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PANORAMA

SEPTEMBER 2016

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By Coface Group Economists



As a follow-up to the survey on Moroccan companies' payment periods published in May 2015, Coface here presents the results of the second edition. Based on the same principle as the 2015 survey, it seeks to analyse changes in Moroccan companies' behaviours and their perceptions of the economic situation.

Companies' payment behaviour remains a relevant indicator of the economic situation. An extension of payment periods and an increase in delays in transactions between companies indicate that they face problems. 2016 will be a difficult year for the Moroccan economy, which is facing a slowdown in activity because of the poor performances of the agricultural sector. Even though the non-agricultural

economy is proving to be resilient, payment periods tend to increase in all sectors and the companies surveyed expect activity to stagnate. Late payments continue to be one of the main obstacles to hiring and investment.

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SEPTEMBER 2016

Morocco: The economy is slowing down; payment periods are getting longer



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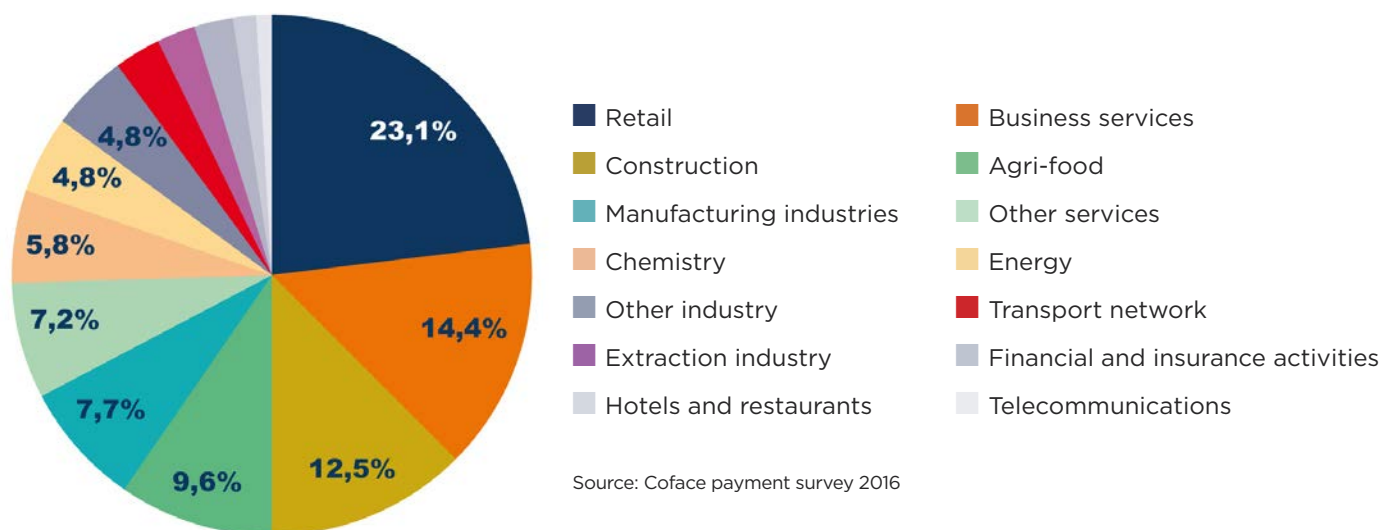
Who are our respondents?

The 2016 survey we present in this publication is based on the same methodology as the one in 2015⁽¹⁾. On a voluntary basis, we asked 30 questions to Moroccan companies on their payment practices and their perception of the economic situation through an online questionnaire. While the 2015 edition sought to identify companies' payment behaviours by focusing on the structural aspect, in this second edition we focused more on questions of an economic nature.

208 companies of different sectors were willing to participate. Among the most represented

sectors, the respondents mainly came from the following sectors: retailing (23%), business services (14.4%), construction (12.5%), agri-food (9.6%) and manufacturing industries (7.6%). By comparison with the 2015 survey, this edition includes more companies present in the domestic market (69.7% of the companies operate only in the domestic market versus 61.5% in 2015). Even though the breakdown of the companies by turnover is similar, more companies with less than 20 employees responded than in the first edition, but the number of small businesses (less than 100 employees) remains similar.

What is your main sector of activity?



(1) In order to compare the two editions of the Coface payment survey, the result of the April 2015 campaign will be named as "2015" and the result of the end of the year campaign of November 2015 will be labelled as "2016".

1 OUTLOOK FOR THE MOROCCAN ECONOMY

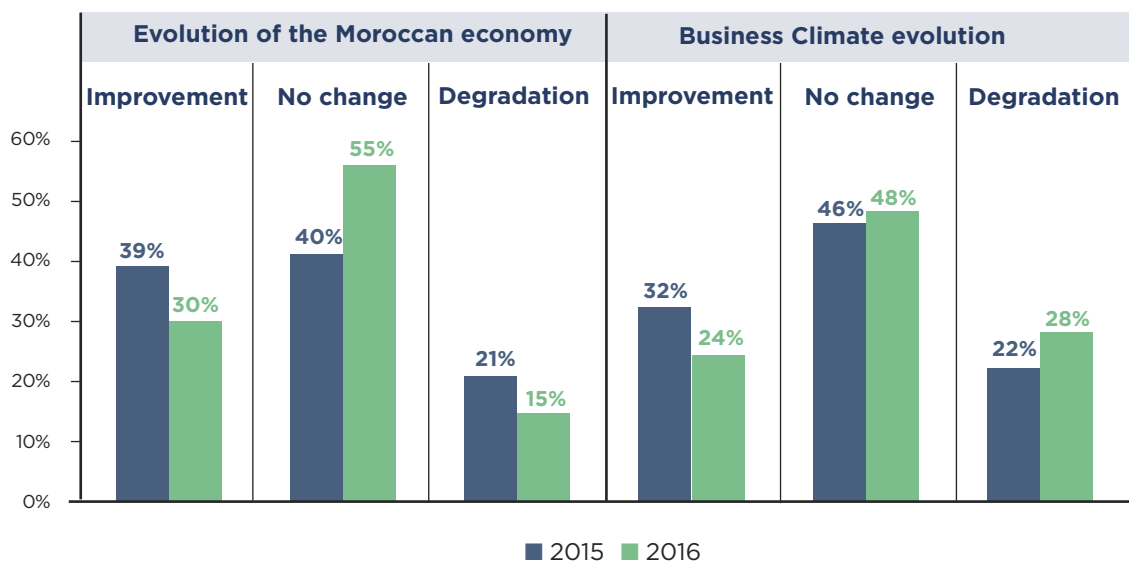
Moroccan growth has slowed in 2016 after reaching a growth rate close to 4.5% in 2015. The more than 70% fall in cereal production between 2015 and 2016 is likely to limit the country's GDP to a growth rate of close to only 2% this year. This slowdown can be seen from the data for the first and second quarter of 2016. According to the estimates of the *Haut Commissariat au Plan*, the growth rate was 1.7% in the first quarter of 2016 versus 4.7% in the same period of 2015. This slowdown is expected to continue in the second quarter, with an annualised growth rate of 1.4%. But while agricultural value added contracted by 12.1% in the second quarter and by 9% in the first, non-agricultural value added increased by 2.5% in the first and in the second quarter of 2016 versus 3% in the fourth quarter of 2015. The surveyed Moroccan companies are feeling this slowdown: 55% of them perceive stagnation in activity and 28% a deterioration in the business climate, while 39% were expected a positive development in activity during 2015 survey.

