S&P Global Ratings

RatingsDirect®

Morocco

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This report does not constitute a rating action.

Credit Highlights

Overview

Institutional and economic profile	Flexibility and performance profile
Morocco's relatively low per capita income and structural twin deficits constrain its credit quality.	The implementation of structural economic and budgetary reforms supports Morocco's creditworthiness.
--GDP per capita is lower than peers', underscoring the country's structural weaknesses and large informal economy.	--The government's structural reform agenda should help yield more inclusive economic growth and gradually narrower current account and budgetary deficits.
--The Moroccan economy still relies significantly on agriculture, making it sensitive to weather patterns.	--The government is overhauling the social security system to extend the coverage of health care and social transfers, while broadening the tax and social contribution bases.
--Ongoing economic diversification and key public and private investments support relatively robust growth prospects.	--General government debt will reach slightly less than 70% of GDP by 2025, but the average maturity is relatively long and over three-fourths is in domestic currency.

The surge in global energy and food prices, alongside the repercussions of drought, will weigh on Morocco's growth in 2022. S&P Global Ratings projects the Moroccan economy will expand by 1.4% this year, after bouncing back by 7.9% in 2021. The Moroccan government has implemented measures to cushion the impact of rising prices on businesses and households. We expect the average headline inflation will accelerate to about 5.9% in 2022.

Phosphates exports and the recovery in tourism should partly offset the increase in the import bill. The surge in prices of phosphates, a key ingredient in fertilizer and representing currently more than 25% of Moroccan exports, have supported external and budgetary revenue. Phosphates exports increased by 81.1% in value in the first seven months of 2022. State-owned Moroccan phosphate and fertilizer company OCP Group has paid a record Moroccan dirham (MAD) 8.1 billion ($834 million) in dividends to the government. Tourism, which accounts for about 7% of GDP, has been performing more strongly than we initially expected this year, supported by the reopening of borders early February 2022. Tourism receipts were 4.1% higher in second-quarter 2022 compared with the same period in 2019.

Ongoing structural reforms will underpin relatively robust growth prospects and gradual fiscal consolidation. Authorities have embarked on a comprehensive overhaul of the social security system to extend the coverage of health care and social transfers. The framework laws approved in 2021 aim to simplify and widen the tax base and social contribution as well as rework the state-owned enterprises' sector to make it more efficient. Other business-friendly reforms intend to prioritize investment in green energy, digitalization, and modernization of the legal, institutional, and regulatory framework.

Outlook

The stable outlook on Morocco reflects our expectation that further structural economic and budgetary reforms, alongside solid economic growth, will help counterbalance budgetary pressures.

Downside scenario

We could lower the ratings if the government's fiscal results materially underperform our expectations, for example due to a significant crystallization of contingent liabilities on the government's balance sheet. Additional rating pressure could materialize if, contrary to our forecasts, external imbalances widen and create a pronounced increase in the economy's gross financing needs.

Upside scenario

We could raise the ratings if budgetary consolidation is markedly faster than expected, or a transition toward a more flexible exchange rate bolsters Morocco's external competitiveness. Ratings upside could also arise if the country's economic diversification strategy yields stronger and less volatile economic growth, substantially raising GDP per capita.

Rationale

Institutional and economic profile: Ongoing structural reforms should pave the way for fairly solid growth

We project the Moroccan economy will expand by 1.4% in 2022, after bouncing back by 7.9% in 2021. The severe drought, rising energy and cereal prices, and the slowdown in Europe, will weigh on Moroccan GDP growth this year. Morocco is a net energy importer, with oil and gas representing roughly 15% of imports (of which about 7% is from Russia). Morocco has been a small net food exporter, but the country relies heavily on cereal imports, which account for roughly 5% of total imports (about 15% of which is from Ukraine). Domestic production of cereals decreased 67% during the 2021-2022 agricultural campaign. However, the recovery in key sectors of the Moroccan economy, such as tourism, should partly mitigate the impact.

