Research Update:

Morocco Outlook Revised To Positive On Improving Socioeconomic And Budgetary Reform Trajectory; 'BB+/B' Ratings Affirmed

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PRIMARY CREDIT ANALYST

Remy Carasse
Paris
+ 33 14 420 6741
remy.carasse
@spglobal.com

SECONDARY CONTACTS

Hugo Soubrier
Paris
+33 1 40 75 25 79
hugo.soubrier
@spglobal.com

Sebastien Boreux
Paris
+ 33 14 075 2598
sebastien.boreux
@spglobal.com

RESEARCH CONTRIBUTOR

Ashay Gokhale
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Overview

- Morocco's economy has proven resilient in the face of multiple shocks over the past five years, and maintained access to domestic and external financing.
- We believe that the continued implementation of socioeconomic and budgetary reforms will help formalize the economy further and make it more inclusive and competitive, thereby stimulating GDP growth and bringing down budget deficits, albeit gradually.
- The budget and current account deficits decreased more than we expected in 2023, to 4.4% and 0.6% of GDP, respectively, and we expect fiscal consolidation to continue.
- We therefore revised our outlook on Morocco to positive from stable and affirmed our ratings at 'BB+/B'.

Rating Action

On March 29, 2024, S&P Global Ratings revised its outlook on Morocco to positive from stable. We also affirmed our 'BB+/B' long- and short-term local and foreign currency sovereign credit ratings on Morocco.

Outlook

The positive outlook reflects our expectations that Morocco will build on its recent track record of implementing socioeconomic and budgetary reforms, paving the way for stronger and more inclusive growth, and a reduction in budget deficits.

Upside scenario

We could raise our ratings on Morocco within the next 12-18 months if the government continues to implement structural reforms, resulting in stronger economic growth and a broadening of the tax base, while budget deficits continue to decline.

Downside scenario

We could revise the outlook to stable if economic growth, budgetary consolidation, or the reform momentum prove weaker than we currently expect.

Rationale

We believe the ongoing, albeit gradual, shift in Morocco's underlying economic structure will benefit the growth outlook, economic stability, and fiscal trajectory. We forecast that Morocco's annual economic growth will accelerate and average 3.6% in 2024-2027, while the budget deficit will decline to 3% of GDP by 2027.

The Moroccan economy has weathered several global, regional, and local headwinds in recent years. These included the surge in energy and food prices tied to the Russia-Ukraine war, the COVID-19 pandemic, and multiple drought episodes. Nevertheless, it has maintained unfettered access to external and domestic financing. In 2023, the number of tourist arrivals was 12.3% above 2019 pre-pandemic, a better performance than the global average, despite the earthquake in the Marrakesh region in September 2023. The current account deficit narrowed to 0.6% of GDP in 2023, against our previous estimate of 2.7%, partly reflecting the continued diversification in the economy; Morocco's main export-oriented sectors are now tourism, automotive, and phosphates.

We believe that extending social protection, combined with increasing digitalization, should enable the authorities to formalize more of the economy and make it more inclusive, and eventually widen the tax base. The number of people benefiting from the mandatory health insurance scheme has more than doubled since 2021. The authorities also implemented a unified registry to better target households eligible for social support programs, and will undertake a population census in 2024.

In our view, implementing structural reforms and social support programs will prevent budget deficits from falling sharply in the near term, but will underpin medium- to long-term fiscal consolidation. The authorities aim to gradually eliminate remaining subsidies on butane gas, wheat, and sugar, which will free up resources to finance part of the extension of health care coverage and the targeted family allowance. The VAT reform enshrined in the 2024 finance law aims to simplify the tax system and incentivize formalization of businesses, according to the same approach that the authorities adopted for income and corporate taxes over the past two years.

