

# Africa Research Bulletin

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**This issue**

## Building bridges: Morocco and Egypt looking south beyond the Sahara



In this bulletin we take a closer look at Morocco's and Egypt's cross-border relationships and activities with Sub-Saharan African countries, followed by **country updates** for Morocco and Egypt as well as **business potential and opportunities** for other countries. Sub-Saharan Africa is home to 48 countries with a combined population of around 1 billion, each country different in size

and market specialities. Most of the economies are dominated by the extraction of various raw materials which have been subject to strong price fluctuations on the world market, especially in recent years. Apart from the present activities of China, India, Russia and other countries in the West, it is worth noting that Morocco and Egypt are also active in this region. While Morocco enjoys a long relationship with SSA countries, Egypt is just beginning to rediscover its old connections ... **page 2**

### Country updates



**Egypt**

After the revolution in 2011 Egypt went through some turbulent years. Apart from the political wobbles, real GDP growth weakened, unemployment increased and FX reserves dwindled. A terrorist attack on a Russian airplane in October 2015 was an additional setback. President el-Sisi had to act in order to prevent economic collapse. In 2016 the government agreed a program with the IMF to receive USD 12bn over a three-year period (USD 10bn has been distributed so far) in exchange for substantial economic reforms ... **page 7**

**LATEST NEWS +++ LATEST NEWS +++ LATEST NEWS**

**+++ Gambia signs oil exploration deal** Gambia's government, trying to revive an economy gutted by more than two decades of autocratic rule, signed a two-year contract to explore oil and gas off its coast. The two blocks, lying close to neighbouring Senegal where big discoveries have been made, are supposed to have a potential of up to 3 billion barrels of oil.

**+++ China forgives Cameroon USD 78m debt** China forgave Cameroon about USD 78 million of debt as part of support to help ease economic hardship in the central African country. This amount was due to be repaid in 2018 as part of the country's estimated USD 5.7bn total debt burden.

**+++ Angolan government reduces 2019 growth forecast** The Angolan government has slashed its 2019 real GDP growth forecast to 0.4%, down from 2.8%, due to a 2.2% contraction in oil sector GDP in 2019, while the non-oil sector is expected to grow by 1.5%. Despite the government undertaking wide-ranging reforms to make Angola more attractive to overseas private investors, such efforts take time to translate into increased investment flows.

**+++ China cancels Ethiopia's interest-free loans** On the occasion of the second Belt and Road Forum for International Cooperation (BRF), Beijing has cancelled all interest-free loans it had advanced to Ethiopia as at the end of year 2018. Analysts estimate that since 2000 Ethiopia has borrowed over \$12bn from China – including funding for the Addis Ababa – Djibouti electric railway line linking the country with Djibouti, its main trading route.

Source: Africa news, Reuters



**Morocco**

Morocco's economic development is remarkable. Traditionally, agriculture was the main pillar of the economy. Then in the 1970s, Morocco began to exploit its main natural resources – phosphates. Another area of key investments was tourism which has seen arrival numbers constantly rising thanks to Morocco's domestic stability and proximity to Europe. In addition, Morocco has continuously improved its business environment and attracted substantial FDI from Europe over the last years ... **page 9**



## Building bridges: Morocco and Egypt looking south beyond the Sahara

With real economic growth rates averaging 4.3% between 2010 and 2018, Sub-Saharan Africa (SSA) has ranked second behind the front-runner Asia with 7.2%. Sub-Saharan Africa is home to 48 countries with a combined population of around 1 billion, each country different in size and market specialties. Most of the economies are dominated by the extraction of various raw materials, which have been subject to strong price fluctuations on the world market, especially in recent years. On the wave of a moderate rise in commodity prices and large infrastructure projects, the International Monetary Fund forecasts a growth rate of 3.8% of GDP in 2019 for the region, an improvement compared to the years before.

It is generally known that the present involvements of China, India, Russia and countries of the West such as US, Japan and France in Sub-Saharan Africa are very strong with growing tendencies. Their allocations are flowing into budget support, development aid, technical assistance, public-private partnerships as well as foreign direct investment (FDI). Often, the political and economic ambitions of the donors vary greatly and may even be marked by rivalries. It is worth mentioning that **Morocco** and **Egypt** are also active in this region. This may be due to geographical proximity, a natural attraction due to linguistic nearness (Francophone and Anglophone), cultural and religious similarities as well as cultural links. While **Morocco enjoys a long relationship** with SSA countries, **Egypt** is just beginning to **rediscover** its old connections. In this bulletin we will take a closer look at Morocco's and Egypt's cross-border relationships and activities to SSA, followed by **country updates** of Morocco and Egypt as well as **business potential and opportunities** for other countries.