We expect headline inflation to average 5.9% in 2022 and decelerate gradually to about 2.0% by 2025. Higher inflation will dampen purchasing power, which could in turn intensify social pressures and demands. Subsidies via "the Compensation Fund," especially on butane gas and wheat, reached MAD26 billion (1.9% of GDP) from January-July 2022, compared with MAD11 billion (0.9% of GDP) for the same period in 2021, helping cushion the impact of higher inflation. In addition to the MAD10 billion emergency plan that King Mohammed VI launched to support the agricultural sector earlier this year, the government suspended custom duties on wheat and implemented a package to support professionals in the road transport sector, among other things, Despite ongoing economic diversification efforts (phosphates, autos, aeronautics, and textile) and water resource optimization, the reliance of the Moroccan economy on agriculture remains significant. Agriculture represents about 11% of GDP and 31% of employment, making the economy particularly vulnerable to weather and rainfall patterns. The drought and consequent poor harvest has hit the 2021-2022 agricultural season and weighed significantly on real GDP growth this year. On the contrary, the 2020-2021 agricultural season was particularly good and with record-high cereal production and boosted economic recovery last year.

GDP per capita, at below $4,000, remains particularly low especially relative to that of peers. The low-income per capita underscores some of Morocco's structural weaknesses, such as wide income disparities between more- and less-developed areas, and comparably high unemployment, particularly prevalent among youth. Authorities have changed the base year upon which GDP data is estimated to 2014 from 2007; the Higher Planning Commission published the full series of the rebased GDP in April 2022.

Morocco's structural reform agenda should usher in a more inclusive and robust economic structure. Authorities have started a thorough revamping of the social security system to extend the coverage of health care and social transfers, while broadening the tax and social contribution bases. Their first step has been to progressively offer compulsory health insurance to the self-employed, and they should complete this by end-2022. Authorities also aim to generalize the family allowances in 2023, expand the membership base of the pension system, and widen access to the loss of employment compensation in 2024-2025. Other business-friendly reforms aim to prioritize investment in green energy, digitalization, and modernization of the legal, institutional, and regulatory framework. The Mohammed VI fund will aim to leverage finance for investment projects, including public-private partnerships and recapitalization of firms to support their development (almost 4% of GDP, with the state providing one-third of the funds and the rest coming from the private sector). These reforms echo the recommendations of the 2021 New Model of Development report.

We expect the Moroccan economy will expand by about 3.4% annually from 2023-2025. Deteriorating economic conditions in Europe, Morocco's main economic partner, will weigh on growth in 2023, despite an expected recovery in the agriculture sector. We believe the ongoing shift in the country's underlying economic structure will benefit the growth outlook and stability. The change is driven by sizable foreign direct investment and the expansion of its export capacity, and it is underpinned by the promotion of the private sector, formalization of parts of the economy, and implementation of socioeconomic reforms.

Flexibility and performance profile: The surge in global energy and food prices heightens Morocco's external and fiscal financing needs

We forecast the current account deficit will widen to 4.9% of GDP in 2022, from 2.3% in 2021. The soaring energy and food prices, alongside the winter drought in the country, will weigh significantly on the import bill. The energy and food bills surged by 124.7% and 43.4%, respectively, in first-half 2022 compared with the same period in 2021. At the same time, the jump in revenue stemming from phosphates (84.3%), the strong recovery in tourism (206%), and robust remittances should partly offset the deterioration. We understand that additional phosphates volumes entering the international market will likely come primarily from Morocco, through state-controlled OCP's 3 million tonne fertilizer capacity addition at the Jorf Lafsar plant, which we expect to fully commence production by 2023 (for more information, see "The Russia-Ukraine War Is Reshaping The Fertilizer Industry," published Sept. 12, 2022, on RatingsDirect). Phosphates prices increased 134% to August 2022 from August 2021.

