CareEdge Global assigns Long Term Foreign Currency Rating of BBB- (Unsolicited) to the Kingdom of Morocco

Credit Profile

The Kingdom of Morocco's credit profile derives support from its external position and fiscal profile. However, these strengths are partly offset by its economic structure as well as monetary policy management.

The country's meaningful efforts towards economic diversification as well as the New Development Plan (NDP) could aid Morocco's medium-term growth prospects. Further, progress in terms of tax reforms could aid in narrowing fiscal deficits. Lastly, the newly extended flexible credit line (FCL) of USD 5 billion (3% of GDP) by the IMF significantly reduce external pressures and enhance investor confidence.

Strengths

- Among the top recipients of foreign direct investment (FDI) in Africa
- Strong existing linkages with key Western European markets
- Political stability and government effectiveness
- Resilience to economic shocks

Weaknesses

- Structural inefficiencies in the economy and vulnerability to climate change
- Presence of a large informal economy limits growth in the tax base
- Pegged exchange rate regime limits monetary policy flexibility

Key Monitorables

- Diversification efforts towards value-added export industries
- Implementation of structural reforms leading to fiscal consolidation
- Transition to a more flexible exchange rate regime

Key Rating Drivers

Economic Structure & Resilience

The country's economic structure is recovering from a series of shocks (including the pandemic, high inflation, the recurrence of droughts and more recently, natural disasters). Morocco has displayed resilience in dealing with these shocks, evidenced by its growth recovery in 2023 of 3% against 1.3% in 2022. Despite lower rainfall detracting from the agricultural sector, growth was buoyed by the tourism sector as well as by automotive and electronics exports. Growth is expected to edge higher to 3.1% in 2024 with continued growth momentum from these sectors and a rebound in both the agricultural (although small) and phosphates sectors. Construction activity is also expected to significantly ramp up due to large-scale infrastructure projects in the pipeline.

Nonetheless, Morocco grapples with structural inefficiencies, including water scarcity and the resultant impact on the agricultural sector (12% GVA in 2023), which has also seen an increase in unemployment particularly amongst women (a three decade high at 20% in 2023). The economy is also constrained by subdued income levels. Together, these factors pose social risks. Considering these challenges, the government has now enhanced its climate action plan, aided by the receipt of the Resilience and Sustainability Fund (RSF) from the IMF, amongst others. The government has also seen success in its diversification efforts away from the agricultural sector towards more value-added export industries. For example, electronics, automotives and aircrafts comprise around 40% of total exports (2023). Lastly, the government has made efforts to widen the social safety net and policy is focused on for example: education, to better align skills with demand from growing industries.

Fiscal Strength

Revenue-to-GDP increased from 23.8% in 2019 to 28.5% in 2023 reflective of the governments ongoing tax reform efforts, as well as non-revenue measures such as sales of key assets. Efforts geared towards containing expenditure, including the merging of various preexisting social programmes into a family allowance and gradually decreasing subsidies have freed up financing for other reforms and targeted allowances. Overall, the fiscal deficit-to-GDP has decreased from a peak of 7.1% of GDP in 2020 to 4.4% of GDP in 2023, which has broadly stabilized the general governments (GG) debt at around 70% of GDP. Fiscal consolidation is expected over the medium term with both GG debt and the fiscal deficit decreasing to around 67% and 3% respectively by 2028.

Debt affordability is comfortable given the low interest-to-revenue of 7.5% (2023). GG's external debt is moderate at around 25.5% (2023) and is mostly in the form of concessional loans. However, the fiscal profile is weighed down by contingent liabilities (accounting for around 11% of GDP in 2023). Although, the government has started an exhaustive review of the state-owned enterprise (SOE) sector, in a bid to reduce these risks. Further, a large chunk of revenue goes to salaries, pensions and subsidies, which constitutes more than half of the government's expenditure.

External Position & Linkages

The current account deficit (CAD) decreased to 1.5% of GDP in 2023 from 3.5% of GDP in 2022. This improvement was primarily driven by the dynamism of the tourism sector and merchandise exports (automotives and electronics). The compression in energy imports also aided in lowering the CAD. Gross remittances (8% of GDP) were enough to cover around 93% of the trade deficit and is an important component of the current account.

The CAD is expected to widen in 2024 to around 2.6%, driven by a recovery in domestic demand and an increase in cereal imports (following inadequate rainfall). The dynamic performance of manufacturing and service exports, along with remittances, are expected to help keep the CAD below 3% of GDP in the medium term.