### Morocco and Sub-Saharan Africa – a long relationship

Morocco, centrally located between the Mediterranean countries and Sub-Saharan Africa, enjoys a favourable strategic geographic position and is known as a relatively low-cost manufacturing hub for European companies. Offering political and institutional stability, Morocco's liberal economy with an increasingly well-trained and also young workforce is virtually the **main gateway to SSA**, whose countries

benefit from Moroccan expertise as a more developed country. Trade, foreign direct investment and other cooperations have increased steadily during the last decade, covering the following priority sectors which are also likely to have spillover effects to others in the medium term, e.g. banking, insurance, infrastructure with transport and logistics, real estate, agriculture, energy (here especially renewable energy), industry distribution, digitalisation and human capital training.

As a whole, the centuries-old relations between Morocco and SSA had their origin in caravan routes crossing the Sahara and the movement of nomadic tribes. The links started to strengthen with the “Conférence de Casablanca” in 1961 under the auspices of King Mohammed V on behalf of the Organization of African Unity (OAU). Conventions of Morocco such as the “most favoured nation”, bilateral **preferential trade agreements** and double-tax agreements have been signed with a lot of SSA countries, especially in the francophone zones of Western and Central Africa, but also extending to Angola and Sudan. Since he was enthroned in 1999, King Mohammed VI has implemented even more political and economic activities, aiming to achieve regional integration with the growing markets of SSA. There has been a recent noteworthy shift to strengthen bilateral relations with Eastern Africa, presently the fastest growing region, with Ethiopia, Kenya and Rwanda as new potential markets for Moroccan firms.

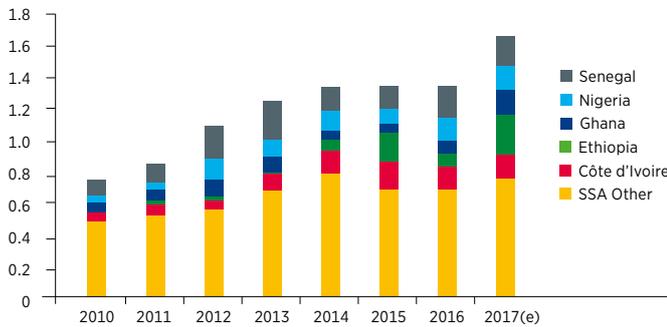
Morocco rejoined the African Union (**AU**) in 2017, a union of 55 states with the aim of strengthening the unity and development of the continent. Regarding the West African Economic and Monetary Union (**UEMOA**), Morocco hopes that the initialed preferential trade and investment agreement will be signed as soon as possible to boost economic relations with its eight member countries Benin, Burkina Faso, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal and Togo. In 2018, Morocco applied to join the Economic Community of West African States (**ECOWAS**), a regional economic union comprising 15 West African countries with a population of more than 350 million, including the economically strong countries Côte d'Ivoire, Ghana, Nigeria and Senegal, with the aim of promoting economic integration across the region. Morocco has also moved closer to the Central African Economic and Monetary Community (**CEMAC**), com-

prising Cameroon, the Central African Republic, Chad, The Republic of Congo, Equatorial Guinea and Gabon with a population of about 40 million.

**Inter-regional trade matters between Morocco and Sub-Saharan Africa**

With a share of 70%, Morocco’s trade is predominantly focused on advanced economies, especially the eurozone. Nevertheless, regional activity has been increasing. While Moroccan imports from SSA are very small, exports to SSA show annual growth rates of 15%. Looking separately at the growth rates of Morocco’s exports of goods and services to SSA, a growth rate of 125% between 2010 and 2017 can be observed. In 2010, the two CFA franc zones had the highest share in Moroccan exports at 65%, led by Equatorial Guinea and Senegal. Since then, the picture has considerably changed. An extraordinary development is that in 2017 Ethiopia rose to become Morocco’s leading market with 15% of total exports, while West Africa, mainly with the countries of the CFA franc zone, remains the first destination of Moroccan exports, albeit with a reduced share of 50%, led by Senegal and Côte d’Ivoire. Exports to Nigeria and Ghana have increased from a very low level to 7.5% each.