Demand continues to play its role as a driving force of activity. Household consumption grew 2.7% in the first quarter of 2016 (2.3% in 2015), and then fell slightly in the second quarter. It is expected to be

limited by a slight rise in inflation (1.9%), driven by the rise in food prices (+3.6%). Public sector demand also rose 0.8% in the first quarter.

Investment will increase by 5% year-on-year in 2016. It should continue to increase in the second quarter, with a rise of 4.2%. Once more, the companies surveyed on their investment projects confirm this trend. 52% of them confirm that they want to invest and 45% of the companies that desire to invest are planning an investment in productivity. Among those that are not planning to invest, 33% explained this with a deterioration in the outlook in their sectors and 26% with problems linked to their access to financing.

According to the central bank's data, the increase in industrial investment is also leading to an increase in imports of capital goods. Imports increased by 3.1% in the first five months of 2016, underpinned by a 13.6% rise in imports of capital goods. The 1.2% rise in exports only partly offset the rise in imports, generating a trade deficit of USD 7 bn. Exports of phosphates fell in the first five months of 2016 (-11.3%) while car exports continued to increase (+14%), driven by a resurgence of European demand.



Sources: Coface payment survey 2015 & 2016

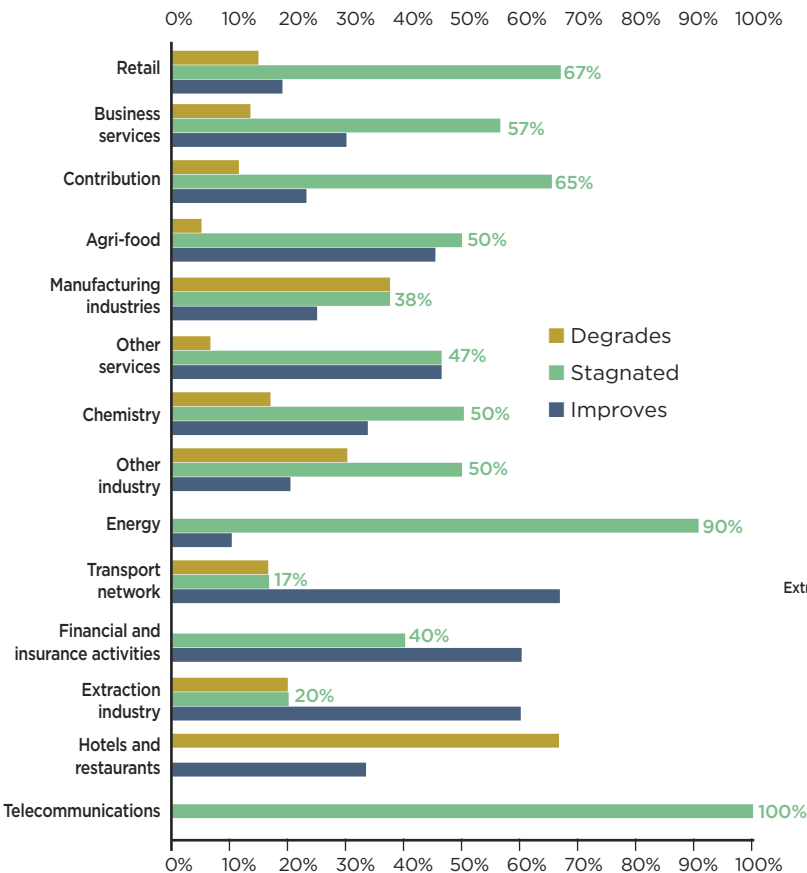
In terms of sectors, the agricultural sector continued to post a significant fall of 12.1% in the second quarter, while it fell 9% in the first quarter of 2016. The unfavourable weather conditions led to a 70% contraction in cereal production, which the rise in industrial and vegetable farm production only partly offset. The good performances of fishing nevertheless limited the decline in agricultural GDP.

Manufacturing and extractive industry picked up slightly in the second quarter of 2016 (+3.2%) after a 2.9% rise in the first quarter of the year. This increase is mainly attributable to improved performances in the agri-food, mechanical and chemical industries. The agri-food industry was up 4.3%. This confirms Coface's observations, as the most optimistic respondents in terms of the

outlook for the Moroccan economy are found in these sectors. 45% of the respondents in the agri-food sector expect an improvement in activity and 70% expect an increase in their sales. The same observations are found in the chemical sector: 33% of the respondents in this sector expect an improvement in their outlook and 66% an improvement in future sales. According to the estimates of the *Haut Commissariat au Plan*, this sector posted 1.9% growth, contributing 0.2 percentage point to the increase in the secondary sector's value added in the first quarter of 2016.

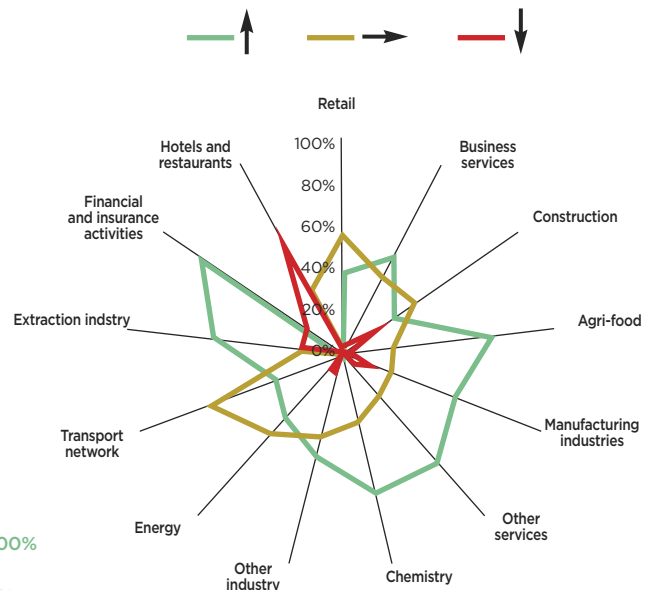
The services sectors should post a growth rate of 2% in the first quarter of 2016 instead of 0.9% in 2015. With the exception of services linked to financial activities and insurers, which recorded a 0.3% decline, the other tertiary activity sectors generated positive growth. The most marked growth is that in trade and retailing activities, with a value added growth of 3.5%, followed by business services with 2.9% growth.

