MOROCCO

RISKS UNDER CONTROL

In Morocco, the latest GDP growth and inflation figures were better than expected, but the latest drought in the country undermines its economic recovery. Regional instability is another real risk to bear in mind. However, the country's adequate economic policy management and solid fundamentals remain supportive factors of macroeconomic stability.

Faced with an accumulation of shocks over the past five years, the Moroccan economy is holding up well. The authorities are maintaining a prudent economic policy that willnot jeopardise the stabilisation seen in the country's economy since the Covid-19 crisis. Most encouragingly, they have also sought to learn from these events by launching ambitious reforms, such as the development programme for the Marrakech region, hit by an earthquake in September 2023, which goes far beyond reconstruction. In addition, this year will once again see measures implemented to strengthen the social safety net, starting with introducing monthly direct support for disadvantaged families or continuing to expand social security coverage.

The headwinds are still strong. In addition to regional instability, Morocco is once again under water stress and the resulting drop in agricultural production will adversely affect economic growth. However, the good macroeconomic fundamentals will help the economy to navigate through this further period of turbulence largely unscathed.

FORECASTS

	2021	2022	2023e	2024e	2025e
Real GDP growth, %	8.0	1.3	3.1	2.4	3.9
Inflation, CPI, year average, %	1.4	6.7	6.1	2.4	2.3
Central Gov. balance / GDP, %	-5.9	-5.2	-4.5	-4.3	-3.8
Central Gov. debt / GDP, %	69.5	71.6	71.0	70.4	69.9
Current account balance / GDP, %	-2.3	-3.6	-0.6	-2.4	-2.8
External debt / GDP, %	45.8	49.5	49.1	49.3	49.9
Forex reserves, USD bn	35.6	32.3	36.3	37.2	38.0
Forex reserves, in months of imports	7.1	5.3	5.9	5.7	5.6

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

EXTERNAL-ACCOUNT STABILITY IS NOT UNDER THREAT

The dynamics of external accounts are not raising any major concerns. After widening to 3.6% of GDP in 2022, the current account deficit fell to 0.6% of GDP in 2023 (see chart 1), thanks to the drop in the global prices of the main commodities imported by Morocco and the good performance of the main sources of foreign currency. With 14.5 million visitors in 2023 and revenue rising above USD 10 billion (7.4% of GDP) for the first time, the tourism sector had a record year, as did financial transfers from the Moroccan diaspora, which were up almost 6% (USD 11.4 billion, or 8.1% of GDP). The overall export performance was more mixed (+0.2%). However, with car exports (+27.4%) offsetting the 34% drop in phosphate and derivative exports, there is evidence that the economy is becoming more resilient to external shocks. Car production has almost tripled over the last ten years or so, hitting 536,000 units last year, making the sector the country's leading export source (+77% between 2019 and 2023). Combined with the boom in other industrial niche markets (such as electronics and aeronautics), this sustained development has reduced the economy's vulnerability to fluctuating terms of trade and to the demand from its main trading partners. Morocco has continued to increase its market share on the European continent. Despite a rise in imports, due to increased investment and rising food needs as a result of the drop in agricultural production, the current account deficit is expected to be kept at under 3% of GDP this year.

External financing needs will be manageable to cover. In contrast to the global trend, net flows of foreign direct investment (FDI) rose by 60% between 2020 and 2022 to hit 1.6% of GDP. They fell to 0.7% of GDP in 2023 due to the dual effect of major investments outside Morocco and a 18% drop in inflows. However, they are expected to rebound from this year, in view of the growing number of projects announced. In addition, the country has good access to international financial markets, a moderate external debt (less than 50% of GDP) and sizeable foreign exchange reserves (5.9 months of goods and services imports). In a still unstable environment, the provision of a USD 5 bn flexible credit line by the IMF is also reassuring.

MOROCCO: EXTERNAL ACCOUNTS

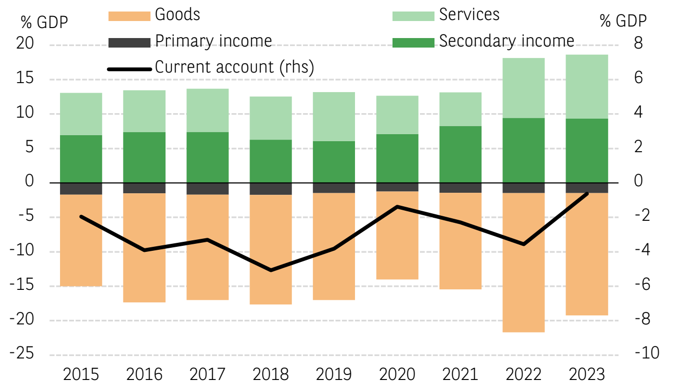

CHART 1

SOURCE: EXCHANGE OFFICE, BNP PARIBAS

BUDGETARY CONSOLIDATION: MOROCCO IS STAYING THE COURSE

The credibility of the government's budgetary consolidation strategy is another factor contributing to the country's macroeconomic stability. Despite a record amount of public investment of 7.7% of GDP, the budget deficit shrank by 0.7 points in 2023, to 4.5% of GDP, thanks to strong tax revenues and the drop of 1.1 point of GDP in energy and food subsidies, which followed the normalization of world commodity prices (after skyrocketing in 2022). The government is expecting a deficit of 4.3% of GDP in 2024 (excluding revenue from privatisations) before it comes back down to its pre-pandemic level of 3-3.5% of GDP by 2025-2026. Economic volatility and the implementation of expensive measures could lead to slippage, but this risk is seemingly under control.