Chart 1: Morocco’s exports to Sub-Saharan Africa and individual countries in USD billion

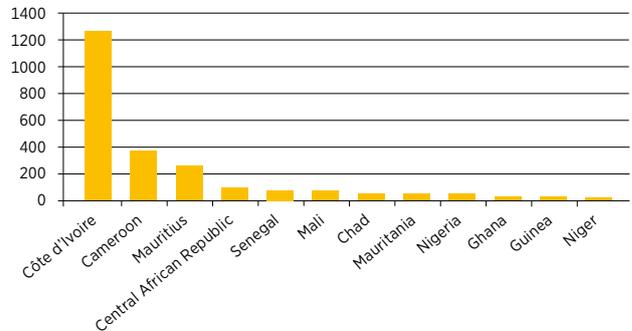


e = estimated; Sources: IMF, Commerzbank

**Morocco – FDI to Sub-Saharan African countries, but the banking sector is the clear leader**

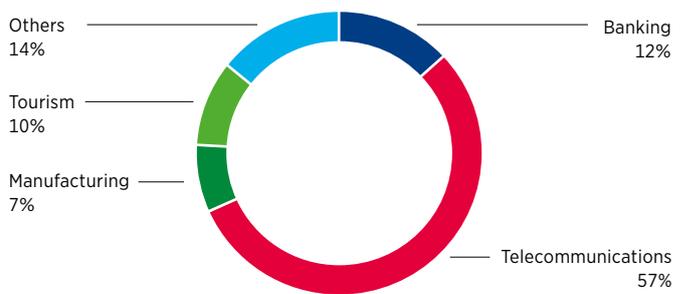
While other North African countries have had a sharp decline in FDI outflow, Morocco is one of the leading investors in Sub-Saharan Africa with a volume of USD 5.8bn between 2007 and 2017 diversified across a wide range of sectors. Over the years, the sectors in which Morocco invested have undergone a structural change. While in 2007 the telecommunications sector accounted for 57% of the total, followed by the banking sector with 12%, in 2017 it was the banking sector that played the leading role with 60% of the total, followed by the telecommunications sector, **real estate, construction** and **manufacturing**. In 2017, the French-speaking countries in Western and Central Africa were the main recipients of Moroccan FDI in Sub-Saharan Africa, with the lion’s share received by **Côte d’Ivoire**, followed by Cameroon, Central African Republic and Senegal.

Chart 2: Morocco: Stock of FDI in Sub-Saharan Africa (2017) in USD million – Côte d’Ivoire is the favourite



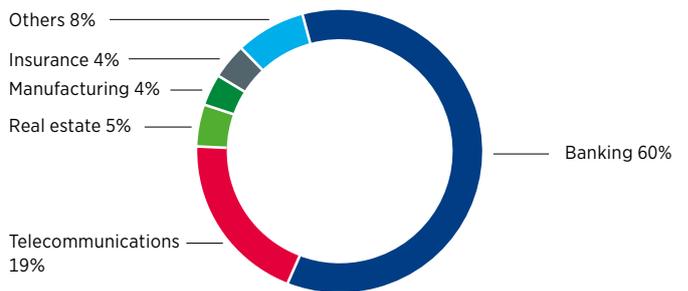
Source: Office des Changes, Rabat

Chart 3: Morocco: Stock of FDI in Sub-Saharan Africa by sectors (2007)



Source: Office des Changes, Rabat

Chart 4: Morocco: Stock of FDI in Sub-Saharan Africa by sectors (2017) – the banking sector is the clear leader