We believe the reforms will take time to fully bear fruit, while water scarcity will likely continue to constrain growth in coming years. Despite ongoing diversification, economic growth in Morocco still relies significantly on rain-fed agriculture (10% of GDP but almost 30% of employment), making it sensitive to rainfall patterns. A series of business-friendly reforms seeks to prioritize investment in water and energy, and the modernization of the legal, institutional, and regulatory framework. The government amended the Investment Charter at the end of 2022; it aims to increase the share of both domestic and foreign private investment to two thirds of total investment by 2035, from approximately one third currently. We believe this will hinge on the implementation of further complementary reforms that support Morocco's ability to increase its attractiveness for both foreign and domestic investments.

Morocco benefits from upfront access to significant IMF resources available for drawdown if requested, which are currently not utilized. We understand that the Moroccan authorities intend to treat the Flexible Credit Line (FCL) as a safety net and do not plan to draw down from it unless significant pressure materializes. This type of credit line helps countries hedge against external shocks. In September 2023, the IMF also approved a Resilience and Sustainability Facility, which aims to help Morocco address climate vulnerabilities and strengthen its resilience to climate change.

Institutional and economic profile: Per capita income remains relatively low, but ongoing economic reforms, diversification, and resilience support more robust growth prospects

- Annual economic growth will average 3.6% in 2024-2027, supported by robust exports and domestic demand, but likely constrained by sluggish agricultural sector growth.
- Inflation had become more broad-based, but will decelerate gradually to 3.6% in 2024 and approach 2.0% in 2027, from 6.1% in 2023.
- Morocco's low per capita income highlights persistent structural weaknesses, which ongoing reforms seek to address.

We forecast that Morocco's GDP will rise by 3.4% in 2024, from 3.1% in 2023--bolstered by robust performance within the tourism, automotive, and aerospace sectors--then average 3.7% in 2025-2027. Economic growth will be supported by stronger domestic demand helped by declining inflation and greater private investment, which will benefit from the economic reforms underway and stronger growth in the eurozone, Morocco's main trade partner. The Moroccan economy will also gradually benefit from the development of large-scale projects in view of the Africa Cup of Nations in 2025 and the Football World Cup in 2030, the implementation of socioeconomic reforms, and the expansion of Morocco's export capacity. The Tanger-Med port now has capacity of three million 20-foot equivalent units, making it the largest port in both the Mediterranean and in Africa.

The Moroccan economy's ongoing dependence on agriculture will limit growth through our forecast period ending 2027. The agricultural sector represents roughly 10% of GDP and 30% of employment, making the economy particularly vulnerable to weather and rainfall patterns. The period from 2019 to 2022 was the driest since the 1960s, according to the General Directorate of Meteorology, while 2023 was marked by low rainfall. Drought during the 2021-2022 agricultural season resulted in a 12.9% contraction in the agricultural value-added in 2022. Morocco has started to implement a large-scale action plan to mitigate water scarcity. This will involve heavy investment in infrastructure, including new dams and desalination and recycling plants, as well as measures to improve the efficiency of water consumption and optimize water resources, such as north-south water transfer programs. We understand that most of these plans will be in the form of public-private partnership, notably under the Mohammed VI Investment Fund that aims to finance large investment projects with domestic and foreign private investors.

GDP per capita will remain below that of several of Morocco's peers but will increase gradually to almost $5,000 in 2027 from around $4,000 in 2023. In our view, despite rapid reforms, Morocco's relatively low per capita income limits potential tax and funding bases. The country still has a large informal economy that remains largely untaxed; significant income disparities between urban and rural areas; and high unemployment, especially youth unemployment. Extending social protection to all Moroccans, combined with increasing digitalization, should enable the authorities to formalize more of the economy and widen the tax base. The authorities aim to improve targeting of social assistance with the unified social registry.

Flexibility and performance profile: Budgetary consolidation is slow, but the government's debt profile remains favorable

- We expect Morocco's budget deficit to narrow gradually to 4.1% of GDP in 2024 and approach 3% by 2027.
- Government debt stock levels will remain higher than pre-pandemic levels. Nevertheless, the average maturity is relatively long and over three-fourths is in domestic currency.
- We forecast the current account deficit will average 1.6% of GDP in 2024-2027, after falling to 0.6% in 2023.

