S&P Global
Ratings

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Research Update:

Morocco 'BB+/B' Ratings Affirmed; Outlook Stable

March 31, 2023

Overview

- 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 external and budget deficits.
- We expect GDP per capita will grow but remain below peers, underscoring Morocco's relative structural weaknesses.
- We project Morocco's net general government debt will increase and stabilize at 65% of GDP by 2026, around 13.5 percentage points higher than pre-pandemic levels.
- We affirmed our 'BB+/B' foreign and local currency ratings on Morocco. The outlook is stable.

Rating Action

On March 31, 2023, S&P Global Ratings affirmed its 'BB+/B' long- and short-term foreign and local currency sovereign credit ratings on Morocco. The outlook is stable.

Outlook

The stable outlook on Morocco reflects our expectation that ongoing structural reforms will support robust economic growth and help counterbalance external and budgetary pressures.

Downside scenario

We could lower our ratings on Morocco if, contrary to our forecasts, economic and external imbalances widen and create a pronounced increase in Morocco's gross financing needs, or if the government's budgetary performance materially underperforms our expectations.

Upside scenario

We could raise our ratings on Morocco if budgetary consolidation proves to be significantly faster than we expect, resulting in a substantial decline in net general government debt to GDP, while economic growth remains robust.

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Rationale

The affirmation indicates that we expect Morocco's structural reforms to gradually usher in a more inclusive economy, and that it will see its elevated external and budget deficits trend downward. The Moroccan economy has weathered several regional and global shocks over the past two decades while maintaining access to external and domestic financing.

In our view, Morocco's low per capita income highlights persistent structural weaknesses, including a large informal economy, wide income disparities between more- and less-developed areas, and high unemployment.

Institutional and economic profile: Robust growth prospects, supported by ongoing structural reforms, economic diversification, and public and private investment

- We forecast a steady rise in Morocco's GDP, by 3.5% in 2023 and 3.4% a year in 2024-2026.
- Although we expect GDP per capita to rise to nearly $5,000 in 2026, this is still low, relative to the country's peers.
- Our projections suggest that inflation will become more broad-based and will decelerate gradually to 4.5% in 2023 and 2% by 2026.

We forecast that Morocco's GDP will rise by 3.5% in 2023, bolstered by a rebound in agricultural output and robust performance by the country's main export-oriented sectors, including tourism, phosphates, automotive, and aerospace. That said, the economic slowdown in Europe, Morocco's main economic partner, will limit growth beyond this level.

Thereafter, economic expansion will be steady, with GDP growth of about 3.4% a year until 2026. Morocco's economic growth will benefit from the completion of additional large-scale projects, the expansion of Morocco's export capacity, the promotion of the private sector, and the implementation of socioeconomic reforms. Tanger-Med now has a capacity of three million twenty-foot equivalent units, making it the largest port in the Mediterranean and in Africa.

A series of business-friendly reforms seeks to prioritize investment in digitalization 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. The authorities have also embarked on a comprehensive overhaul of the social security system to extend health care coverage and increase social transfers, while broadening the tax and social contribution bases.

We predict that, although GDP per capita will remain below that of Morocco's peers, it will increase gradually to nearly $5,000 in 2026 from around $4,000 in 2023. In our view, Morocco's low per capita income limits its potential tax and funding bases, and highlights its persistent structural weaknesses. Although these are lessening, the country still has a large informal economy; wide income disparities between more- and less-developed 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. For example, the establishment of the unified social registry could improve the targeting of social assistance.