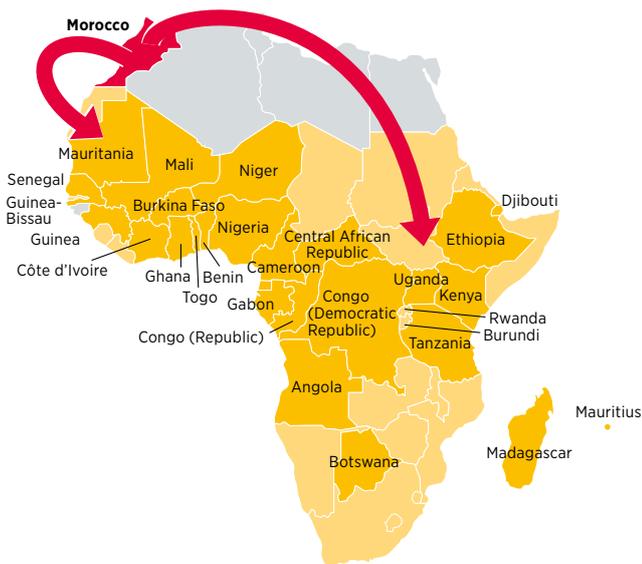
Source: Office des Changes, Rabat

Compared to the stronger increase in exports to Eastern Africa in recent years, FDI is still at a low level. Morocco’s three largest banks – Attijariwafa Bank, Banque Populaire du Maroc and Banque Marocaine du Commerce Extérieure (BMCE) – have subsidiaries in 23 countries of SSA with about 500 branches. There is a concentration on the coun-

tries of the CFA franc zone. The leading bank, Attijariwafa Bank, which also has branches in Europe and the Gulf, offers its expertise to governments in the markets which it enters. Moroccan banks are also eyeing new acquisitions this year in Rwanda, Kenya, Ethiopia and Mauritius. Despite a higher risk and often weaker capitalisation, the advantages for the Moroccan banks are higher return and bigger margins as well as diversification, while the banks with Moroccan participation benefit from more modern technology and know-how in general. **Maroc Telecom**, the country's largest telecommunications company holds majority stakes with fixed-line and mobile telecommunications networks in Mauritania, Gabon, Mali, Benin, Togo, Niger, Central African Republic and Côte d'Ivoire.

**Medical health care** in Morocco is not quite as advanced as in Europe but ranks among the best of the continent. In bigger cities like Rabat and Casablanca there are excellent private clinics of a high standard with good French-speaking medical specialists, qualified staff and technological standards. As a consequence, SSA countries are eager to benefit from Morocco's experience in the health sector for assistance in the development of hospital structures, generic drugs and training of medical professions in combating various diseases. The kingdom sees its vocation to support the health sector with training and the exchange of medical missions in Western and Central Africa as a contribution to poverty reduction and political stability.

**Morocco's involvement in Sub-Saharan Africa**



The pan-African insurance company **Saham Group**, a conglomerate with 16,000 employees based in Morocco, promoting access to health care (clinics, pharmaceuticals laboratory, diagnostic centres) and education (schools), is also active in management (outsourcing) and construction. Local presence is in twenty countries of SSA, from Mali and Niger in West Africa up to Angola and Botswana in the south and Madagascar and Mauritius in the east. Another leading Moroccan insurance group is **Wafa Assurance**, a brand of Attijariwafa Bank, which is also a big player in French-speaking countries of West and Central Africa. **Sothema**, based in the region of Casablanca, is specialised in the manufacturing and marketing of medicines and has partners in Western and Central Africa. In the **property business**, Alliances Développement Immobilier has signed partnership agreements with the Cameroonian and Ivorian governments in order to build council housing. **Palmeraie Développement** has launched building projects in Gabon, Côte d'Ivoire and Rwanda. The Morocco-based **Addoha Group, engaged in the real estate sector**, operates from Mauritania up to Angola. Many holdings such as **Ynna Holding** and the Al Mada are involved in **mining**. Morocco and Nigeria have a 6,600 km-long gas pipeline project under discussion.

**Morocco: Business potential and opportunities**

Foreign companies have the opportunity to benefit from Morocco's long-standing expertise in the countries of SSA by using the kingdom's network of financial services and other sectors as an entry point. Casablanca Finance City (CFC), established in 2010, is a special zone offering fiscal and tax incentives to professional services providers and it has become an economic and financial hub for international investors to choose Morocco as a **gateway** to access the countries of SSA, especially in the French-speaking areas. In addition, Morocco's free-trade deals with western countries could help to achieve favourable tariffs in SSA countries.

