

# MOROCCO

32

## ECONOMIC INDICATORS ARE GREEN

The Moroccan economy continues to gain momentum. Largely unaffected by the tightening of US tariff policy, it has recorded solid GDP growth since the beginning of the year. Domestic demand is strong, driven by investment. Despite headwinds in the automotive sector, macroeconomic risks are contained, and the economic outlook is positive. However, current social pressures could have a negative impact on public finances, which have remained under control until now. Improved financing conditions should enable Morocco to cope with any deterioration.

Since late September, Morocco has been rocked by a wave of protests led by young people. While the government has been weakened by these demonstrations, they have been largely peaceful. They are therefore unlikely to compromise the country's stability or solid economic growth. However, they do highlight one of the weaknesses of the Moroccan development model: its high unemployment (12.8% in Q2 2025), particularly among 15-24 year olds (35.8%). There are many reasons why the Moroccan economy is struggling to create enough jobs, starting with the ongoing industrial shift towards capital-intensive sectors. At the same time, these sectors play a central role in the positive trajectory of the economy.

### 📈 GDP GROWTH: ON A SOUND FOOTING

After two encouraging years (2023 and 2024), the economy continues to build momentum. Real GDP grew by an average of 5.1% year-on-year (y/y) in the first six months of 2025, a performance not seen since 2017 (excluding the post-pandemic rebound). All sectors contributed to this momentum, driven by a favourable base effect in agriculture (+4.6% in H1 vs. -4.8% in 2024), as well as strong growth in manufacturing (+5.2%) and services (+4.8%). In particular, the tourism sector continued to grow rapidly, setting a new record of 13.5 million visitors at the end of August (+15% y/y).

On the demand side, investment remained the main driver of growth (see Chart 1), rising by 18.2% y/y in H1 2025 after already growing by 12.8% in 2024. Household consumption also strengthened (+4.7%). The negative contribution of foreign trade to growth is not a cause for concern, as it reflects the massive investment effort. Imports of capital goods in the first eight months of 2025 rose by 13% y/y.

The outlook remains positive. With limited exposure to the tightening of US tariff policy, the Moroccan economy is benefiting from a combination of mutually reinforcing factors.

The investment momentum is a result of the continuation of major infrastructure projects, the country's increased attractiveness to foreign investors, particularly in the manufacturing sector (35% of FDI since 2021, 10 points more than between 2015 and 2019), and a catch-up effect. Having fallen to 24.6% in Q3 2023, the investment rate has returned to a level close to its historical average of 27%. This upward trend could therefore begin to taper off, leading to a slowdown in economic growth.

However, at 4.7% in 2025 and 4.3% in 2026, real GDP growth would remain above its pre-pandemic average (3.2% on average between 2015 and 2019). After years of structural slowdown, could Morocco be crossing a new threshold? Its increased integration into global industrial value chains suggests so. The share of exports of goods and services in GDP jumped from 34% in 2019 to 42% in 2024 thanks to the sustained development of the automotive sector and, to a lesser extent, the aerospace industry. In the current context, this specialisation can be seen as a source of vulnerability. Car exports are suffering from weak demand in Europe (95% of Morocco's car sales), but they are not collapsing (see below). Furthermore, the sector's production index still shows an average increase of 9% in H1 2025. In addition, given the ongoing

### FORECASTS

|                                      | 2022 | 2023 | 2024 | 2025e | 2026e |
|--------------------------------------|------|------|------|-------|-------|
| Real GDP growth, %                   | 1.8  | 3.7  | 3.8  | 4.7   | 4.3   |
| Inflation, CPI, year average, %      | 6.7  | 6.1  | 1.0  | 1.1   | 1.9   |
| Central Gov. balance / GDP, %        | -5.4 | -4.4 | -3.9 | -3.7  | -3.3  |
| Central Gov. debt / GDP, %           | 71.4 | 68.7 | 67.7 | 67.2  | 66.1  |
| Current account balance / GDP, %     | -3.5 | -1.0 | -1.2 | -2.2  | -2.2  |
| External debt / GDP, %               | 49.4 | 47.7 | 42.6 | 41.5  | 40.7  |
| Forex reserves, USD bn               | 32.3 | 36.3 | 37.1 | 45.2  | 46.2  |
| Forex reserves, in months of imports | 5.3  | 5.9  | 5.5  | 5.8   | 5.5   |

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

### MOROCCO: ECONOMIC GROWTH DRIVEN BY INVESTMENT

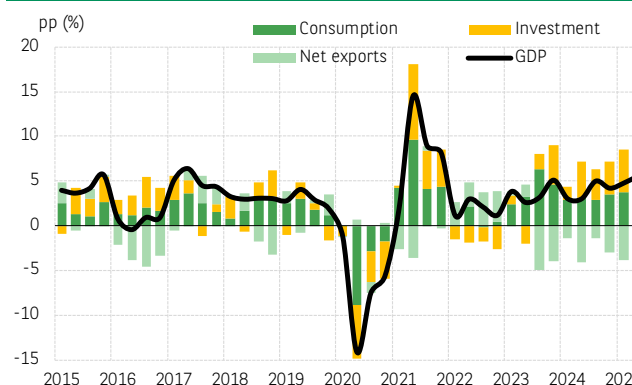


CHART 1

SOURCE: HCP, BNP PARIBAS

developments in electric batteries, the planned expansion of the Stellantis plant in Kenitra, and production costs that are among the lowest in the world, the difficulties should only be temporary.

