MOROCCO

POTENTIAL YET TO BE CONFIRMED

The economy continues to hold up. A new period of drought will affect growth in 2024, but non-agricultural activity remains sustained. Investment is recovering sharply and the rapid drop in inflation is buoying household consumption. The country's macroeconomic stability is not under threat. Another cause for satisfaction is the surge in FDI project announcements. Ideally located and providing undeniable advantages against a backdrop of geoeconomic fragmentation, Morocco seems to be taking advantage of the reconfiguration of global value chains. The impact could be considerable. Nevertheless, more will probably be needed to contain rising unemployment.

GROWTH: A SLOWDOWN TO BE PUT INTO PERSPECTIVE

After a rebound to 3.4% in 2023, economic growth will slow to below 3% in 2024. It has only reached 2.5% y/y on average over the first six months of the year. The 5% contraction in agricultural value added, due to a new drought, explains a large part of the slowdown. Excluding agriculture however, activity remained sustained at 3.3% y/y in H1 2024, a rate similar to its pre-pandemic momentum. Above all, growth drivers are rebalancing as shocks dissipate.

In 2022 and H1 2023, activity was primarily driven by external trade in goods and services (*chart 1*). Since H2 2023, its contribution to growth has fallen back into negative territory, which is not concerning as most external-oriented sectors are continuing to see strong performances. At the end of August, goods exports and tourism revenues rose by 5.5% and 7.1% y/y, respectively. At the same time, domestic demand continued to show encouraging signs of consolidation, particularly investment, which has recovered sharply since Q4 2023 after two difficult years. The resilience of private consumption has also been borne out. Despite low household confidence, particularly due to a deteriorating labour market (see below), private consumption is now growing at an annual rate of slightly over 3% thanks to two drivers that will continue: significant financial transfers from the Moroccan diaspora and falling inflation.

FALLING INFLATION OFFERS ROOM FOR MANOEUVRE

The inflationary risk has decreased significantly. Consumer price inflation has fallen rapidly from the 10% y/y peak seen in early 2023. It is now fluctuating at around 1% thanks to the drop in food inflation, which was driven up sharply as a result of the outbreak of the war in Ukraine, contributing to 3/4 of the rise in the consumer price index (CPI). Non-food inflation remained much more contained, moving from a high of 5% in mid-2022 to 1% in September 2024 thanks in particular to the fall in global energy prices.

Against this backdrop, the monetary authorities made a preliminary rate cut of 25 basis points (bps) to 2.75% in June 2024, then maintained the status quo in September. Will they decide to cut the key policy rate further at the next meeting in December ? On the one hand, many indicators are positive: re-anchoring of inflation expectations close to 2% compared to almost 5% in Q2 2023, and a rather favourable external environment thanks in particular to the easing of monetary policy by the ECB and the Fed (the MAD is tied to 60% for the euro and 40% for the dollar). On the other hand, strong domestic demand or geopolitical uncertainties in the Middle East could prompt the Central Bank to play for time once again. Moreover, monetary conditions are still accommodative. The real key rate (ex-ante) is once again positive, but it remains below the neutral rate, estimated at 1-1.5% by the IMF.

FORECASTS

	2021	2022e	2023	2024e	2025e
Real GDP growth, %	8.2	1.5	3.4	2.6	3.9
Inflation, CPI, year average, %	1.4	6.7	6.1	1.5	2.3
Central Gov. balance / GDP, %	-5.9	-5.2	-4.4	-4.3	-3.8
Central Gov. debt / GDP, %	69.4	71.5	69.4	69.5	68.5
Current account balance / GDP, %	-2.3	-3.6	-0.6	-1.1	-1.9
External debt / GDP, %	45.7	49.5	48.0	48.2	48.8
Forex reserves, USD bn	35.6	32.3	36.3	39.1	38.0
Forex reserves, in months of imports	7.1	5.3	5.9	6.0	5.6

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MOROCCO: REBALANCING ECONOMIC GROWTH

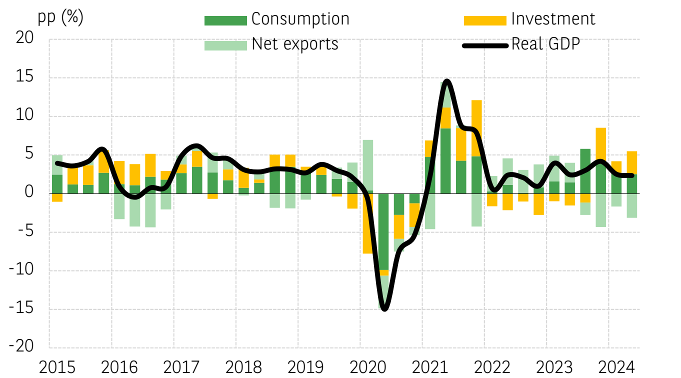

CHART 1

SOURCE: HCP, BNP PARIBAS

In any case, the Central Bank has more comfortable leeway to steer its monetary policy, especially since macro-financial risks are also contained.

STRONG EXTERNAL AND FISCAL ACCOUNTS

Despite high oil prices (15-20% of Morocco's total imports) and a difficult economic situation in Europe, Morocco's main trading partner, the current account deficit narrowed sharply in 2023 to 0.6% of GDP. It will widen this year on account of an increase in imports due to both new investment projects and increased needs for foodstuffs (linked to the poor agricultural season). But the strong performance of the main sources of foreign currency (goods exports, private transfers, tourism revenues) should allow the current account deficit to be maintained at between 1 and 2% of GDP. This moderate level of deficit is not a source of instability for an economy that also benefits from robust capital inflows. In addition, foreign exchange reserves are close to six months of imports. With external debt below 50% of GDP and risk premiums back to pre-pandemic levels, Morocco also has leverage to borrow on international financial markets if necessary.