The authorities are relying on a VAT reform to simplify the system and broaden its tax base to meet their goal. Above all, subsidy expenditure (butane gas, wheat and sugar) is expected to fall sharply, dropping from 2.1% of GDP in 2023 to just 0.5% in 2026, thanks to a complete overhaul of the subsidy system, which will both absorb the increased cost of introducing direct support for households and reduce the inherent volatility of this budget item. The lack of tension on the global gas market, which makes up the bulk of the expenses incurred by the subsidy system, is conducive to the implementation of this socially sensitive reform. Increased use of public-private partnerships is ultimately likely to be favoured for streamlining public investment and keep it above 6% of GDP.

Against this backdrop, government debt is expected to continue falling, dropping below 70% of GDP in 2025. This is still 10 points above its 2019 level, but its favourable structure provides room for manoeuvre. Denominated three-quarters in local currency and held by resident investors, it is not very sensitive to external risks. Furthermore, monetary tightening remained moderate, which enabled interest cost to be kept at under 10% of budgetary revenue. Yet, there is not much evidence to suggest that this situation would deteriorate in the future, in view of the inflationary shock dissipating.

FALLING INFLATION, MONETARY STATUS QUO

The fall in inflation is significant. In February 2024, the consumer price index (CPI) was only up 0.3% year-on-year, compared to a peak of 10% at the start of 2023. The main reason for this trend is falling food inflation (see chart 2). However, the slowdown in inflation has been widespread, with the CPI excluding food up only 0.9% in February. This decline in inflation is validating the cautious strategy of the monetary authorities, which waited until September 2022 to start hiking rates, and only doing so moderately, by 150 bp in total. At 3%, the key rate was below inflation for a long time, but this is no longer the case. Therefore, questions could be raised about easing. However, a number of factors suggest that the status quo will prevail this year. In particular, the announced increase in butane gas prices and the fall in agricultural production will create inflationary pressures in the coming months. The impact should be modest. Average inflation is expected to stand at 2.4% in 2024, compared to 6.1% in 2023. However, while the risk is not under control, the central bank will remain vigilant. Against a backdrop of a high interest-rate differential between Europe and Morocco, the country's financial attractiveness should also be maintained, especially for the Moroccan diaspora, which accounts for a major percentage of bank deposits (18%). Finally, given that investment is beginning to increase again, the economy is seemingly coping with the current monetary conditions.

A THWARTED RECOVERY, BUT HOPE FOR THE FUTURE

With growth of 4.1% in Q4 2023 compared to 3.3% as initially estimated, economic activity was surprisingly strong. After an increase of 11.6% in Q3, the strong investment momentum continued (+19.6%), and household consumption (+3%) began to look rosier again, thanks to abating inflationary pressures. With an average growth of 1% over the entire year, following the 0.7% decline in 2022, household consumption is still weak, however. At a sectoral level, industrial activities mainly boosted growth in Q4.

MOROCCO: MONETARY ENVIRONMENT

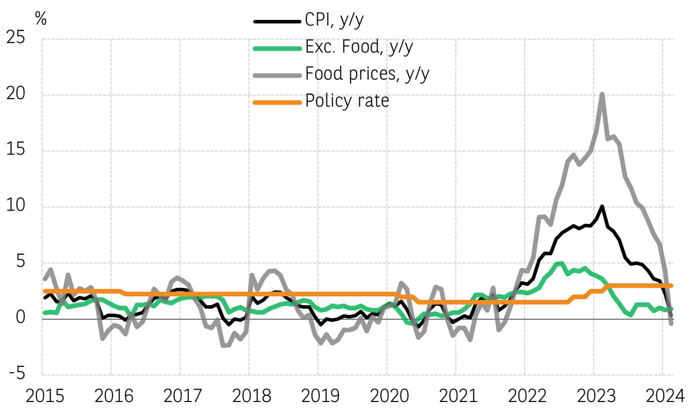

CHART 2

SOURCE: CENTRAL BANK, HCP, BNP PARIBAS

The outlook for 2024 is mixed. Excluding agriculture, real GDP growth is expected to reach 3.3% (2.8% in 2023), once again driven by investment, while the recovery in consumption will remain sluggish due to the high unemployment level, which now stands at 13% – almost three points higher than its pre-pandemic level. In addition, the labour market will once again be hurt by the underperforming agricultural sector. According to the Bank Al-Maghrib, cereal production is expected to halve to 25 million quintals due to poor weather conditions. The sector accounts for 10% of GDP and 30% of employment. A sharp contraction in the agricultural value added will have a number of consequences for the economy. As a result, growth forecasts have been lowered by almost one point to 2.4%.

Conversely, GDP growth could rebound to almost 4% in 2025, provided that agricultural production returns to normal levels. This volatility is not new, but the repeated droughts in recent years present many challenges. Seawater desalination projects have been launched to address this. Above all, Morocco is building on its undeniable comparative advantages so that it can benefit from industrial nearshoring and decarbonisation processes, and therefore continue to diversify. Coupled with the strengthened social safety net, the authorities are hoping to increase the economic growth potential to 5-6%, compared to the current level of 3.5%. The significant rise in greenfield FDI projects from under USD 4 billion in 2021 to USD 38 billion in 2023 suggests that the country is on the right track.

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