### 🏛️ CONTAINED INFLATION, CENTRAL BANK CAUTIOUS

The decline in inflation, which has reached a low level, is another factor supporting the economy. From 2.1% y/y in Q1 2025, inflation fell to 0.3% in August, driven by a slowdown in food-price inflation (+0.2% in August compared with +3.4% in Q1). Over the first eight months of the year, the consumer price index rose by just 1.1% on average. Furthermore, there are no signs of an acceleration in the coming months. Core inflation is also low, at 0.7%, and two-year inflation expectations are well anchored.


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This environment gives the Central Bank (BAM) considerable room for manoeuvre. After cutting its key rate by 25 basis points (bp) in March, it has since opted for the status quo. A further cut cannot be ruled out in December, but it would be moderate. At 2.25%, the key rate is above inflation, but monetary conditions remain accommodative. In fact, the ex ante real rate is still below the neutral rate (estimated at 1-1.5%). In addition, domestic demand is strong and the transmission of monetary policy easing is not yet complete. Since the start of the easing phase in mid-2024, the key interest rate has fallen by 75 bp compared with 59 bp for bank lending rates.

The BAM's cautious approach is also evident in the management of two major projects: first, the transition to an inflation targeting system will not take effect until 2027, after a full year of testing; second, the liberalisation of the exchange rate regime no longer appears to be a priority. The authorities believe that not all economic stakeholders are yet prepared to cope with increased exchange rate volatility. However, the risk is limited. At the same time, maintaining the Moroccan dirham's peg to its basket of currencies (60% euro, 40% US dollar with fluctuation bands of +/-5%) does not appear to pose a problem for the country's economic development, as demonstrated by the strength of its external accounts. The stability of the real effective exchange rate over a long period corroborates this analysis.

## STRONG EXTERNAL ACCOUNTS

Morocco has managed to rebalance its external accounts in recent years thanks to a boom in exports, remittances from the Moroccan diaspora and tourism revenues. The international context is now less favourable, but the stability of the balance of payments is not under threat. In fact, the 15% drop in car exports over the first eight months of the year has been largely offset by sustained exports of automotive equipment. As a result, exports in this sector (more than a third of total exports) are virtually stable (-2.9%) compared to 2024, when they were at historically high levels. Strong exports of phosphates and derivatives (+21%, or 19% of total exports) and tourism revenues (+14%) are also reducing pressure on the external accounts. The current account deficit is expected to be just over 2% of GDP this year and in 2026, compared with 1.2% in 2024, and therefore should remain manageable. Capital inflows are robust and external debt is moderate. In addition, the depreciation of the dollar against the euro has contributed to inflating an already high stock of foreign exchange reserves (*Chart 2*). Up 24% since the beginning of the year, they remain close to six months of imports of goods and services, which also rose sharply in 2025. At this level, the coverage ratio against external shocks remains comfortable.

## FISCAL TRAJECTORY UNDER CONTROL BUT NOT WITHOUT RISK

Against a backdrop of intense social pressure, with major infrastructure projects driving economic growth, one question arises: will the government have sufficient fiscal leeway in the event of a sudden downturn in the economy? For now, public finances appear to be under control. From 7.1% of GDP in 2020, the government has managed to reduce the budget deficit to 3.9% in 2024, while maintaining a high level of public investment (7.4% of GDP in 2024 compared with an average of 5.7% between 2015 and 2019). The aim is to reduce the deficit to 3.5% this year and then to 3% from 2026 onwards, which would allow government debt to continue falling. It would thus fall from 67.7% of GDP at end-2024 to 64.1% at end-2028.

### MOROCCO: FOREX RESERVES REMAIN AT A COMFORTABLE LEVEL

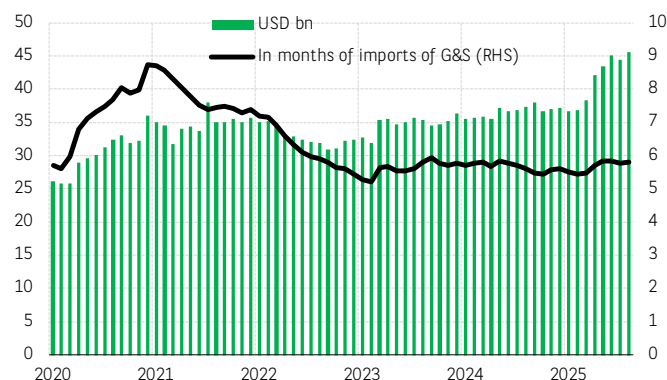


CHART 2

SOURCE: BAM, BNP PARIBAS

The medium-term strategy for consolidating public finances is credible, but it could prove more difficult to implement in the short term. Budget execution over the first eight months of the year already suggests a slower-than-expected reduction in the deficit, which is expected to reach 3.7% of GDP in 2025, or even stabilise compared to 2024. Amendments to the 2026 Finance Act are also to be expected to take account of current social demands. This could result in either a change in the trajectory of the deficit reduction or a reallocation of budgetary resources. The high level of public investment does, in fact, provide a degree of flexibility.

Improved financing conditions have also given the Moroccan government more room for manoeuvre. The yield required on locally issued 10-year sovereign bonds is currently 2.7%, compared with over 4.5% at the beginning of 2023. The narrow spread between 1-year and 10-year issues (100 basis points) is another illustration of investor confidence in the soundness of public finances. This confidence can only be reinforced by S&P's recent decision to upgrade the sovereign rating to the "investment grade" category. In the short term, the impact should be limited, as Morocco already borrows on favourable terms on the international financial markets. Furthermore, barely a quarter of the debt stock is denominated in foreign currency. However, the increased use of innovative financing operations (such as the sale and lease back of state owned real estate) is a source of vulnerability that needs to be monitored. Accounted for as tax revenue, these operations now exceed 2% of GDP. However, they are expected to decline in the medium term. The government will have to find other resources to achieve its budget deficit reduction targets.

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