We project the central government budget deficit will reach about 5.6% of GDP in 2022. The government's support to mitigate the impact on the population will increase budgetary spending. Total spending increased by 10.1% in the first eight months of 2022 compared with the same period in 2021. Conversely, public finances will benefit from revenue from key sectors, such as phosphates, and tourism, and more generally from the windfall increase in government revenue from higher inflation, in addition to the withdrawal of pandemic-related support programs. Total revenue increased 21% in the first eight months of 2022 compared with the same period in 2021. Although the implementation of structural reforms may fully prevent budget deficits from declining significantly in the near term, it underpins fiscal consolidation in the medium to long run. Both the current account and budget deficits should fall gradually from 2023 onward on lower price pressure and stronger economic growth.

We expect the consolidated general government debt will increase to about 68% of GDP by 2025. Exposure to interest rate, refinancing, and foreign exchange risk is relatively limited. The average maturity of the central government debt stands at about 7.2 years with the average interest rate estimated at 3.4%. Less than one-fourth is in foreign currency, mostly concessional. Eurobond issuances represent one-third of the foreign-currency debt. Currently, 10-year government yields are at about 2.4%, and we expect interest payments will remain below 8% of government revenue over 2022-2025. The latest were issued in December 2020 in the following tranches:

- $750 million, 7-year maturity, and a 2.375% coupon;
- $1 billion, 12-year maturity, and a 3% coupon; and
- $1.25 billion, 30-year maturity, and a 4% coupon.

The stock of state guarantees dominates Morocco's contingent liabilities profile. This creates risks that could burden the government's balance sheet, but they are unlikely to be called in their totality. Guarantees to state-owned enterprises (SOEs) are estimated at about 12.5% of GDP, based on rather stable stock over the past years. Of note, the government has been provisioning in its budget against potential losses related to these guarantees, and an exhaustive review of the SOEs sector should reduce their financial burden and contingent risks on the budget, as well as decrease distortions that prevent market neutrality and hinder private sector development.

The Moroccan dirham is pegged to a currency basket of 60% euros and 40% U.S. dollars. The foreign exchange peg limits monetary policy flexibility, in our view. In 2020, authorities launched the second phase of the gradual transition to a more flexible exchange rate regime by widening the fluctuation band for the dirham to plus or minus 5.0% from plus or minus 2.5% previously. At the time of the launch, the reserve coverage was slightly above five months of current account payments. It increased further in the light of the drawing down of the IMF's Precautionary and Liquidity Line and the government's issuance in the international markets. We expect international reserves will still cover five-to-six months of current account payments by 2025.

Bank Al-Maghrib (BAM; the central bank of Morocco) raised its benchmark interest rate by 50 basis points to 2% in September 2022. It pursued its extensive support to the banking system through widening eligible collateral and extending maturities for central bank repo facilities. The banking sector's moderate capitalization is unlikely to jeopardize the wider economy, given its adequate regulatory tier 1 capital ratio of 12% at year-end 2021 and dividend distribution restrictions have been lifted. The banking sector remains vulnerable to credit concentration risk and nonperforming loans ratio stood at about 8.5% at end-2021, provisioned at 68%. The banks' expansion into sub-Saharan Africa has so far been profitable, but it opens risk to the country's banking system.

Morocco--Selected Indicators

	2016	2017	2018	2019	2020	2021	2022bc	2023bc	2024bc	2025bc
Economic indicators (%)										
Nominal GDP (bil. MAD)	1,094.3	1,148.9	1,195.2	1,239.8	1,152.4	1,284.2	1,363.3	1,439.3	1,506.1	1,574.4
Nominal GDP (bil. $)	111.6	118.5	127.3	128.9	121.4	142.9	144.4	152.3	163.7	173.0
GDP per capita (000s $)	3.2	3.4	3.6	3.6	3.4	3.9	3.9	4.1	4.4	4.5
Real GDP growth	0.5	5.1	3.1	2.9	(7.2)	7.9	1.4	3.5	3.4	3.4
Real GDP per capita growth	(0.5)	4.0	2.0	1.8	(8.1)	6.9	0.2	2.3	2.2	2.2
Real investment growth	8.1	3.0	5.3	(0.2)	(11.9)	13.4	3.0	3.5	3.6	3.6
Investment/GDP	32.6	32.3	32.9	31.3	29.5	31.8	31.9	31.8	31.6	31.4
Savings/GDP	28.9	29.2	28.0	27.9	28.3	29.5	27.0	26.9	27.1	27.3
Exports/GDP	30.7	32.6	33.8	34.1	30.8	32.9	33.9	34.0	34.3	34.6
Real exports growth	6.8	10.8	3.8	5.1	(15.0)	8.7	5.0	5.0	5.0	5.0
Unemployment rate	9.9	10.2	9.5	9.2	11.9	12.3	11.0	10.8	10.6	10.1
External indicators (%)										
Current account balance/GDP	(3.8)	(3.2)	(4.9)	(3.4)	(1.2)	(2.3)	(4.9)	(4.8)	(4.5)	(4.1)