**Egypt and Sub-Saharan Africa - restoration of historical ties**

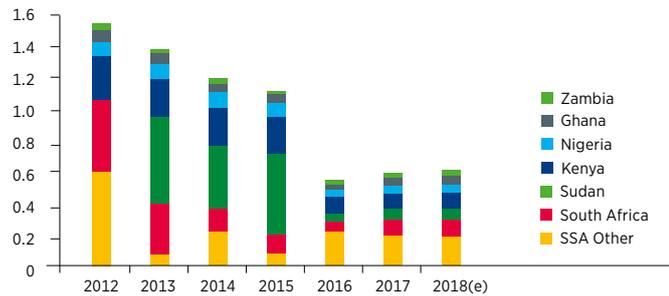
Egypt enjoys strategic advantages due to its geographical location in northeastern Africa with the bustling Suez Canal, a hub for world maritime traffic and gateway from the Red Sea to the Mediterranean Sea in the north with access to Europe and Middle East, and in the south to Eastern and Southern Africa up to Asia. Trade and cultural ties with SSA date back thousands of years. With the independence of many countries of Sub-Saharan Africa, Egypt supported their development, mainly with educational support, e.g. scholarships for students from the newly formed countries. After a period of political uncertainty starting in 2011 with stagnation of foreign policy, relations have improved over the past four years with business reforms, Egypt's mounting interest in more regional integration and the search for new

economic opportunities, which are dependent on a mutual solution to the Nile water issue for all participants.

**Inter-regional trade between Egypt and Sub-Saharan Africa**

Egypt has strengthened its presence in the Common Market for Eastern and Southern Africa (COMESA), a regional organisation with nineteen countries and a population of about 470 million people that it joined in 1998. Egypt has also signed up to the Tripartite Free Trade Area (TFTA) in 2015 in Cairo between the COMESA, the East African Community (EAC) and the Southern African Development Community (SADC), paving the way for the creation of an African Continental Free Trade Area (CFTA). In February 2019, the African Union’s chairmanship passed over from Rwandan President Paul Kagame to the Egyptian President Abdel Fattah el Sisi for the next five years. Apart from Algeria, Libya, Morocco and Tunisia, Egypt has signed double tax treaties as well as investment protection pacts with Ethiopia, Mauritius, South Africa and Sudan.

Chart 5: **Egypt’s exports to Sub-Saharan Africa and individual countries in USD billion**

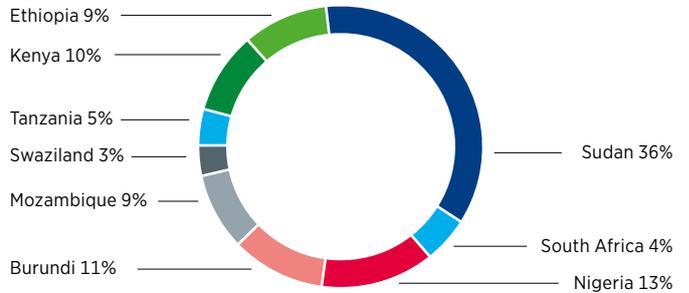


e = estimated; Sources: IMF, Commerzbank

As Egypt’s main trading partners are the Advanced Economies (about 50%) and the Middle East (about 30%), especially with the United Arab Emirates, the share of trade with SSA countries is consequently rather low and even decreased since 2013. Sudan was a strong importer until 2015, but with deterioration of the economic situation in Sudan and the sharp decline of foreign currency reserves, imports were cut dramatically. Since 2016, however, a small acceleration of exports to SSA has been observed.

Egyptian’s FDI in SSA is minimal, dominated by Sudan and South Africa, followed by Nigeria and Burundi, but also on a very low level. Nevertheless, the impression that Egypt is inactive in the countries of SSA, especially in the countries on the east coast, needs some correction.