Despite ongoing efforts to diversify the economy, it still relies heavily on agriculture. Agriculture represents roughly 10% of GDP and 30% of employment, making the economy particularly vulnerable to weather and rainfall patterns. Drought during the 2021-2022 agricultural season resulted in a poor harvest and caused real GDP to shrink to 1.5% in 2022. This was the third season to be hit by drought in just five years. According to the International Monetary Fund (IMF), the availability of water resources has decreased significantly over the past decades. It is expected to reach the absolute water scarcity threshold (500 meters cubed per person per year) by 2050. We understand that the government has committed to implementing 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 project that headline inflation will slow to 4.5% in 2023 and reach 2% by 2026, from 6.6% in 2022, mainly on the back of easing hydrocarbon and food prices (see "S&P Global Ratings Cuts 2023 European, U.S., And Canadian Gas Price Assumptions On Lower Demand," published on Feb. 24, 2023). At the same time, we expect inflation to become more broad-based, which could intensify social pressure and demands for support. A series of demonstrations against the rising cost of living took place over the past year. To help cushion the effect of higher inflation, in 2022 the government suspended custom duties on wheat and implemented a package of financial assistance measures. These included supporting professionals in the road transport sector and increased subsidies via the compensation fund. Subsidies reached Moroccan dirham (MAD) 42.1 billion (3.1% of GDP) in 2022, compared with MAD21.8 billion (1.6% of GDP) in 2021. Under the 2023 budget law, subsidies are to decline to MAD26.6 billion (1.5% of GDP) in 2023.

Flexibility and performance profile: Fiscal and external needs will decrease, but only gradually

- Our projections indicate that the current account deficit will narrow to 3.6% of GDP in 2023 and stabilize at an average of about 3.5% in 2024-2026.
- Morocco's access to external financing and foreign direct investment (FDI) inflows have weathered a series of regional and global shocks over the past two decades.
- We forecast that Morocco's budget deficit will gradually narrow to 4.8% of GDP in 2023 and 3.5% by 2026.

We anticipate that the current account deficit will gradually narrow on resilient exports and an easing in hydrocarbon prices. Rising prices for phosphates, a key ingredient in fertilizer, continue to support external revenue. Phosphates represent more than 25% of Moroccan exports. In addition, the tourism industry has been particularly dynamic; tourist receipts exceeded pre-pandemic levels by 15.9% in 2022. Remittances contribute about 7% of GDP and are expected to remain robust, given the resilience of the EU labor market.

Lower hydrocarbon prices will reduce pressure on the import bill. Morocco imports more than 90% of its energy requirements--oil and gas represent about 15% of total imports. The spike in energy costs caused the current account deficit to widen 4.3% of GDP in 2022, from 2.3% in 2021. This volatility is one of the reasons why the government is promoting investments in renewable energy. It aims to increase renewable capacity to 52% of total capacity by 2030, from about 38% in 2022.

Morocco also became a net food importer in 2022, amid soaring food prices. Domestic production declined due to the drought. Morocco relies heavily on cereal imports, which account for roughly 5% of total imports.

Morocco finances most of its current account through FDI inflows and external borrowing, which have withstood a series of regional and global shocks over the past two decades. We anticipate that FDI inflows will gradually increase in the coming years, as the implementation of structural economic reforms makes Morocco more attractive to investors. Morocco 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.

We understand that Morocco is likely to receive a new flexible credit line from the IMF. This type of credit line helps countries hedge against external shocks. It provides upfront access to significant IMF resources with no preconditions. The Moroccan authorities intend to treat the credit line as precautionary.

We expect Morocco's budget deficit to narrow gradually to 4.8% of GDP in 2023 and 3.5% by 2026, from 5.1% in 2022. Public finances will benefit from rising revenue in key sectors such as phosphates and tourism. The authorities aim to eliminate the remaining subsidies on gas butane, wheat, and sugar by 2025, which will free up resources to finance part of the extension of health care coverage and the targeted family allowance. In our view, although implementing structural reform could prevent budget deficits from falling sharply in the near term, it will underpin medium- to long-term fiscal consolidation. By the end of March 2023, Morocco had already funded more than 40% of the year's budgeted financing needs.

