the remainder of our forecast period.

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Rate Cut Could Lead To Further Easing

Low inflationary conditions have allowed Morocco's Central Bank to cut its benchmark interest rate for the first time since 2012, to 2.75%. Given ongoing weakness in international food and energy prices, we see scope for further monetary easing over the coming quarters.

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