Chart 6: **Egypt – Stock of FDI in Sub-Saharan African countries between 2010 and 2018 (estimation)**



Source: Commerzbank

Numerous Egyptian firms contribute their expertise in a variety of business sectors in the countries of SSA, most of them with long-standing branches and influence, e.g. Arabian Construction Company, Bahgat Group, El Nasr Company and Qualaa Holdings. Their activities are in the following countries:

**Egypt’s involvement in Sub-Saharan Africa**



In 2006, Qalaa Holdings acquired a 25-year concession for **Rift Valley Railways (RVR)** to operate the 2,352 km of track linking the port of Mombasa at the Indian Ocean to inside Kenya and the Ugandan capital Kampala, offering East African exporters a comprehensive transportation mechanism. Since 1995, Banque du Caire, Bank Misr and the National Bank of Egypt, Cairo have run a joint venture with the International Bank (CIB), a Ugandan commercial bank. The National Bank of Egypt (NBE) has a branch in Khartoum (Sudan) and two representative offices in Addis Ababa (Ethiopia) and Johannesburg (South Africa). Banque Misr has announced plans to open representative offices in Kenya, South Africa, Nigeria, Tanzania and Senegal. Egypt's private trade community is supported by the **Egyptian Agency of Partnership and Development (EAPD)**, established in 2014. Its objective is also to send highly qualified Egyptian experts, specialists and consultants to SSA countries, to offer training courses and technical assistance programs in various fields, capacity building, training session, supporting food security initiatives and aid programs by dispatching medical convoys to transfer knowledge, skills and expertise.

Driven by the Nile water issue, Egypt joined the **Nile Basin Initiative (NBI)** in 1999, a partnership with Ethiopia, Burundi, the Democratic Republic of the Congo, Kenya, Rwanda, South Sudan, Sudan, Tanzania and Uganda. The

goal of a common maritime corridor between Lake Victoria and the Mediterranean is to support trade, especially for the landlocked countries, to Egypt's international sea ports of Alexandria, Damietta, Port Said and Suez, also to provide employment opportunities. The necessity of deeper cooperation arose above all from the construction of the Grand Ethiopian Renaissance Dam (GERD) in Ethiopia, which is of strategic importance for Egypt due to its reliance on the River Nile, which provides 97% of its water needs. As soon as the project approaches its conclusion, Egypt will have to manage the water deficit. This is important for its increasing electricity demand that currently relies on the Nile High Dam and the Aswan Reservoir as well as for its agriculture along the fertile River Nile and its delta.

#### **Egypt: Business potential and opportunities**

Egypt aims to give a new boost to its relations with African countries, supported by the Egyptian Ministry of Trade and Industry (MTI). The targeted countries in SSA are Tanzania, Uganda, Kenya, Djibouti, Côte d'Ivoire and Ghana, with representative offices and logistic centres. The Egyptian Exporters Association – Expolink (EEA) is also planning to develop networks with logistic centres in countries of SSA. Their expertise can be shared by foreign firms and investors as a springboard to SSA, especially to the Arabic-speaking regions.





## Country assessment – Egypt: IMF program yields positive results

**After the revolution in 2011, Egypt went through some turbulent years.** Apart from the political wobbles, real GDP growth weakened, unemployment increased and FX reserves dwindled. A terrorist attack on a Russian airplane in October 2015 was an additional setback. President el-Sisi had to act in order to prevent economic collapse. In 2016 the government agreed a program with the IMF to receive USD 12bn over a three-year period (USD 10bn has been distributed so far) in exchange for substantial economic reforms. One of the reforms was to allow the currency to float freely, which devalued the Egyptian Pound by around 50% in November that year.

**The IMF program was a game changer.** Egypt demonstrated from the outset its strong commitment to implement the required reforms. This encouraged other creditors such as the World Bank to increase their investment as well. FX reserves soared, long-standing FX shortages disappeared and FX restrictions were abolished. As the devaluation made Egyptian goods and services cheaper, the current account improved rapidly, especially driven by stronger tourism revenues. Foreign direct investment also picked up, partly in order to develop the newly discovered Zohr gas field which is the largest in the Mediterranean Sea. On the negative side, more expensive imports sent inflation to above 30% in the months after the devaluation, eroding the purchasing power of ordinary citizens. Moreover, the increase of FX reserves was primarily financed by swelling external debt.

**Today the Egyptian economy is much stronger than in 2016.** FX reserves stand at record levels (USD 38.6bn in 01/19) covering more than 6 months of imports of goods and services. The current account is in surplus when netted with foreign direct investment inflows (+0.3% of GDP). Real GDP growth exceeds 5%, supported by increasing output of the Zohr gas field and government-sponsored infrastructure projects like the new capital. Inflation has fallen again after the base effect from devaluation faded. Another positive development is the declining unemployment rate which has reached a pre-revolution level of about 10%.