Our forecast regarding the budget deficits implies a gradual increase in net general government debt, to 65.1% in 2026, from 62.8% in 2022. At the same time, we expect the rise in domestic and international rates to cause an upturn in interest expenditure. However, Morocco's exposure to refinancing and foreign exchange risk is relatively limited. Its central government debt had an average maturity of about seven years and an estimated average cost of 3.4% for the domestic debt and 2.4% for the external debt, as of end-2022. Foreign currency debt is mostly concessional and comprises less than a quarter of central government debt. Eurobond issuances represent one-third of the foreign currency debt. Guarantees to state-owned enterprises (SOEs) are estimated at about 12.5% of GDP (based on relatively stable stock over the past few years). The budget includes provisions against potential losses related to these guarantees. The government plans 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.

The central bank of Morocco raised its benchmark interest rate by 50 basis points to 3% in March 2023; this was the third such rise since September 2022. In our view, the Moroccan banking sector has moderate capitalization and is unlikely to jeopardize the wider economy. We expect revenue in the banking sector to remain resilient as higher margins increase net interest income, but banks remains vulnerable to credit concentration risk. 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 (FATF) gray list in February 2023. 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. 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%.

Key Statistics

Table 1

Morocco Selected Indicators

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic indicators (%)										
Nominal GDP (bil. LC)	1,149	1,195	1,240	1,152	1,284	1,372	1,477	1,557	1,639	1,720
Nominal GDP (bil. $)	119	127	129	121	143	135	144	160	176	189
GDP per capita (000s $)	3.4	3.6	3.6	3.4	3.9	3.7	3.9	4.3	4.7	5.0
Real GDP growth	5.1	3.1	2.9	(7.2)	7.9	1.5	3.5	3.4	3.4	3.4
Real GDP per capita growth	4.0	2.0	1.8	(8.1)	6.9	0.5	2.5	2.4	2.4	2.4
Real investment growth	3.0	5.3	(0.2)	(11.9)	13.3	2.4	3.8	3.6	3.6	3.7
Investment/GDP	32.3	32.9	31.3	29.5	31.7	32.3	31.6	31.2	30.8	30.6
Savings/GDP	29.2	28.0	27.9	28.3	29.5	28.0	28.0	27.7	27.4	27.1
Exports/GDP	32.6	33.8	34.1	30.8	32.9	34.6	34.2	34.1	34.0	34.0
Real exports growth	10.8	3.8	5.1	(15.0)	8.7	6.0	6.0	5.0	5.0	5.0
Unemployment rate	10.2	9.5	9.2	11.9	12.3	11.8	11.2	11.0	10.8	10.8
External indicators (%)										
Current account balance/GDP	(3.2)	(4.9)	(3.4)	(1.2)	(2.3)	(4.3)	(3.6)	(3.5)	(3.5)	(3.5)
Current account balance/CARs	(7.8)	(12.0)	(8.4)	(3.0)	(5.4)	(9.9)	(8.5)	(8.3)	(8.1)	(8.1)
CARs/GDP	40.8	40.8	40.6	38.6	41.8	43.5	42.9	42.7	42.6	42.6
Trade balance/GDP	(15.2)	(15.9)	(15.3)	(12.8)	(13.9)	(16.2)	(15.4)	(15.4)	(15.3)	(15.3)
Net FDI/GDP	1.4	2.2	0.6	0.8	1.2	1.5	1.5	1.6	1.7	1.8
Net portfolio equity inflow/GDP	(0.1)	(0.6)	0.9	1.8	(0.2)	0.4	0.4	0.4	0.4	0.4
Gross external financing needs/CARs plus usable reserves	92.8	94.5	94.2	89.4	85.3	88.6	91.3	89.8	91.2	92.1
Narrow net external debt/CARs	30.9	30.5	30.7	31.4	24.9	31.4	27.9	28.9	26.5	24.9
Narrow net external debt/CAPs	28.7	27.2	28.3	30.5	23.6	28.6	25.7	26.7	24.5	23.0
Net external liabilities/CARs	156.7	151.0	154.1	176.6	140.4	153.3	147.6	142.1	134.3	130.6
Net external liabilities/CAPs	145.4	134.9	142.1	171.4	133.2	139.5	136.1	131.2	124.2	120.8
Short-term external debt by remaining maturity/CARs	33.2	30.2	29.7	36.7	31.4	32.5	30.5	28.4	26.4	24.8
Usable reserves/CAPs (months)	5.8	5.4	5.2	6.6	6.9	6.6	5.8	5.8	5.3	4.9