Morocco--Selected Indicators

Current account balance/CARs	(9.7)	(7.8)	(12.0)	(8.4)	(3.0)	(5.4)	(11.7)	(11.5)	(10.5)	(9.6)
CARs/GDP	38.8	40.8	40.8	40.6	38.6	41.8	42.0	42.1	42.4	42.7
Trade balance/GDP	(15.8)	(15.2)	(15.9)	(15.3)	(12.8)	(13.9)	(15.8)	(15.8)	(15.6)	(15.4)
Net FDI/GDP	1.4	1.4	2.2	0.6	0.8	1.2	1.5	1.7	1.7	1.7
Net portfolio equity inflow/GDP	(0.3)	(0.1)	(0.6)	0.9	1.8	(0.2)	0.4	0.3	0.3	0.3
Gross external financing needs/CARs plus usable reserves	92.5	92.8	94.5	94.2	89.3	85.3	90.1	90.9	91.9	92.1
Narrow net external debt/CARs	33.6	30.9	30.4	30.5	31.1	24.7	28.2	32.1	31.6	31.6
Narrow net external debt/CAPs	30.6	28.7	27.2	28.1	30.2	23.4	25.2	28.8	28.6	28.8
Net external liabilities/CARs	171.6	156.7	150.9	153.9	176.3	140.1	146.5	148.5	143.7	141.6
Net external liabilities/CAPs	156.5	145.4	134.8	141.9	171.1	132.9	131.2	133.2	130.0	129.1
Short-term external debt by remaining maturity/CARs	31.4	33.2	30.2	29.7	36.7	31.3	31.4	29.9	28.6	27.0
Usable reserves/CAPs (months)	5.8	5.8	5.4	5.2	6.6	6.9	6.3	6.0	5.6	5.3
Usable reserves (Mil. $)	25097.40	26,194.1	24,461.6	26,408.7	36,002.8	35,654.7	35,648.1	35,648.1	35,648.1	35,648.1
Fiscal indicators (general government %)										
Balance/GDP	(4.5)	(3.5)	(3.7)	(3.8)	(7.1)	(5.9)	(5.6)	(5.3)	(4.6)	(4.0)
Change in net debt/GDP	2.7	5.5	3.4	3.1	7.5	4.2	5.3	5.0	4.3	3.8
Primary balance/GDP	(2.0)	(1.1)	(1.4)	(1.4)	(4.6)	(3.8)	(3.5)	(3.1)	(2.4)	(1.7)
Revenue/GDP	33.4	33.9	33.5	33.2	35.0	33.0	33.5	33.0	33.0	33.0
Expenditures/GDP	37.9	37.4	37.2	37.0	42.1	38.9	39.1	38.3	37.6	37.0
Interest/revenues	7.6	7.2	7.0	7.2	7.1	6.4	6.2	6.5	6.8	6.9
Debt/GDP	47.3	50.0	51.9	52.8	64.9	62.2	63.9	65.6	67.0	67.8
Debt/revenues	141.7	147.6	154.9	159.1	185.4	188.5	190.7	198.6	203.0	205.5
Net debt/GDP	45.5	48.8	50.3	51.6	63.0	60.7	62.5	64.2	65.7	66.6
Liquid assets/GDP	1.8	1.2	1.6	1.3	1.9	1.5	1.4	1.3	1.3	1.2
Monetary indicators (%)										
CPI growth	1.6	0.8	1.6	0.2	0.7	1.4	5.9	3.0	2.0	2.0
GDP deflator growth	1.0	(0.1)	0.9	0.8	0.2	3.2	4.7	2.0	1.2	1.1
Exchange rate, year-end (MAD/$)	10.1	9.3	9.6	9.6	8.9	9.3	9.6	9.3	9.1	9.1
Banks' claims on resident non-gov't sector growth	4.0	2.0	2.7	3.5	3.2	3.0	3.1	3.1	3.1	3.1
Banks' claims on resident non-gov't sector/GDP	73.1	71.0	70.1	70.0	77.7	71.9	69.7	68.1	67.0	66.1
Foreign currency share of claims by banks on residents	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	4.7	4.3	3.8	4.2	3.7	3.7	3.70	3.70	3.70	3.70
Real effective exchange rate growth	2.1	(0.4)	0.8	0.7	0.6	0.3	N/A	N/A	N/A	N/A

