CareEdge Global assigns 'Stable' outlook to the rating of the Kingdom of Morocco

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge BBB-' (Unsolicited)

Issuer rating	CareEdge BBB-/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Kingdom of Morocco (Morocco), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge BBB-' (Unsolicited).

Morocco's credit profile benefits from its favourable external position and fiscal profile. However, these strengths are partly offset by its economic structure and monetary policy management. The country's meaningful efforts towards economic diversification, along with the New Development Plan (NDP), could enhance Morocco's medium-term growth prospects. Furthermore, progress in tax reforms could help narrow fiscal deficits. Lastly, the IMF's extended flexible credit line (FCL) of USD 5 billion (3% of GDP) significantly reduces external vulnerabilities and enhances investor confidence.

Outlook: Stable

Morocco's stable outlook reflects that GDP growth will be supported by several factors, including diversification efforts towards high technology exports, as well as the introduction of the investment charter in line with its NDP. For example, the construction of stadiums for sporting events to be hosted in the near to medium term, as well as a desalination plant to mitigate water scarcity are currently underway and are expected to boost growth prospects over the medium term. On the fiscal side, revenue mobilization efforts and social budgetary reforms, are expected to continue bringing down the fiscal deficit and debt to GDP over the medium term. Further, the gradual unwinding of subsidies is expected to support the introduction of the national healthcare coverage programme, thereby mitigating the risk of increased fiscal deficits. Lastly, we expect that the strong surplus in the services account together with a resurgence in foreign direct investment (FDI) inflows will continue to be supportive of the country's external position.

Upside Scenario

Morocco's credit rating could improve if the current plans to address structural reforms, such as the investment charter, supports stronger growth. Further, if the country achieves sustained fiscal consolidation over the medium term, this will bode well for ratings upgrade. For example, this could be achieved if tax revenue mobilization efforts continue, non-tax revenue windfalls are used to reduce debt, and the gradual unwinding of subsidies continues to fund healthcare coverage and other allowances. Further, a significant reduction in contingent liabilities would also be credit positive.

Downside Scenario

Morocco's credit rating could be lowered if sustained periods of drought or unemployment occur, which ultimately leads to a worsening of the growth profile over the medium term and increases the risk of a social crisis. Further, any pressure on public finances, such as non-deficit neutral funding of the National Healthcare Programme, or a realization of contingent liabilities, which increases the government debt trajectory over the medium term will not bode well for the country's ratings. Lastly, if there are increased risks in the domestic banking sector due to the recent expansion of the sector in sub-Saharan Africa or evidenced by an increase in non-performing loans, this may also lead to revised ratings.

Key Rating Drivers

Economic Structure & Resilience

The country's economic structure is rebounding, with growth at 3.2% in 2024, slightly lower than the 3.4% recorded in 2023, and is expected to accelerate to 3.9% in 2025, despite experiencing several disruptions. Growth in 2024 is hindered by climate shocks, including poor rainfall and water scarcity, which lead to poor harvests in the agricultural sector. Nonetheless, the non-agricultural sector has remained robust, and domestic demand has strengthened, with consumption supported by a rebound in disposable income (reflecting lower inflation and fiscal support to households) and investment boosted by the launch of a series of infrastructure projects. This is despite the continued job losses in the agricultural sector.

Lower inflation and the expansion of the social protection system are expected to sustain private consumption, while ambitious infrastructure plans, including those in the water, energy, and transportation sectors, as well as continued pro-business sector reforms, are expected to boost investment. Strong external demand to provide tailwinds to tourism and the automotive industry, while the government's homeownership policies bolster the construction sector.

The risk around GDP growth is broadly balanced. Further episodes of drought and reduced agricultural production remain the biggest downside risk to activity, together with an escalation of geopolitical tensions and its impact on external demand. By contrast, a more successful implementation of the structural reform agenda and a greater multiplier effect from the extensive infrastructure plan could push growth to a faster medium-term trajectory than currently projected.