Table 1

Morocco Selected Indicators (cont.)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Usable reserves (mil. $)	26,194	24,462	26,409	36,003	35,655	32,323	35,648	35,648	35,648	35,648
Fiscal indicators (general government; %)										
Balance/GDP	(3.2)	(3.5)	(3.8)	(7.1)	(5.9)	(5.1)	(4.8)	(4.4)	(3.9)	(3.5)
Change in net debt/GDP	5.5	3.4	3.0	7.5	4.2	5.9	4.5	4.4	3.9	3.5
Primary balance/GDP	(0.8)	(1.1)	(1.4)	(4.6)	(3.8)	(3.0)	(2.5)	(2.0)	(1.4)	(0.9)
Revenue/GDP	33.9	33.5	33.2	35.0	33.0	33.5	33.0	33.0	33.0	33.0
Expenditures/GDP	37.1	37.0	37.0	42.1	38.9	38.6	37.8	37.4	36.9	36.5
Interest/revenues	7.2	7.0	7.2	7.1	6.4	6.3	6.9	7.4	7.7	7.8
Debt/GDP	50.0	52.0	52.8	64.9	62.2	64.2	64.1	65.1	65.8	66.2
Debt/revenues	147.6	155.2	159.1	185.4	188.6	191.5	194.1	197.4	199.4	200.6
Net debt/GDP	48.8	50.4	51.6	63.0	60.7	62.7	62.8	63.9	64.6	65.1
Liquid assets/GDP	1.2	1.6	1.2	1.9	1.5	1.4	1.3	1.2	1.2	1.1
Monetary indicators (%)										
CPI growth	0.8	1.6	0.2	0.7	1.4	6.6	4.5	2.5	2.3	2.0
GDP deflator growth	(0.1)	0.9	0.8	0.1	3.2	5.2	4.0	2.0	1.8	1.5
Exchange rate, year-end (LC/$)	9.33	9.57	9.59	8.90	9.28	10.45	10.00	9.50	9.10	9.10
Banks' claims on resident non-gov't sector growth	2.0	2.7	3.5	3.2	3.0	3.1	3.1	3.0	3.1	3.1
Banks' claims on resident non-gov't sector/GDP	71.0	70.1	70.0	77.7	71.8	69.3	66.3	64.8	63.4	62.3
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	4.3	3.8	4.2	3.7	3.7	3.9	3.9	3.9	3.9	3.9
Real effective exchange rate growth	(0.3)	0.8	0.8	0.7	0.7	(3.9)	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 highly 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 external and 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	4	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 List, March 15, 2023
- Sovereign Ratings History, March 15, 2023
- Sovereign Debt 2023: Emerging EMEA Cautiously Returns To The Markets, March 9, 2023
- Sovereign Ratings Score Snapshot, March 2, 2023
- Bulletin: Morocco's Removal From The FATF Grey List Might Bring Few Benefits For Its Banks, Feb. 27, 2023
- S&P Global Ratings Cuts 2023 European, U.S., And Canadian Gas Price Assumptions On Lower Demand, Feb. 24, 2023
- Banking Industry Country Risk Assessment: Morocco, Dec. 12, 2022
- Sovereign Risk Indicators, Dec. 12, 2022. Interactive version available at http://www.spratings.com/sri
- 2021 Annual Global Sovereign Default And Rating Transition Study, May 4, 2022

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	
Morocco	
Sovereign Credit Rating	BB+/Stable/B
Transfer & Convertibility Assessment	BBB
Senior Unsecured	BB+