Public finances remain solid too. Since the pandemic shock, the budget deficit has shrunk by almost 3 GDP points (to 4.4% of GDP in 2023) despite a sometimes unfavourable economy, the government's sustained investment effort (+1.7 GDP points between 2019 and 2023) and the implementation of costly reforms (redesign of the social security system: 1.5-2% of GDP per year). The deficit is expected to stabilise at 4.3% of GDP in 2024 and then be reduced again in 2025, thanks in particular to the continued reform of the subsidy system. According to the new finance law, the budget deficit would, as a result, be reduced to 3.5% of GDP in 2025, an ambitious but credible target given the good performance of the public finance consolidation programme so far. In doing so, government debt would continue to fall slowly. At 69.5% of GDP, it remains high but its profile is favourable. Only a quarter of debt stock is denominated in foreign currency. Moreover, the easing of monetary policy can only improve financing conditions that are already favourable for the Treasury. The apparent rate of Moroccan government debt stands at 3.3% at the end of 2023, one of the lowest in the region, and the renewed confidence of investors in macroeconomic stability is accompanied by a lengthening of domestic debt maturity, which is now seven years and three months.

A STEADY DETERIORATION IN THE LABOUR MARKET

The outlook is brighter, particularly in terms of economic growth: a rebound of 4% is expected for 2025, assuming a better agricultural season and good investment performance. Despite the persistence of risks, especially those related to global oil prices, public and external finances dynamics should remain under control without hindering the authorities' ability to support the economy and successfully complete several structural projects, of which the extension of social protection is undoubtedly the most ambitious.

Nevertheless, the continued deterioration of the labour market raises fundamental questions. The unemployment rate now reaches 13.6%, 3 points higher than its pre-pandemic level, while the activity rate continues to fall. In fact, Morocco has lost an average of more than 90,000 jobs each year since 2020, which can be explained largely, but not exclusively, by the increasing number of droughts (the agricultural sector accounts for 30% of employment). The limits of Morocco's economic model were already visible before 2020. Average economic growth slowed from 5% per year over the first part of the 2000s to 3-3.5% over the period 2015-2019. In addition, the job content of growth has deteriorated. Each additional GDP point was already generating only 12,400 jobs between 2010 and 2019, compared to 31,300 between 2001 and 2009. If there is a shock in agriculture, the economy is therefore no longer able to absorb the loss of jobs in this sector. The situation is not expected to improve in the coming years, given Morocco's vulnerability to climate change and the lack of expected acceleration in economic growth. Growth is expected to reach 3.4% per year on average over the period 2026-2029, according to IMF forecasts. It should remain among the highest of the region's oil importing countries, but insufficient to meet Morocco's economic and social development needs.

MOROCCO: FOREIGN DIRECT INVESTMENT

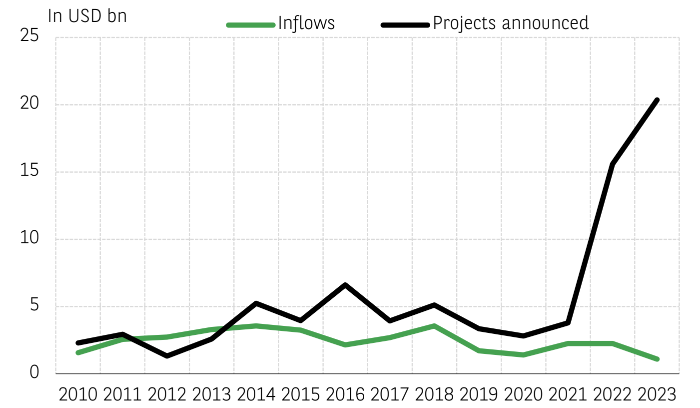

CHART 2 SOURCE: UNCTAD, BNP PARIBAS

FOREIGN INVESTMENTS: A GROWTH DRIVER WITH STRONG POTENTIAL

Aware of these difficulties, the authorities launched a comprehensive long-term programme in 2021 that aims to profoundly reshape Morocco's development model. The scope of reform remains hard to assess. Nevertheless, the Moroccan economy has undeniable assets that should help it take advantage of the current context of reorganisation of global production chains: a strategic geographical situation, good infrastructure, a stable macroeconomic environment, and trade agreements with the European Union and the United States.

Several indicators, as a result, point to a profound change in the attractiveness of the Kingdom. Announcements of greenfield foreign direct investment (FDI) projects have increased five-fold over the past two years (*chart 2*). Morocco is the country with the highest share of new projects announced in percentage of GDP compared to other "connector" countries: 14% in 2023 compared to less than 2% for Mexico and Turkey. In addition, this surge is being accompanied by the emergence of a new investor: China. China historically accounted for less than 2% of FDI flows, but accounted for almost 30% of FDI project announcements in 2022-23. The increasing weight in the composition of FDI in the manufacturing sector, which is now the main recipient, also reflects increased integration into global value chains.

The impact of these new projects is, potentially, considerable but should not be overestimated for the time being. Morocco has just undergone profound changes with the development of the automotive sector. Exports in this sector have more than tripled in a decade, which has significantly improved the economy's ability to withstand external shocks without increasing its growth potential. Strengthening the links between the development of these high-value-added industrial niches and the rest of the economy will therefore be one of the main challenges in the coming years.

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