Chart 7: **Positive trend of the adjusted current account as a percentage of GDP (shown in %)**



Sources: IMF, National Statistics, Commerzbank

**But challenges remain.** Firstly, FX reserves face increased volatility as the Central Bank of Egypt sees pre-determined outflows of USD 18.5bn and inflows of USD 13.2bn over a 12-month horizon. Secondly, import growth (about 20%) has surpassed export growth (about 10%) in recent months, so the trade balance is deteriorating again. This reflects the fact that the competitive advantage from the initial devaluation has been eaten up by inflation over time. Thirdly, although unemployment is falling, it is still high among youths and women, which requires ongoing attention in order to tame social discontent. And finally, the budget deficit (-9.7% of GDP in 2018) and public debt (92% of GDP) are on a level that is unsustainable over a longer period of time.

### Investment & foreign trade opportunities

Egypt is currently upgrading its electricity infrastructure, building a new administrative capital (to a large extent funded by China) and investing heavily to become a regional gas hub. For example, in the future Israeli gas will be liquefied and shipped via facilities in Egypt. Egypt is also pressing ahead with plans to make government bonds even in the local currency ready to be settled via Euroclear, which would make access easier for foreign investors. Germany is among the top five export and import destinations with nearly half of the imports from Germany being machinery and half of the exports to Germany being petroleum products.

### Mid-term outlook

With lower inflation and falling unemployment, social discontent should ease somewhat. This will bolster the position of President el-Sisi, who was re-elected for a second term last year. The healthier state of the economy provides some leeway for the government to reduce the budget deficit and at the same time expand the social security net for the poorest. In the months ahead consolidation measures will be centred on cuts in energy subsidies while social initiatives include a new national health care scheme. Moderate fiscal restraint combined with sizeable inflation will compress the ratio of public debt to GDP in the coming years, a key demand from the IMF. As the IMF program ends this year and Egypt has indicated that it will not seek a renewal, it needs to finance future shortfalls in the current account or budget via financial markets. In our opinion this should not pose a challenge as long as the domestic security situation is stable and the economic recovery continues.

Table 1: **Egypt – Macroeconomic indicators**

	2016	2017	2018	2019(f)
Population (million)	91.0	95.2	97.1	100.0
GDP per capita (USD)	3,656	2,461	2,577	3,030
Nominal GDP (USD bn)	333	234	250	303
Real GDP (% change)	4.3	2.7	5.3	5.5
Inflation rate (% year average)	10.2	23.3	20.9	14.5
Fiscal balance (% GDP)	-12.5	-10.6	-9.7	-8.3
Public debt (% GDP)	97	103	92	86
Current account balance (% GDP)	-6.0	-6.6	-2.8	-2.5
External debt (% exports)	129	147	131	123
FX reserves (USD bn)	13.9	27.6	40.4	44.9
Import cover (months)	2.3	4.6	6.2	6.6

All data refer to end of fiscal year, f = forecast

Sources: IMF, National Statistics, Commerzbank



## Country assessment – Morocco: Steady foreign direct investments drive economic development

**Morocco's economic development is remarkable.** Traditionally, agriculture was the main pillar of the economy. Then in the 1970s, Morocco began to exploit its main natural resources – phosphates. As the kingdom holds more than 70% of total global reserves, it developed an industry which has become the third biggest phosphate producer in the world, fabricating fertilisers and other related products. Another area of key investments was tourism which has seen arrival numbers constantly rising thanks to Morocco's domestic stability and proximity to Europe. Tourism and the phosphate industry are now the largest foreign exchange earners for the kingdom. In addition, Morocco has continuously improved its business environment and attracted substantial FDI from Europe over the last years, for example in the automobile (Peugeot, Dacia) and aerospace industries. Although the importance of industries and services has risen over time, real GDP growth is still volatile as around 35% of the workforce is employed in the weather-dependent agricultural sector.

**The economic success is reflected in numerous facts.** Morocco's GDP per capita is among the highest in Africa. Wealth accumulation is expected to continue as real GDP growth clearly exceeds population growth. FX reserves are healthy covering almost half a year of imports while external debt is low. Inflation is under control at less than 2%, although this is partly due to regulated prices. All in all, agencies have assigned credit ratings which are in or on the verge of investment grade, placing the kingdom among the top five rated countries in Africa.