Growth by sectors



Source: Coface payment survey 2016

Future sales by business segment



Source: Coface payment survey 2016

2 PAYMENT PERIODS IN MOROCCO

How have payment periods evolved?

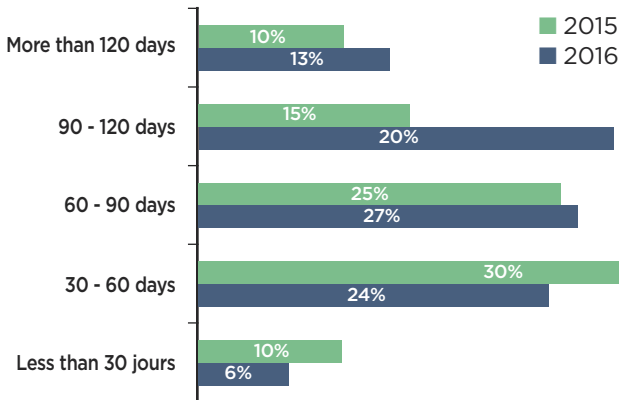
In the first section we questioned companies about the average payment period they face. While more than 30% of the respondents in 2015 stated that it took between 30 and 60 days between the issue of the invoice and collection, we note that this percentage has decreased to 24% of the respondents in 2016. The number of companies declaring payment periods in excess of 90 days has increased. When we look at their trend, it appears that companies for which the payment periods have worsened the most are those who had the public sector as client. Private-sector Moroccan companies are resilient since payment periods are constant for 48% of the sample. Note nevertheless that the percentage of companies perceiving an improvement in payment behaviour is down markedly, for the private sector as for foreign companies.

The deterioration in payment periods reflects the economic slowdown the Moroccan economy has been going through since the start of the year. It appears that the companies reporting the longest payment periods are those that perceive a stagnation of activity the most. The percentage of such companies is higher in 2016 than in 2015 (55% of the sample versus 40.3%).

The average payment time varies according to the companies' type of activities. While the retailing and building and public works sectors are characterised by payment periods in excess of 90 days (more than 57% for trading and retailing and 55% for construction and building and public works), other sectors such as business services and agri-food report payment periods of less than 90 days and even 60 days for agri-food.

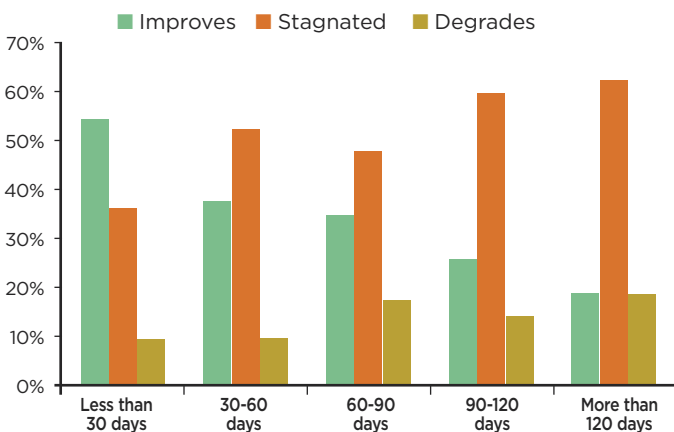
The building and public works sector is among the sectors whose payment periods have changed most markedly between 2015 and 2016. This deterioration in payment periods seems to mainly affect companies' cash situation. Out of the companies in the sector that responded to our survey, 30% have seen a deterioration in their cash situation and 50% state that it remains stable. The outlook for companies in the building and public works sector nevertheless remains positive and the deterioration in payment periods does not seem to have any impact on the future trend in sales and workforce: 30% of the companies expect their sales to rise in the future and 42% expect them to stabilise. Likewise, while 26% of the companies state that they have seen a reduction in their workforce over the last six months, 53% of them are planning to maintain it and 23% to increase it over the next six months. These observations are reflected in developments in the sector. According to the data provided by the *Haut Commissariat au Plan*, construction activity increased 1.4% in the second quarter of 2016 after a 2.3% increase in the first quarter of the year. These data explain this downturn in the growth rate by the lack of vigour in the real estate market.

Average Payment period



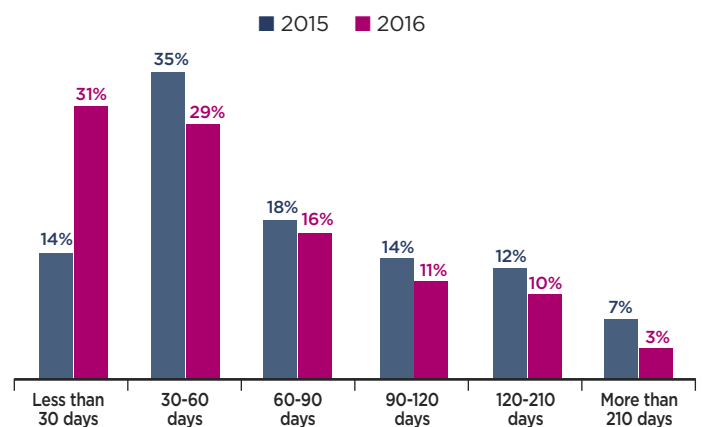
Source: Coface payment survey 2015 & 2016

Relationship between payment periods and perception of the activity



Source: Coface payment survey 2016

What was the average payment delays:



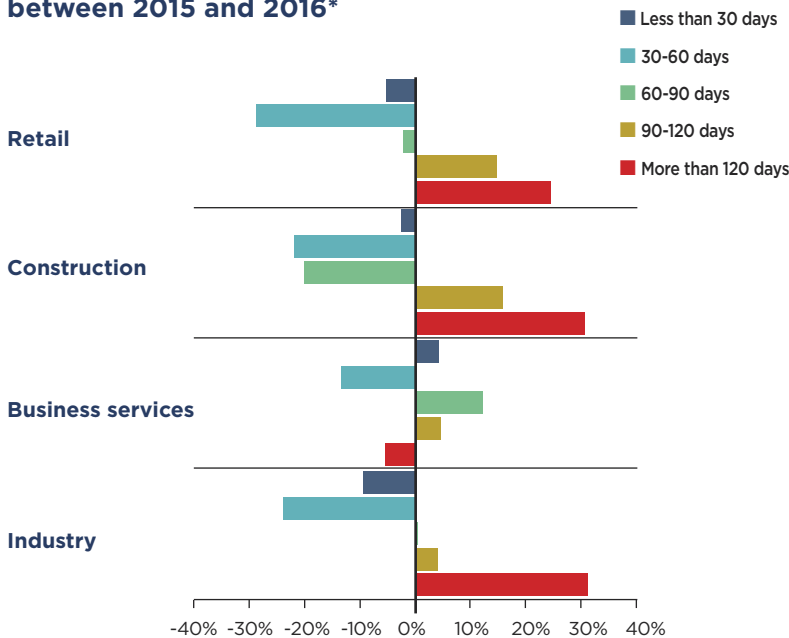
Source: Coface payment survey 2015 & 2016