We expect Morocco's general government budget deficit to narrow gradually to 3% of GDP by 2027. Public finances will benefit from rising revenue in key sectors such as phosphates and tourism and from continued budgetary reforms. For example, the VAT reform aims to simplify and align the tax system and incentivize formality via the establishment of new VAT withholding mechanisms. The reform should yield a total of Moroccan dirham (MAD) 1 billion by 2026, according to the 2024 finance law. Morocco started a series of similar budgetary reforms in recent years, including on income and corporate taxes. Central government revenue increased to 29% of GDP in 2023, from 24.1% in 2019. The budget deficit reached 4.4% of GDP in 2023--less than we expected in our September 2023 publication (4.9%)--benefiting in part from the increase in the surplus in the treasury special account to MAD17 billion, from MAD8.4 billion in 2022. This surplus includes revenue from the special fund created to manage the costs of budgetary support related to the earthquake of September 2023.

The authorities aim to gradually eliminate the remaining subsidies on butane gas, wheat, and sugar. This should free up resources to finance part of the extension of health care coverage and the targeted family allowance. The Moroccan government forecasts that the cost of subsidies will decrease to MAD7.8 billion (0.5% of GDP) in 2026, from about MAD30 billion (2.1% of GDP) in 2023 and MAD42 billion (3.2% of GDP) in 2022, according to the triannual budget planning. The Moroccan government eliminated the subsidies on premium gasoline and industrial fuel not used for electricity generation 10 years ago.

We forecast that general government debt, net of liquid assets, will remain around 64% of GDP by 2027. However, Morocco's exposure to refinancing risk and foreign exchange risk is relatively limited. Central government debt had an average maturity of more than seven years and an estimated average cost of 3.2% for the domestic debt and 3.6% for the external debt, as of end-2023. Foreign currency debt is mostly concessional and comprises less than a quarter of central government debt. Eurobond issuances represent about one-third of the foreign currency debt, and their redemption profile remains fairly smooth. We project that government interest will remain below 10% of government revenue, although the rise in domestic and international interest rates will push up interest spending. Guarantees to state-owned enterprises (SOEs) are estimated at more than 10% of GDP (based on relatively stable stock over the past few years). The government has started an exhaustive review of the SOE sector, which should reduce the associated financial burden and the contingent risks on the budget. It should also decrease the distortions that prevent market neutrality and hinder private sector development.

We forecast the current account deficit will average 1.6% of GDP in 2024-2027 on the back of stronger domestic demand. The current account fell to 0.6% of GDP in 2023, from 3.5% in 2022, despite the decline in phosphate exports. Tourism receipts surged by 11.7% in 2023, compared to 2022, and by 32.8% compared to pre-pandemic levels in 2019. Automotive exports rose by 27.4% and remittances by 4%. On the other hand, the energy bill reduced by 20.4%. Morocco imports more than 90% of its energy requirements and oil and gas represent about 15% of total imports. The government is promoting investment in renewable energy, aiming to increase renewable capacity to 52% of total capacity by 2030, from about 38% in 2022.

Morocco finances most of its current account through foreign direct investment (FDI) inflows and external borrowing, which have withstood a series of regional and global shocks over the past two decades. We expect FDI inflows will gradually increase in the coming years, as the implementation of structural economic reforms makes Morocco more attractive to investors. The country issued its latest eurobond in March 2023 in two tranches: $1.25 billion with a 10-year maturity and a 6.5% coupon, and $1.25 billion with a five-year maturity and a 5.95% coupon. In April 2023, Morocco received a new FCL from the IMF, which provides upfront access to significant IMF resources available for drawdown if requested.