Morocco is among the top recipients of inward FDI in Africa. The recent surge in announced greenfield projects should continue to support robust FDI inflows. External debt is high at around 48% of GDP in 2023, which coupled with a large negative net international investment position (NIIP) at -56.8% of GDP, makes the economy vulnerable to external shocks. However, the availability of a flexible credit line (FCL) of USD 5 billion from the IMF with no binding conditions, will help mitigate any potential crisis and aid with any future Eurobond issuances. Lastly, the country's foreign reserves provide sufficient cushion to meet short-term external debt obligations and is sufficient to cover around 5.6 months of imports in 2023.

Monetary & Financial Stability

The exchange rate regime is pegged to a currency basket of 60% Euros and 40% US dollars, thus limiting monetary policy flexibility. However, the country is gradually transitioning to a more-flexible exchange rate regime, although there are no specific timeframes set. Inflation is expected to slow to 2.5% by 2025, from 6.1% in 2023 mainly on the back of easing food and energy prices.

Though the banking sector is well capitalized, the local banks have expanded operations in Sub-Saharan Africa (SSA), which is typically riskier than the Moroccan environment. Non-performing loans (NPLs) are close to 8.4% (2023) and reflective of poor asset quality and credit risk.

Institutions & Quality of Governance

Morocco has an established rule of law and has managed to preserve political stability despite regional tensions in parts of North Africa and the Middle East. The country's well managed response to an earthquake in H2 2023 is testimony to its good institutions. However, social unrest domestically has prevailed amidst rising inflation and high unemployment. Nonetheless, the government has implemented coherent reforms on both the macroeconomic and fiscal front towards addressing these issues.

Morocco – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	127.3	128.9	121.4	141.8	130.9	144.0	152.4	161.4
GDP Per Capita (Constant-PPP)	USD	8,356	8,509	7,818	8,361	8,384	8,555	8,742	8,948
Real GDP Growth	%	3.1	2.9	-7.2	8.0	1.3	3.0	3.1	3.3
GFCF/ GDP	%	27.9	27.2	26.2	26.3	27.1	27.0	-	-
Gross Domestic Savings/ GDP	%	22.5	22.8	21.5	21.3	18.8	19.7	-	-
Exports (G&S)/GDP	%	33.8	34.1	30.8	33.2	44.8	44.0	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.9	65.8	65.8	65.7	65.7	65.7	65.7	65.8
Old-Age (65+) Population (% Share in Total)	%	6.6	6.9	7.2	7.4	7.7	8.0	8.3	8.6
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-3.4	-3.6	-7.1	-6.0	-5.4	-4.4	-4.3	-3.8
Revenue/ GDP	%	24.2	23.8	27.0	25.3	28.7	28.5	28.2	27.5
Expenditure/ GDP	%	27.7	27.4	34.1	31.3	34.1	33.0	32.5	31.2
GG Gross Debt/ GDP	%	60.5	60.3	72.2	69.5	71.6	70.6	70.4	69.4
GG External Debt (by Creditor)/ GG Gross Debt	%	20.3	21.9	25.8	22.5	23.6	25.5	-	-
Interest/ Revenue	%	9.4	9.9	9.3	8.7	8.0	7.5	8.5	9.3
External Indicators									
Current Account Balance/ GDP	%	-4.9	-3.4	-1.2	-2.3	-3.5	-1.5	-2.6	-2.9
FDI, Net Inflows/ GDP	%	2.8	1.3	1.2	1.6	1.7	0.8	-	-
Outstanding FII Liabilities/ GDP	%	8.3	9.1	12.2	10.3	9.5	10.9	-	-
NIIP/ GDP	%	-60.2	-61.5	-69.9	-60.4	-59.8	-56.8	-	-
Foreign Exchange Reserves	USD Billion	24.4	26.4	36.0	35.6	32.3	36.3	-	-
Import Cover	Months	5.4	6.9	7.2	5.8	5.3	5.6	5.6	5.6
External Debt/GDP	%	40.5	42.5	54.2	45.9	49.5	48.1	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.6	0.2	0.7	1.4	6.6	6.1	2.2	2.5
Exchange Rate (Average)	LC per USD	9.4	9.6	9.5	9.0	10.2	10.1	-	-
Non-Performing Loans/ Total Gross Loans	%	7.3	7.5	8.2	8.6	8.4	8.4	-	-
Private debt, loans and debt securities/ GDP	%	63.4	64.0	71.7	66.5	66.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BBB-	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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