Fiscal Strength

Revenue-to-GDP increased from 23.8% in 2019 to 28.4% in 2023. This reflects the government's ongoing tax reform efforts, with tax revenues rising by 15.3% in 2024 compared to 2023, as well as non-revenue measures, such as the sale of key assets, which increased by 20%. This windfall (of about 1.8% of GDP) has been largely spent, as the government authorized additional spending on public sector wages (0.4% of GDP), transfers to the public utility company ONEE (0.25% of GDP) and the national airline RAM (0.2% of GDP, as part of a multi-year programme to double its fleet, in line with the national tourism strategy). Overall, the fiscal deficit-to-GDP in 2024 was 4.1%, lower than the 4.3% projected in the 2024 Budget and significantly reduced from the peak of 7.1% in 2020.

While the 2025 Budget confirms the gradual pace of fiscal adjustment projected last year, higher-than-expected revenues should be utilized to expedite debt reduction to levels closer to those seen before the pandemic. Additionally, the continued financing of structural reforms may necessitate further efforts to broaden the tax base and rationalize expenditures. This includes reducing transfers to state-owned enterprises as part of the ongoing sector reform and expanding the use of the Unified Social Registry to encompass all social programs.

The fiscal deficit is expected to narrow to 3% of the GDP by 2027. Revenue is expected to receive a boost from sectors such as phosphates and tourism, as well as from continued budgetary reforms. On the revenue side, the government is implementing reforms in Value Added Tax (VAT), Personal Income Tax (PIT), and Corporate Income Tax (CIT). On the expenditure side, the government aims to gradually eliminate the remaining subsidies on butane gas, wheat, and sugar. This should free up resources to finance part of the extension of health care coverage and the targeted family allowance.

General government (GG) debt is at 69.5% of the GDP in 2023 and is projected to decline gradually to 66.2% in 2027. Debt affordability remains comfortable, with an anticipated increase from 7.5% in 2023 to 8.5% in 2024. GG's external debt is moderate, at around 25.9% (as of 2023), and is primarily in the form of concessional loans. However, the fiscal profile is weighed down by contingent liabilities, which account for around 11% of the GDP in 2023. The government has initiated an extensive review of the state-owned enterprise (SOE) sector to mitigate these risks. Furthermore, a significant portion of the revenue is allocated to salaries, pensions, and subsidies, which account for more than half of the government's expenditure.

External Position & Linkages

The current account deficit (CAD) decreased significantly to 0.6% of the GDP in 2023 from 3.6% of GDP in 2022. This improvement was primarily driven by the dynamism of the tourism sector, the strong performance of merchandise exports (including automobiles and electronics), and the recovery in phosphate exports. The reduction in energy imports also contributed to lowering the CAD. Gross remittances (8% of GDP) have remained resilient, enough to cover approximately 93% of the trade deficit, and they continue to be an important component of the current account. Looking ahead, the CAD is expected to widen and average around 2.5% in the medium term, driven by a recovery in domestic demand, an increase in cereal imports following inadequate rainfall, and stabilizing inflation.

Morocco is among the top recipients of inward FDI in Africa. The recent surge in announced greenfield projects is expected to continue supporting robust FDI inflows. External debt is high, at around 45% of GDP in 2024, which, coupled with a large negative net international investment position (NIIP) of -56.6 % of GDP in 2023, makes the economy vulnerable to external shocks. However, the availability of a flexible credit line (FCL) of USD 5 billion from the IMF, with no binding conditions, will help mitigate any potential crisis and support future Eurobond issuances. Lastly, the country's foreign reserves provide a sufficient cushion to meet short-term external debt obligations and are sufficient to cover around 5.4 months of imports as of September 2024.

Monetary & Financial Stability

The exchange rate regime is pegged to a currency basket of 60% Euros and 40% US dollars, thus limiting monetary policy flexibility. However, the country is gradually transitioning to a more flexible exchange rate regime, although no specific timeframes have been set. Inflation has decreased from 6.1% in 2023 to 1.7% in 2024, primarily due to easing food and energy prices. It is expected to average 2.3% in the medium term, taking into account the impact of the gradual removal of gas butane subsidies.