Sources: Haut- Commissariat Au Plan, World Bank (economic indicators); Central Bank of Morocco, International Financial Statistics (monetary indicators); Ministry of Economy and Finance (fiscal and debt indicators); Ministry of Economy and Finance, IMF (external indicators).

Morocco--Selected Indicators

Adjustments: To arrive at the general government debt, we consolidate the central and local government debt outstanding with holdings of the central government debt by other parts within the general government remit, such as the social security system.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A- Not applicable. MAD--Moroccan dirham. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Moderate risk of challenges to political institutions resulting from highly centralized decision-making and parts of the population desiring more political or economic participation.
Economic assessment	5	Based on GDP per capita ($) as per Selected Indicators in Table 1.
External assessment	3	Based on narrow net external debt (% of current account receipts) and gross external financing needs (% of current account receipts plus usable reserves) as per Selected Indicators in Table 1. The net external liability position is substantially worse than the narrow net external debt position, by over 100% of current account receipts.
Fiscal assessment: flexibility and performance	4	Based on change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1.
Monetary assessment	3	The exchange rate regime is a conventional peg arrangement. The Moroccan dirham is pegged to a currency basket comprising the euro and U.S. dollar, with the euro holding the majority proportion (60%). Morocco's central bank operates independently. The effectiveness of market-based monetary instruments is complemented by reserve requirements and foreign-exchange market intervention. The central bank has the ability to define price stability and act as a lender of last resort. Inflation is relatively low and stable, on average.
Indicative rating	bb	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	1	The ongoing implementation of structural economic and budgetary reforms underpins Morocco’s creditworthiness. Morocco’s structural reform agenda should lead toward a more inclusive and solid economic structure, and gradually reduced current account and budgetary deficits. In addition, the Moroccan economy and its access to external and domestic financing have weathered a series of regional and global shocks well in the past two decades.
Final rating	BB+	
Foreign currency		
Notches of uplift	0	Default risks do not apply differently to foreign-and local-currency debt.
Local currency	BB+	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings List, Sept. 13, 2022
- Sovereign Ratings History, Sept. 13, 2022
- The Russia-Ukraine War Is Reshaping The Fertilizer Industry, Sept. 12, 2022
- Sovereign Risk Indicators, July 11, 2022. An interactive version is also available at www.spratings.com/sri
- Default, Transition, and Recovery: 2021 Annual Global Sovereign Default And Rating Transition Study, May 4, 2022,
- Banking Industry Country Risk Assessment: Morocco, Oct. 29, 2021
- Full Analysis: Morocco, April 4, 2022
- Morocco Ratings Lowered To 'BB+/B' From 'BBB-/A-3' On Fiscal Space Erosion; Outlook Stable, April 2, 2021

Ratings Detail (as of September 30, 2022)*

Morocco	
Sovereign Credit Rating	BB+/Stable/B
Transfer & Convertibility Assessment	BBB
Senior Unsecured	BB+
Sovereign Credit Ratings History	
02-Apr-2021	BB+/Stable/B
02-Oct-2020	BBB-/Negative/A-3
04-Oct-2019	BBB-/Stable/A-3
05-Oct-2018	BBB-/Negative/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.