The central bank of Morocco raised its benchmark interest rate by 150 basis points to 3% between September 2022 and March 2023. In our view, the Moroccan banking sector has moderate capitalization and is unlikely to pose significant risks to the wider economy. Moroccan banks' expansion into sub-Saharan Africa has been profitable so far, but increases risk in the Moroccan banking system. Morocco was removed from the Financial Action Task Force gray list in February 2023 after the kingdom's progress in improving its anti-money laundering/counter financing of terrorism regime. We believe this could enhance Moroccan banks' ability to engage in trade finance operations with international banks, especially those in Europe, which is Morocco's main trade partner.

The Moroccan dirham is pegged to a currency basket of 60% euros and 40% U.S. dollars. In our view, a foreign exchange peg limits monetary policy flexibility, but provides a stability anchor. 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 the previous plus or minus 2.5%. We view exchange rate liberalization as supportive for our overall monetary assessment because we believe it underpins the country's external competitiveness and ability to withstand external macroeconomic shocks.

Key Statistics

Table 1

Morocco--Selected indicators

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Economic indicators (%)										
Nominal GDP (bil. LC)	1,195	1,240	1,152	1,275	1,330	1,433	1,528	1,613	1,701	1,794
Nominal GDP (bil. $)	127	129	121	142	131	141	156	167	180	192
GDP per capita (000s $)	3.6	3.6	3.4	3.9	3.6	3.8	4.2	4.4	4.7	5.0
Real GDP growth	3.1	2.9	(7.2)	8.0	1.3	3.1	3.4	3.5	3.7	3.9
Real GDP per capita growth	2.0	1.8	(8.1)	6.9	0.3	2.1	2.4	2.5	2.7	2.9
Real investment growth	5.3	(0.2)	(11.9)	13.9	(6.5)	3.4	3.8	4.0	4.4	4.6
Investment/GDP	32.9	31.3	29.5	31.3	31.1	30.0	30.0	30.0	30.0	30.0
Savings/GDP	28.0	27.9	28.3	29.0	27.6	29.4	28.6	28.2	28.3	28.5
Exports/GDP	33.8	34.1	30.8	33.2	44.8	48.5	47.8	47.5	47.3	47.1
Real exports growth	3.8	5.1	(15.0)	7.9	20.4	10.0	5.0	5.0	5.0	5.0
Unemployment rate	9.5	9.2	11.9	12.3	11.8	13.0	13.0	13.0	13.0	13.0
External indicators (%)										
Current account balance/GDP	(4.9)	(3.4)	(1.2)	(2.3)	(3.5)	(0.6)	(1.4)	(1.8)	(1.7)	(1.6)
Current account balance/CARs	(12.0)	(8.4)	(3.0)	(5.6)	(6.4)	(1.1)	(2.5)	(3.2)	(3.0)	(2.8)
CARs/GDP	40.8	40.6	38.6	42.2	54.8	58.1	56.3	55.5	55.2	55.0
Trade balance/GDP	(15.9)	(15.3)	(12.8)	(14.1)	(20.2)	(18.4)	(18.1)	(18.0)	(17.9)	(17.8)
Net FDI/GDP	2.2	0.6	0.8	1.1	1.2	0.1	0.5	0.6	0.7	0.8
Net portfolio equity inflow/GDP	(0.6)	0.9	1.8	(0.2)	(0.8)	0.1	0.1	0.1	0.1	0.1
Gross external financing needs/CARs plus usable reserves	103.5	102.9	98.6	93.3	95.6	95.8	94.0	94.8	95.1	95.3
Narrow net external debt/CARs	36.0	37.2	44.0	32.7	31.2	22.5	21.1	19.9	18.5	17.5
Narrow net external debt/CAPs	32.1	34.3	42.7	31.0	29.3	22.2	20.6	19.3	18.0	17.0
Net external liabilities/CARs	146.6	150.6	180.6	140.8	107.1	88.7	83.7	79.8	75.3	72.0
Net external liabilities/CAPs	130.9	138.9	175.3	133.3	100.7	87.7	81.7	77.3	73.1	70.1
Short-term external debt by remaining maturity/CARs	43.7	42.5	51.2	43.8	36.7	32.4	30.4	28.7	26.8	25.2
Usable reserves/CAPs (months)	5.4	5.2	6.6	6.8	5.6	4.7	4.9	4.5	4.3	4.0
Usable reserves (mil. $)	24,436	26,413	35,999	35,648	32,317	36,275	36,275	36,275	36,275	36,275