The trade and retailing sector has also seen a deterioration in payment periods, with a more than 23% increase in companies declaring a payment period of more than 120 days on average. 60% of the companies in this sector state that they are subject to

delays of less than 60 days in 2016. 39% of the companies in this sector also report a deterioration in their cash situation. On the whole, this sector's soundness is deteriorating: Admittedly, 43% have recorded an increase in their sales over the last six months, but 33% state that their sales have fallen in 2016, versus 20% in 2015. This situation is set to continue since 57% expect their sales to stagnate. Likewise, 62% of the companies in the sector are not planning to increase their workforce and 54% are not planning to invest. The findings of our study confirm the conclusions of the survey on the tertiary sector published by the *Haut Commissariat au Plan*, stating that wholesale trade posted falling sales according to 35% of the business leaders surveyed in the first quarter of 2016 (versus an increase for 25% of them).

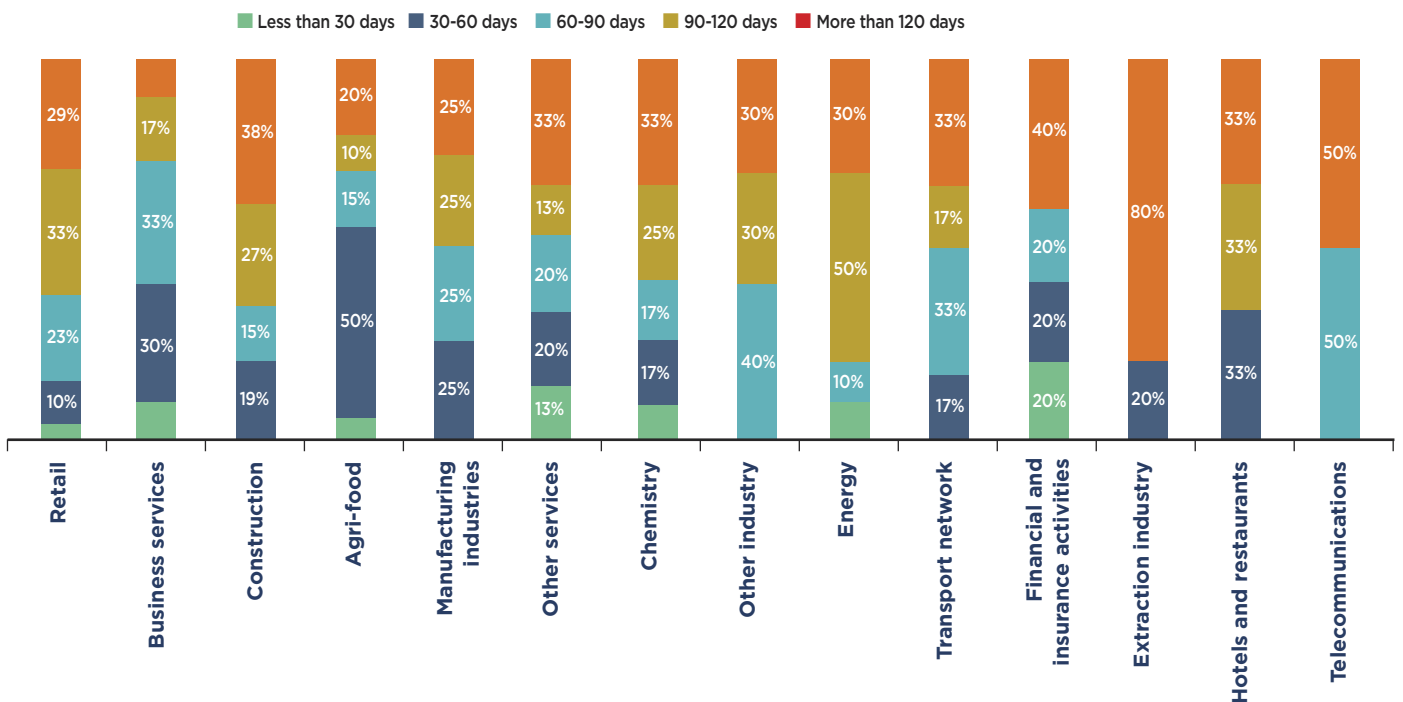
The business services sector, the third largest group in our sample, remains among the few to benefit from an improvement in payment periods. The number of companies in the sector whose payment periods are shorter than 30 days has increased by 3.8%, while the number of companies that previously reported payment periods in excess of 120 days have fallen by 5.6%. Likewise, late payments are lower than those in the sample. 20% of them also reported an improvement in their cash situation (11% in 2015). But in spite of a slight improvement in payment periods, the sector is likely to be affected by the sluggishness that is affecting the Moroccan economy in 2016, since 56% of the companies in this sector expect activity to stagnate.

Evolution of payment periods between 2015 and 2016*



* By the four main sector in the sample
Source: Coface payment survey 2015 & 2016

Payment period by economic activity in 2016



Source: Coface payment survey 2016

The 2016 results show that small businesses have shorter payment periods than larger ones. Likewise, when surveying Moroccan companies on the changes in payment periods by company size, large companies report a more pronounced deterioration in their payment periods.

The increase in payment periods continues to have an impact on companies' investment behaviour. Companies with the longest payment periods tend to invest less than those whose average payment period is 30 days. Likewise, when payment periods are short, companies favour all types of investment

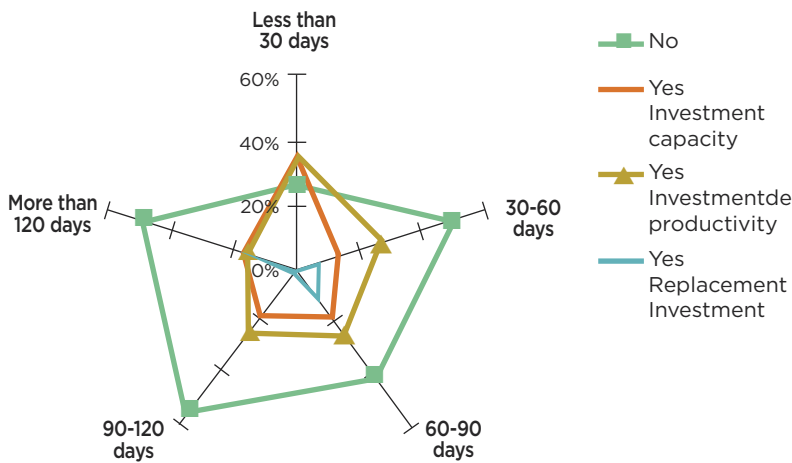
(replacement as well as productivity investments). The longer the payment periods become, the more companies favour productivity-related investments.

How are late payments evolving?

