# MOROCCO



## A NEW STRESS TEST IN 2023

**The Moroccan economy will continue to experience significant external and budgetary imbalances despite the drop in global commodity prices. However, the country's macroeconomic stability is not under threat. Forex reserves are comfortable and the structure of public debt is favourable. Moreover, the economy should benefit from a rebound in agricultural production after a historic fall in 2022. However, the authorities still have a complex task to accomplish in an international climate that remains very unstable. Indeed, they must maintain a prudent economic policy, but they also might need to shore up economic activity once again. A pronounced growth slowdown in GDP excluding agriculture is expected.**

After a strong upturn in growth in 2021, Morocco was affected by a combination of shocks in 2022 that reinforced each other, namely: 1/ a historic fall in cereal production caused by severe drought; 2/ a sharp rise in the prices of commodities of which the country is a major importer (wheat, oil). The overall picture is mixed, but several factors have enabled Morocco's economy to hold up well: its strong fundamentals, a strong rebound in tourism activity, and the healthy performance of exports and financial transfers from its diaspora. The year 2023 is set to be just as perilous. There are numerous sources of risk, including the continued volatility of global commodity prices and the threat of a recession in Europe, which is by far Morocco's largest partner (Europe accounts for 62% of foreign direct investment and more than 70% of exports, financial transfers from Moroccans living abroad and tourism revenue). The country's macroeconomic stability is not under threat, but the authorities' room for manoeuvre is diminishing.

### EXTERNAL ACCOUNTS: STRONG BUT MANAGEABLE PRESSURES

With imports up by more than 40% year-on-year over the first 11 months of 2022, there is strong pressure on external accounts which looks unlikely to ease in the short term. IEnergy products (up 111%) and food products (up 49%) account for half of the sharp rise in imports. Despite a recent lull, global prices of the main commodities imported by Morocco will undoubtedly remain high. In terms of exports, the momentum generated by the boom in sales of phosphates and derivatives (up 55%) should also fade away. A contraction is even expected for 2023 as phosphate prices normalized after the peak reached in mid-2022.

Nevertheless, risks to external stability appear limited. Despite a record trade deficit in 2022, the current account deficit remains contained. It is estimated at 4.4% of GDP, which is 2 points higher than in 2021 but 3-5 points lower than the prevailing level in 2010 and the years that followed, when Brent prices also exceeded USD 100 (Figure 1). Several factors should continue to support Morocco's external position, starting with the sustained development of the automotive sector, whose exports grew by 35% year-on-year over the first 11 months of 2022 in an already challenging environment. Since this industry took off in 2013-2014, exports have never been higher. These levels can be explained by market share gains Morocco is making, especially in Europe. Given the expansion projects underway, a sudden reversal of this dynamic linked to a demand shock seems unlikely, but a slowdown in automotive exports is nevertheless to be anticipated in 2023.

Remittances from the Moroccan diaspora are in the process of crossing the symbolic threshold of 100 billion dirham (MAD), and revenues from tourism are now 12% higher than in 2019 after more than doubling in 2022. Although a drop cannot be ruled out depending on the scale of the crisis in Europe, these two major sources of currency should remain at high levels.

FORECASTS

| | 2020 | 2021 | 2022e | 2023e | 2024e |
|---|---|---|---|---|---|
| Real GDP growth, % | -7.2 | 7.9 | 1.2 | 3.0 | 3,0 |
| Inflation, CPI, year average, % | 0.6 | 1.4 | 6.3 | 3.9 | 2,0 |
| Central Gov. balance / GDP, % | -7.1 | -5.9 | -5.3 | -5.1 | -4,5 |
| Central Gov. debt / GDP, % | 72.2 | 68.9 | 69.9 | 70.0 | 70,6 |
| Current account balance / GDP, % | -1.4 | -2.3 | -4.4 | -3.9 | -3,4 |
| External debt / GDP, % | 53.9 | 45.5 | 48.0 | 47.6 | 44,2 |
| Forex reserves, USD bn | 34.7 | 34.3 | 30.7 | 31.2 | 32,4 |
| Forex reserves, in months of imports | 9.0 | 6.9 | 5.1 | 5.7 | 5,9 |

TABLE 1

e: ESTIMATE & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

MOROCCO: EXTERNAL ACCOUNTS

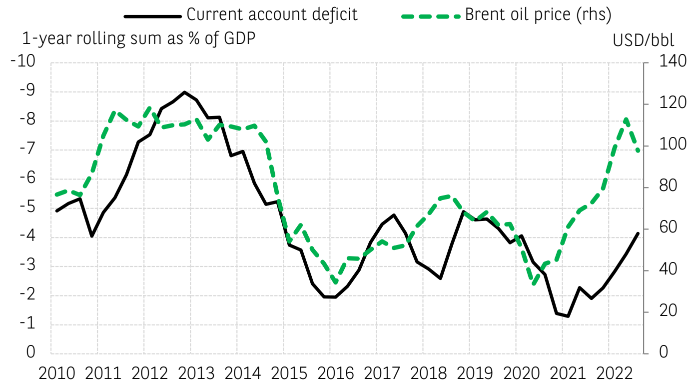


CHART 1

SOURCE: OFFICE DES CHANGES, BAM, HCP, BNP PARIBAS

At 3.9% of GDP in 2023, the current account deficit would remain high, but should be covered without difficulty. The Moroccan economy continues to attract significant capital flows, mainly in the form of foreign direct investment (approximately 2% of GDP), of which more than a third is now directed towards the development of industry. External debt is also moderate, standing at less than 50% of GDP, of which almost two thirds have been contracted by the government and a handful of large public companies on long maturities. Furthermore, the country benefits from good relations with donors. In particular, negotiations are apparently underway with the IMF with a view to obtaining a new flexible credit line by March. This type of financing has the dual advantage of being flexible and granted without conditions.