Although the banking sector is well-capitalized, local banks have expanded their operations in Sub-Saharan Africa (SSA), which is typically riskier than the Moroccan environment. Non-performing loans (NPLs) are close to 8.7% (2024) and reflective of poor asset quality and credit risk.

Institutions & Quality of Governance

Morocco has an established rule of law and has successfully maintained political stability despite regional tensions in parts of North Africa and the Middle East. The country's improvement in regulatory quality, coupled with a well-managed response to an earthquake in H2 2023, is a testament to its good institutions. However, social unrest domestically has prevailed amidst rising inflation and high unemployment. Furthermore, although reform efforts are ongoing, corruption remains a significant challenge. Nonetheless, the government has implemented coherent reforms on both the macroeconomic and fiscal fronts to address these issues.

Morocco– Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	127.3	128.9	121.4	142.0	131.0	144.4	157.1	168.6
GDP Per Capita (Constant-PPP)	USD	8,892	9,055	8,319	8,908	8,956	9,173	9,341	9,590
Real GDP Growth	%	3.1	2.9	-7.2	8.2	1.5	3.4	3.2	3.9
GFCF/GDP	%	27.9	27.2	26.2	26.3	27.1	27.0	-	-
Gross Domestic Savings/GDP	%	22.5	22.8	21.5	21.4	18.8	20.5	-	-
Exports (G&S)/GDP	%	33.8	34.1	30.8	33.1	44.8	42.8	-	-
Working-Age (15-64) Population (% Share in Total)	%	66.1	66.0	66.0	66.1	66.1	66.1	66.2	66.4
Old-Age (65+) Population (% Share in Total)	%	6.5	6.7	7.0	7.2	7.5	7.8	8.1	8.5
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-3.4	-3.6	-7.1	-6.0	-5.4	-4.4	-4.1	-3.8
Revenue/GDP	%	24.2	23.8	27.0	25.3	28.7	28.4	28.7	27.8
Expenditure/GDP	%	27.7	27.4	34.1	31.2	34.1	32.8	32.9	31.6
GG Gross Debt/GDP	%	60.5	60.3	72.2	69.4	71.5	65.9	68.7	68.0
GG External Debt (by Creditor)/GG Gross Debt	%	20.2	21.9	25.8	22.5	23.6	25.9	-	-
Interest/Revenue	%	9.4	9.9	9.3	8.7	8.0	7.5	8.5	9.3
External Indicators									
Current Account Balance/GDP	%	-4.9	-3.4	-1.2	-2.3	-3.6	-0.6	-2.0	-2.3
FDI, Net Inflows/GDP	%	2.8	1.3	1.2	1.6	1.8	0.8	-	-
Outstanding FII Liabilities/GDP	%	8.3	9.1	12.2	10.3	9.5	10.8	-	-
NIIP/GDP	%	-60.2	-61.5	-69.9	-60.4	-59.8	-56.6	-	-
Foreign Exchange Reserves	USD Billions	24.4	26.4	36.0	35.6	32.3	36.3	-	-
Import Cover	Months	5.3	5.9	9.3	7.1	5.3	5.9	-	-
External Debt/GDP	%	40.5	42.5	54.2	45.8	49.5	48.3	44.6	-
Monetary and Financial Indicators									
CPI Inflation	%	1.6	0.2	0.7	1.4	6.6	6.1	1.7	2.4
Exchange Rate (Average)	LC per USD	9.4	9.6	9.5	9.0	10.2	10.1	9.9	-
Non-Performing Loans/Total Gross Loans	%	7.7	7.7	8.1	8.6	8.7	8.7	8.7	-
Private debt, loans and debt securities/GDP	%	63.4	64.0	71.7	66.5	66.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB-/Stable	April 03, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge BBB-	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

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