Table 1

Morocco--Selected indicators (cont.)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Fiscal indicators (general government; %)										
Balance/GDP	(3.5)	(3.8)	(7.1)	(5.9)	(5.2)	(4.4)	(4.1)	(3.7)	(3.4)	(3.0)
Change in net debt/GDP	3.4	3.0	7.5	4.3	6.2	3.3	4.1	3.7	3.4	3.0
Primary balance/GDP	(1.3)	(1.4)	(4.6)	(3.8)	(3.1)	(2.1)	(1.7)	(1.2)	(0.8)	(0.4)
Revenue/GDP	28.2	28.2	31.0	29.4	32.7	33.0	33.0	33.0	33.0	33.0
Expenditures/GDP	31.7	31.9	38.2	35.3	38.0	37.4	37.1	36.7	36.4	36.0
Interest/revenues	7.8	8.5	8.0	7.2	6.5	6.9	7.3	7.6	7.8	7.8
Debt/GDP	52.0	52.8	64.9	62.7	66.2	65.8	65.8	66.1	66.0	65.6
Debt/revenues	184.4	187.7	209.0	213.4	202.1	199.4	199.5	200.2	200.1	198.9
Net debt/GDP	50.4	51.6	63.0	61.2	64.8	63.5	63.6	64.0	64.1	63.8
Liquid assets/GDP	1.6	1.2	1.9	1.5	1.4	2.3	2.2	2.1	2.0	1.9
Monetary indicators (%)										
CPI growth	1.6	0.2	0.7	1.4	6.6	6.1	3.6	2.6	2.3	2.1
GDP deflator growth	0.9	0.8	0.1	2.4	3.1	4.5	3.1	2.0	1.7	1.5
Exchange rate, year-end (LC/$)	9.57	9.59	8.90	9.28	10.45	9.89	9.75	9.55	9.35	9.35
Banks' claims on resident non-gov't sector growth	2.8	4.3	3.5	3.0	8.3	2.7	3.0	3.5	4.0	4.0
Banks' claims on resident non-gov't sector/GDP	65.4	65.8	73.2	68.2	70.8	67.5	65.2	63.9	63.0	62.1
Foreign currency share of claims by banks on residents	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency share of residents' bank deposits	3.8	4.2	3.7	3.7	3.9	3.4	0.0	0.0	0.0	0.0
Real effective exchange rate growth	0.8	0.8	0.8	0.7	(3.8)	1.4	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).
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. LC--Local currency. 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

Table 2

Morocco--Ratings score snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Moderate risk of challenges to political institutions resulting from centralized decision making and parts of the population desiring more political or economic participation. Morocco's ongoing economic and fiscal reforms should pave the way for more inclusive growth, increased domestic and foreign private investment, and a gradual reduction in budget deficits.
Economic assessment	5	Based on GDP per capita ($) as per Selected Indicators.
External assessment	2	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. Morocco's access to external financing and foreign direct investment inflows have withstood a series of regional and global shocks over the past two decades.
Fiscal assessment: flexibility and performance	3	Based on change in net general government debt (% of GDP) as per Selected Indicators.
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.
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	0	
Final rating		
Foreign currency	BB+	
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 History, March 11, 2024
- Sovereign Ratings List, March 11, 2024
- Sovereign Ratings Score Snapshot, March 4, 2024
- Sovereign Risk Indicators, Dec. 11, 2023. An interactive version is available at http://www.spratings.com/sri
- 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Morocco		
Sovereign Credit Rating	BB+/Positive/B	BB+/Stable/B
Ratings Affirmed		
Morocco		
Senior Unsecured	BB+	
Transfer & Convertibility Assessment	BBB	