Finally, forex reserves are comfortable. They still cover five months of imports of goods and services and more than twice the amount of short-term external debt. Forex exchange reserves fell by more than USD 4 billion in 2022, mainly due to the appreciation of the US dollar against the euro, and therefore also the MAD. This adverse exchange rate effect should be less marked in 2023. Furthermore, the MAD remains within the fluctuation bands and aligned with the fundamentals of the economy. Central bank intervention in the foreign exchange market similar to that of 2020 therefore does not seem a current possibility, although the authorities have stated that they would not hesitate to take this step.

## FISCAL TRAJECTORY WILL BE MORE DIFFICULT TO MAINTAIN

Although the impact of the crisis on public finances is significant, it has been fairly well managed so far. Even though energy and food subsidies have slipped back by almost 2 GDP points, the government should be able to meet its target of reducing the budget deficit to 5.3% of GDP in 2022 without altering its public investment programme (capital expenditure increased by 24% during the first 11 months of the year). Yet central government debt, which was estimated at 70% of GDP at the end of 2022, remains 10 points above its level at the end of 2019. Its structure is favourable (75% of the debt is held by local investors in local currency). Despite rising domestic yields and a shortening of the maturity of Treasury bill issues in 2022, financing conditions remain favourable overall, allowing interest payments to be kept to below 10% of budgetary resources. Furthermore, the authorities decided not to call on international financial markets in 2022 to cover the payment in Eurobond of USD 1.5 billion. It is possible that there will be a return to the international bond markets this year.

Nevertheless, the high level of debt calls for continued fiscal consolidation efforts. However, some doubts can be raised about the authorities' ability to achieve this. The 2023 Finance Act factors in a budget deficit of 4.5% of GDP (4.9% excluding revenue from privatisations), to be gradually reduced to 3.5% by 2025. But the authorities' strategy relies on controlling increases in public spending, as well as on sustained public investment at around 6% of GDP, which will be difficult to achieve in the short term. In particular, the government is counting on a fall in subsidy costs of 1.2% of GDP in 2023, but these will depend above all on movements in global prices for gas and grain products. Furthermore, the country's healthy public finances in 2022 can largely be explained by the very strong performance of budgetary resources (up 18%), but this will be difficult to reproduce in 2023 given the current economic slowdown and the expected contraction of transfers from OCP (the state phosphates company) to the government after an exceptional year (0.5% of GDP in 2022). Moreover, the very optimistic growth assumption used in the 2023 budget (4%) suggests a slight slippage from the target announced. Unlike in 2022, it may be that spending reallocations cannot be avoided. And this would further weaken already poor growth dynamics.

## GDP GROWTH: A TWO-SPEED RECOVERY

Growth stalled in 2022, falling to 1.3% year-on-year over the first nine months of the year. This was essentially the result of a contraction of more than 15% in primary sector added value. A return to normal cereal production is expected to support an upturn in growth to 3% in 2023. However, unfavourable weather conditions returned at the beginning of this year, and are undermining this outlook. Aside from agriculture, the economy is also facing strong headwinds.

MOROCCO: CONTRIBUTION TO INFLATION AND KEY POLICY RATE

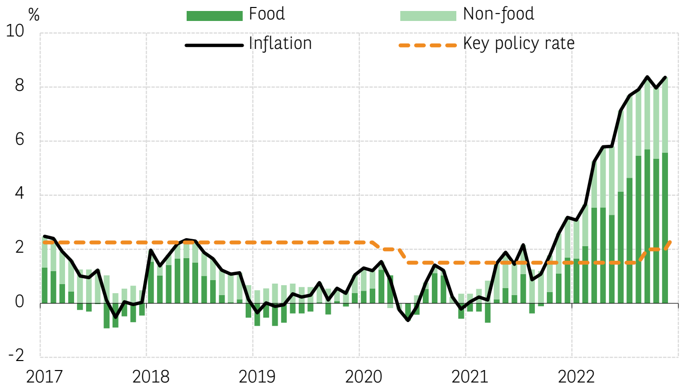


CHART 2 SOURCE: BAM, HCP, BNP PARIBAS

After a recovery to 4.3% year-on-year in Q2, GDP growth excluding agriculture once again slowed to 3.6% in Q3 despite a very good performance by the tourism sector. Several factors point to a continuing deterioration of economic conditions, starting with the record low level of household confidence caused by difficult labour market conditions (unemployment is still above its pre-pandemic level, at 11.4% in Q3 2022) and the strong inflationary pressures. Inflation has begun to show signs of stabilising but it remains above 8%, chiefly driven by a rise in food prices of more than 14% (Figure 2). In addition, sources of inflation are becoming more internal. Excluding food, inflation has now reached 4.5%, compared to 2.3% at the beginning of 2022. Further monetary tightening is therefore expected. Despite two interest rate rises in September and December by 50 basis points, the central bank's key policy rate remains low, at 2.5%. The cautious attitude of Morocco's monetary authorities reflects a growth-inflation dilemma which could become more acute this year in the event of another rise in the prices of imported commodities. In any event, the monetary environment will be more restrictive in 2023. Given the external context, which is also less buoyant, growth in real GDP excluding agriculture is now only expected to reach 2.5% – the worst performance since 2009 excluding the Covid-19 crisis.

**Stéphane ALBY**
stephane.alby@bnpparibas.com
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