The trend in late payments is the second aspect of our survey; there is a late payment when the payment period granted by the seller is exceeded. While payment periods tend to deteriorate, we note an improvement in the number of days of delays in the sample, with an increase in the percentage of delays of less than 30 days that could be explained by the entry into force of the legislation concerning payment periods that was decided in 2014. As regards delays by types of companies, it appears that large companies, in the same way as for payment periods, tend to accumulate longer periods of delays. By sector, it is companies in the construction and business services sectors that report the longest delays.

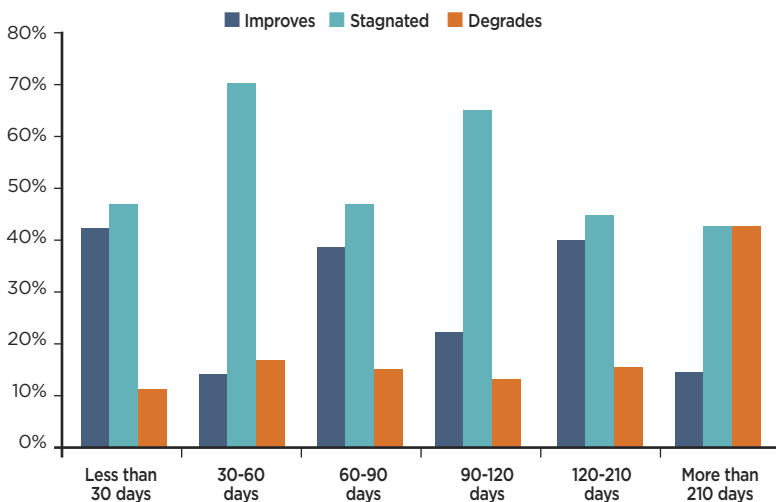
We wanted to know whether the accumulation of overdue accounts had an impact on the company's health and its future prospects. It seems that the smaller the number of days of delays, the more the cash situation improves. Likewise, the cash situation of companies reporting delays in excess of 30 days has deteriorated. Lastly, the cashflow forecast remains stable regardless of delays for a number of companies, which could mean that companies take into account their clients' payment behaviours and make provisions for possible delays in their cashflow forecast.

Payment period and investment



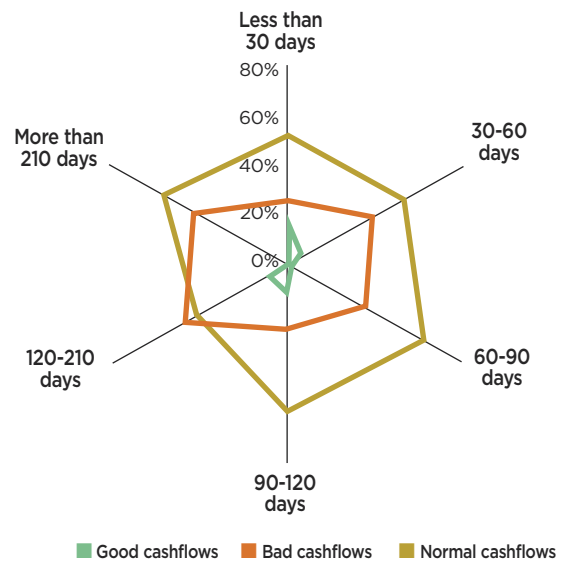
Source: Coface payment survey 2016

Relationship between delays and the evolution of the Moroccan economy



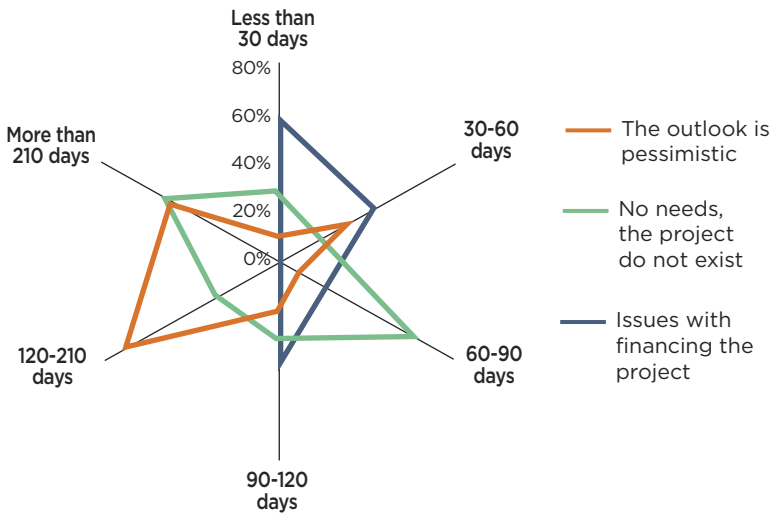
Source: Coface payment survey 2016

Payment delay effects on Cashflows



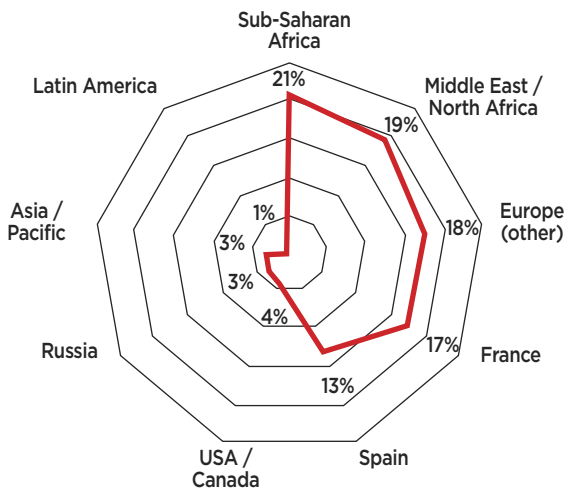
Source: Coface payment survey 2016

Why companies do not invest ?



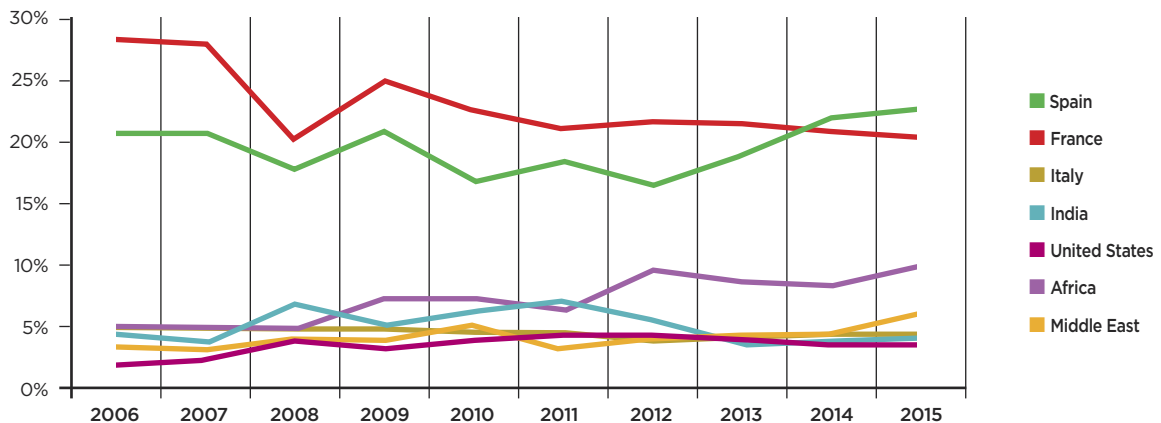
Source: Coface payment survey 2016

Exporteurs payment delays location:



Source: Coface payment survey 2016

Share in value in Morocco's exports



Sources: Intracen, calculs Coface

Late payments, like extensions of payment periods, affect companies' investment capacity. When asking companies about the reasons preventing them from investing, those reporting the largest number of delays point to financing problems. Those whose average delay is between 30 and 60 days point to poor economic prospects as the main factor.

Focus on exporting companies

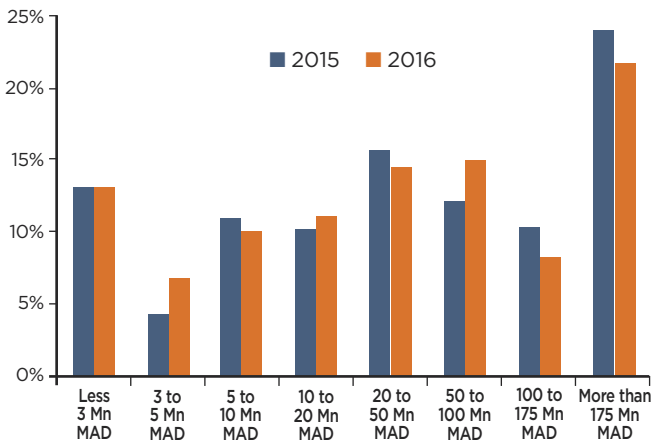
Exporting companies account for 30% of the sample. Only 3% of the companies in the sample export a large part of their production. For the others, the percentage of the turnover generated by exports is lower than 30%. The most represented sectors are agri-food industries, manufacturing industry (including extraction) and services. Exporting companies are subject to shorter payment periods than domestic companies, the average being between 30 and 60 days. Lastly, the destinations for which the surveyed companies are seeing most late payments are Sub-Saharan Africa (21%) and the Middle East (19%). These destinations are Morocco's new trading partners, whose weight in Moroccan exports tends to grow significantly at the expense of the traditional destinations such as Europe. The share of exports to the African continent increased from 4% in 2006 to close to 9% in 2015. The share of exports to the Middle East, which has been more variable, has also doubled.

Exporting companies are more optimistic about their outlets than domestic companies. Among these companies, 58% expect an increase in their sales and 36% a stagnation of sales in the future. However, 62% of them are not planning to invest because there is no need or because of a financing problem.

3 ANNEXES

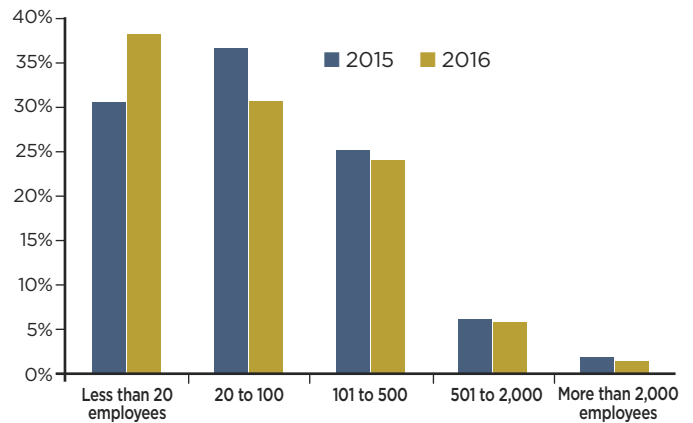
Who are our principal respondents ?

Companies by turnover



Sources: Coface payment survey 2015 & 2016

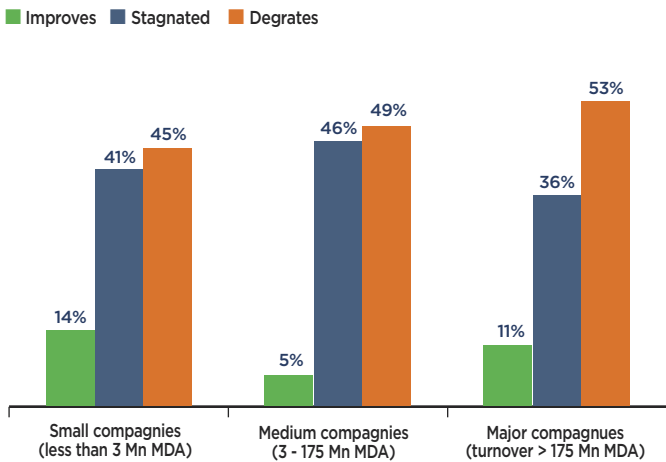
Number of employees



Source: Coface payment survey 2016

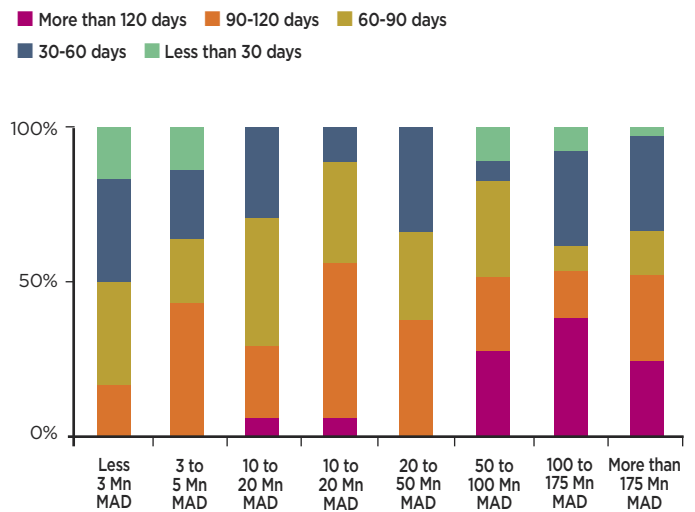
Developments in payment period

Over the last six months, would you say that payment delays by size of companies tended to:



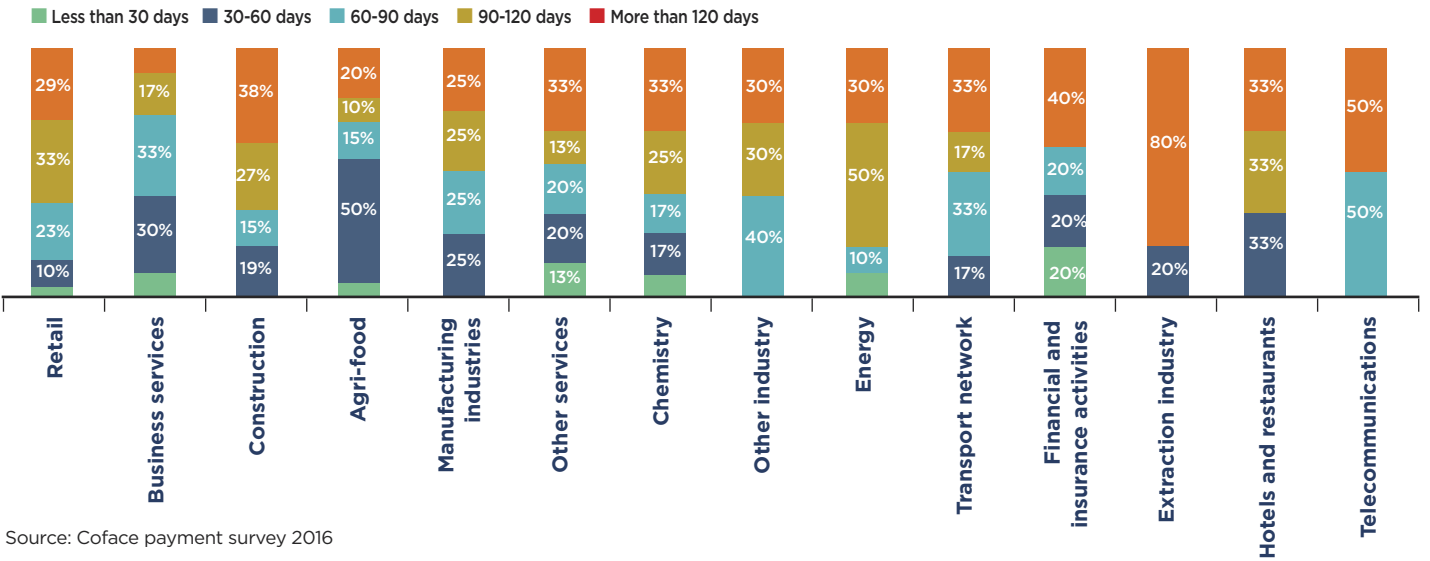
Source: Coface payment survey 2016

Average payment delays by size



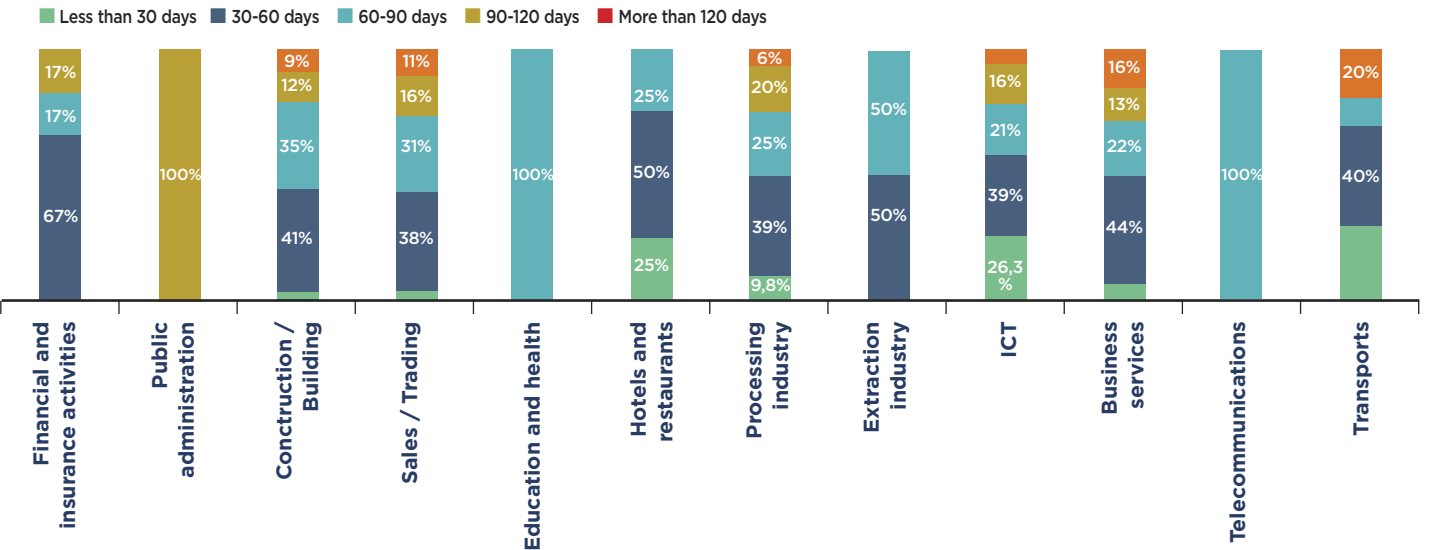
Source: Coface payment survey 2016

Payment period by economic activity in 2016



Source: Coface payment survey 2016

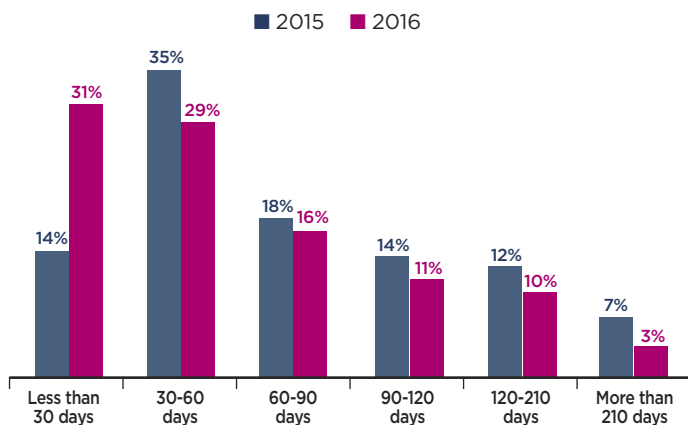
Payment period by economic activity in 2015



Source: Coface payment survey 2015

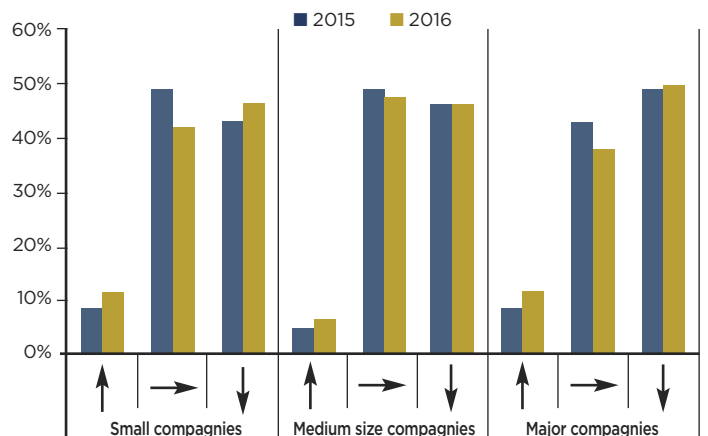
Developments in payment delay

What was the average payment delays?