**But expectations of the young generation may be difficult to meet.** Since 2017 social tensions have increased, starting in the neglected Rif region and then spilling over to other parts of the country. Discontent has erupted primarily among the youth and has been focused on perceived corruption, high unemployment (10% on average, more than 25% among the young generation) and regional disparities.

**The authorities try to balance economic and social needs.** Morocco is a constitutional monarchy and both the palace and the government appear inclined to stabilise economic fundamentals on the one hand while enhancing social

Table 2: **Morocco: Macroeconomic indicators**

	2016	2017	2018	2019(f)
Population (million)	35.3	35.7	36.2	36.7
GDP per capita (USD)	2,929	3,070	3,296	3,349
Nominal GDP (USD bn)	103.3	109.7	119.4	122.9
Real GDP (% change)	1.1	4.1	2.9	3.2
Yearly average CPI (% year)	1.6	0.8	1.9	1.4
Fiscal balance (% GDP)	-4.1	-3.6	-3.6	-3.3
Public debt (% GDP)	64.9	65.1	65.3	65.2
Current account balance (% GDP)	-4.4	-3.5	-3.9	-4.0
External debt (% GDP)	112.6	113.0	107.4	105.3
FX Reserves (USD bn)	24.3	25.3	23.5	25.5
Import cover (months)	6.1	5.8	4.9	5.2

All data refer to end of fiscal year, f = forecast

Sources: IMF, National Statistics, Commerzbank

benefits on the other. For example, the government has introduced a five-year tax break for new companies to attract even more foreign direct investment. Additional economic reforms include a new bankruptcy law and the cutting of red tape required for starting a business.

In order to appease the social unrest, the government has implemented a temporary fuel price cap, among others. Together with a shortfall in corporate taxes and lower grants from Gulf countries, we conclude that fiscal consolidation has stalled in 2018. When looking at the external economy, the government has so far been reluctant to allow a more flexible exchange rate, one reason might be to prevent higher fuel costs for citizens. However, a moderate devaluation would help to reduce the current account deficit which we assume to have deteriorated in 2018 due to higher energy imports.

In the short-term this balanced approach is affordable. Public debt is manageable at around 65% and a temporary delay in fiscal consolidation should not pose serious problems given the sound credit rating. The rising current account deficit is to a substantial part covered by growing inflows of foreign direct investment while a renewed precautionary liquidity line from the IMF (which has never been utilised so far) provides an additional buffer.

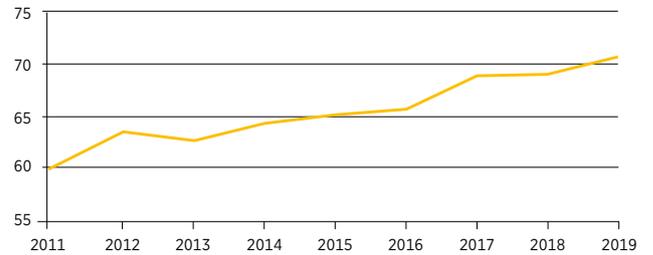
**Investment and foreign trade opportunities**

For 2019 the government hopes to generate additional revenues from privatisation efforts, most notably by selling parts of its stake in Maroc Telecom, which might also be an opportunity for foreign investors. In addition, the government will continue to invest in infrastructure projects, such as the first high-speed train network in Africa which went operational in late 2018 and is set to expand. However, although around 70% of exports and imports are done with Europe, the lion’s share results from trade with France and Spain and only about 5% from Germany. Main imports from Germany are cars and machines while main exports comprise textiles and vegetables.

**Mid-term outlook**

Morocco will continue to diversify away from volatile agriculture to services and manufacturing. Foreign direct investments remain key as the kingdom develops industrial

Chart 8: **The World Bank’s “Doing Business Score” is improving (100 equals best)**



Sources: World Bank

clusters around new factories with the objective of increasing local content over time. This strategy will help to stabilise real GDP growth and promote jobs. In this respect, we also expect further government efforts to address bottlenecks in education and vocational training which are needed to meet the skills in the new industries. We also assume that fiscal consolidation will gather pace with the planned privatisations and an envisaged tax reform. With respect to the exchange rate, we are more cautious and do not believe that the currency will be allowed to fluctuate in a significantly wider band in the foreseeable future.



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