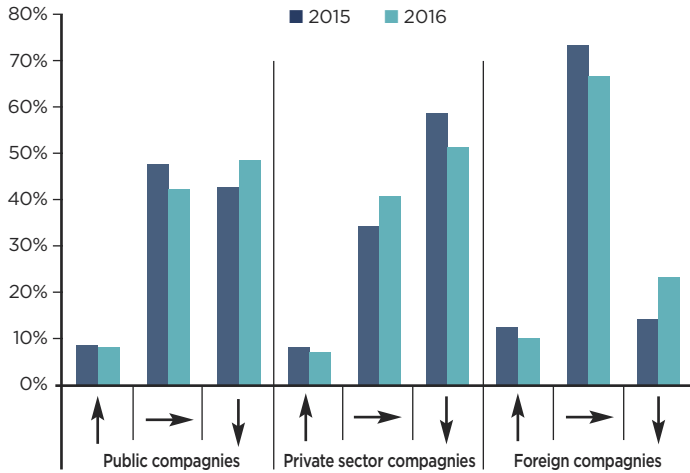
Sources: Coface payment survey 2015 & 2016

How do you assess late payment by firm size



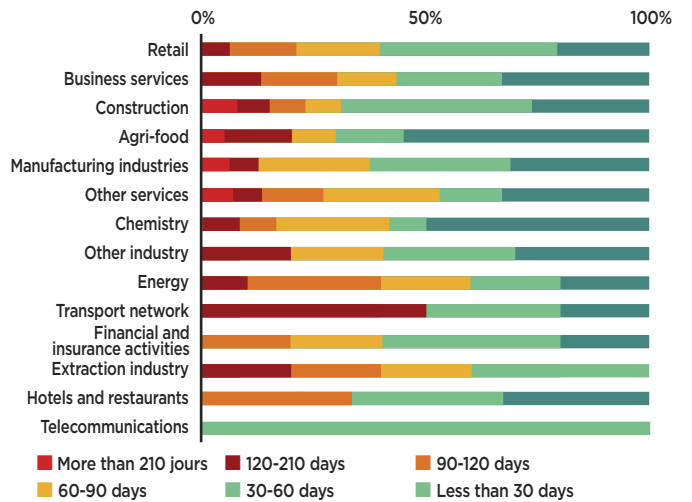
Source: Coface payment survey 2016

Late payments by type of companies have tended to:



Sources: Coface payment survey 2015 & 2016

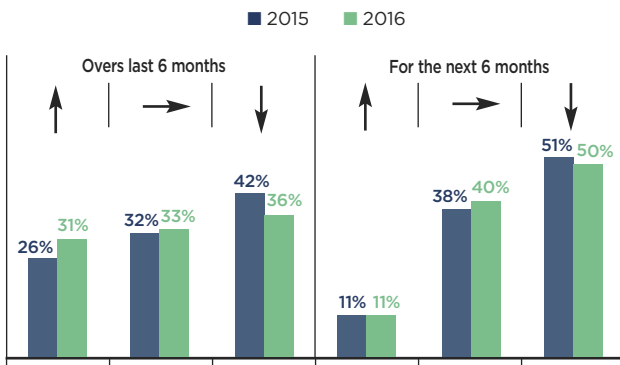
Late payment by sectors



Source: Coface payment survey 2016

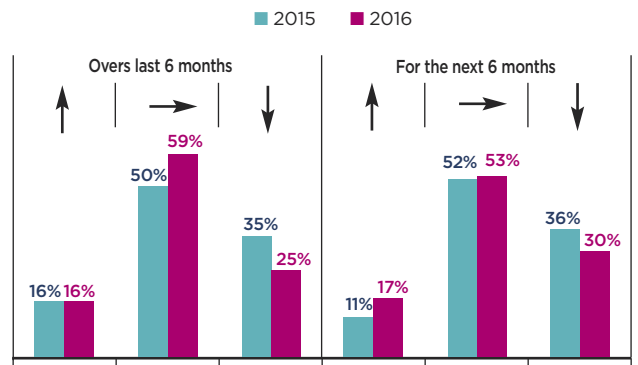
Moroccan economy outlook

Sales



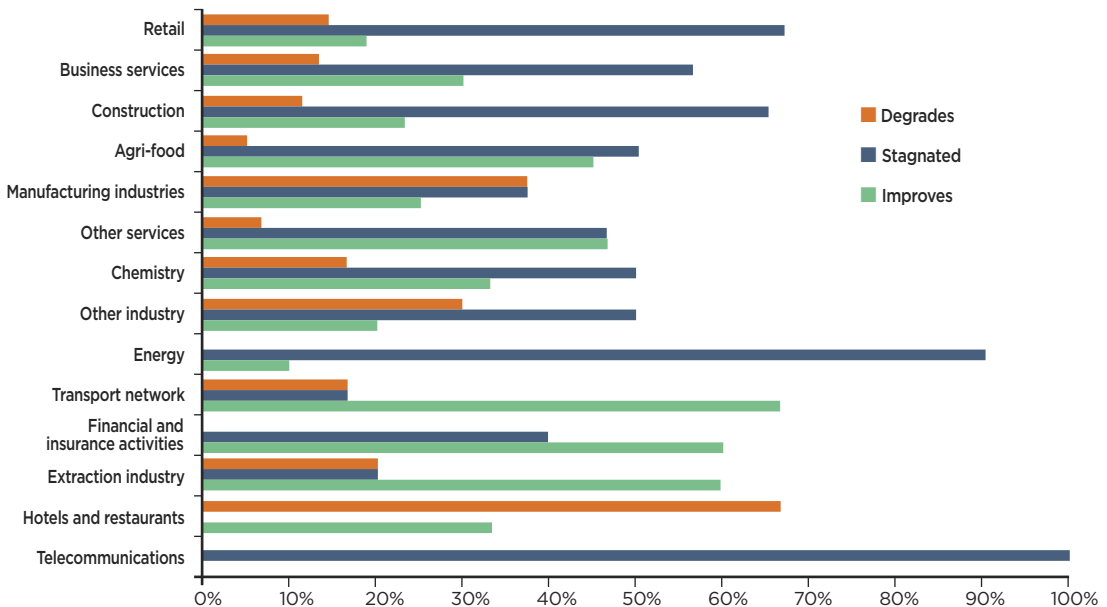
Sources: Coface payment survey 2015 & 2016

Workforce



Sources: Coface payment survey 2015 & 2016

Business Climate evolution



Source: Coface payment survey 2016

RESERVATION

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