Kingdom of Morocco
Rating Report

SCOPE BB+ STABLE OUTLOOK

Credit strengths

- Good record of macro-economic stability and sound economic institutions
- Strong market access and funding flexibility
- Solid structural reform momentum

Credit challenges

- Low growth potential, wealth levels and economic diversification
- Elevated public debt, rising spending pressures and high contingent liabilities
- Social risks, weak employment dynamics

Rating rationale:

Good record of macro-economic stability and sound economic institutions: Morocco's sound economic institutions, including a sophisticated central bank, fiscal administration and debt management office compared to peers, support macroeconomic stability and effective policymaking. Inflation dynamics have been on par with that of advanced economies since the cost-of-living crisis.

Strong market access and funding flexibility: Morocco has historically benefitted from good access to capital markets at favourable borrowing rates. Extensive ties with multilateral and bilateral official lenders and a large domestic investor base underpin funding flexibility.

Sustained structural reform momentum: Morocco has a history of implementing needed structural reforms, with support from international organisations like the IMF and the World Bank, with tangible results in economic liberalisation and improved social systems. Reform momentum under the New Development Model is critical to addressing Morocco's economic diversification, employment and social challenges and bolster its credit fundamentals longer term.

Rating challenges include: i) low growth potential and modest economic diversification; ii) elevated public debt coupled with rising spending pressures and high contingent liabilities; iii) social risks due to poor employment prospects and elevated inequalities; and iv) external imbalances.

Morocco's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	b	MAD [+0]	+1/3	BB+
Public Finance Risk		20%	bb+		+2/3	
External Economic Risk		10%	ccc		+2/3	
Financial Stability Risk		10%	b+		+1/3	
ESG Risk	Environmental Factors	5%	b+		+1/3	
	Social Factors	7.5%	bbb+		0	
	Governance Factors	12.5%	c		+1/3	
Indicative outcome**		**b+**			**+3**	
Additional considerations					**0**	

Note: The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve currency adjustment applies to currencies in the IMF's SDR basket. **In line with our methodology, movements between indicative ratings are not immediate but are executed after analyst review of CVS results. The rating committee approved an implied CVS rating of 'b+'. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers

- Structural reforms support more inclusive, resilient, and sustainable growth
- Progress on fiscal strategy supports fiscal resilience
- Governance quality improves via institutional reform

Negative rating-change drivers

- Public finances deteriorate
- The external position weakens
- Social or geopolitical tensions damage policy credibility and/or weaken institutional and macroeconomic stability

Ratings and Outlook

Foreign currency

Long-term issuer rating	BB+/Stable
Senior unsecured debt	BB+/Stable
Short-term issuer rating	S-3/Stable

Local currency

Long-term issuer rating	BB+/Stable
Senior unsecured debt	BB+/Stable
Short-term issuer rating	S-3/Stable

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Bloomberg: RESP SCOP

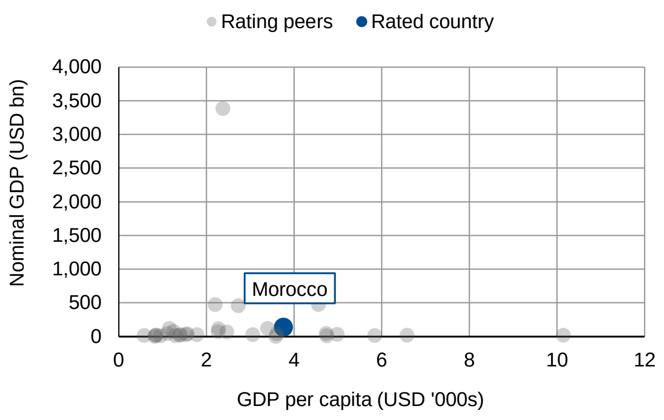
Domestic Economic Risks

- **Growth outlook:** After shrinking by 6.2% in 2020, GDP is estimated to have grown a strong 7.9% in 2021, among the highest in the Middle East and North Africa region. Growth slowed to 1.1% in 2022, due to the inflationary pressures and weakened external demand following escalation of the war in Ukraine. This was exacerbated by the country's high import dependence for food and energy and constrained agricultural output due to severe drought. We expect growth to accelerate to 3% this year as price pressures ease, agricultural output normalises and external demand strengthens, followed by 3.2% growth on average over 2024-28. The successful implementation of the government's ambitious and wide-ranging reform agenda and investment plan will prove critical in raising the country's long-run growth potential, which remains low compared with that of peer economies.
- **Inflation and monetary policy:** The Bank Al-Maghrib (BAM) has a good record of maintaining consumer price inflation at low and stable levels, in line with that of more advanced economies, around 1% on average over 2016-20. The country has made important progress on enhancing the independence of the BAM and its policy modelling framework, setting the stage for a transition to inflation targeting. Inflation peaked at 10% in February 2023 and has since declined to around 5% in July 2023. The BAM increased its policy rate three times since September 2022 by 50 basis points each to 3%.
- **Labour markets:** Morocco suffers from structurally elevated unemployment and low labour force participation. Since the early 2010s labour market conditions have deteriorated with falling labour force participation rates and rising youth unemployment, though total unemployment has remained stable. Total unemployment stood at 12.4% in June 2023, slightly lower than 12.5% in March 2021 while the total number of people employed has returned to pre-Covid-19 levels. Securing broad-based and job-rich growth is critical for the sustainability of the growth model, for instance by better matching educational outcomes to labour market needs and securing employment gains in fast growing, higher value-added sectors, in accordance with government's New Development Model.

Overview of Scope's assessments for Morocco's *Domestic Economic Risks*

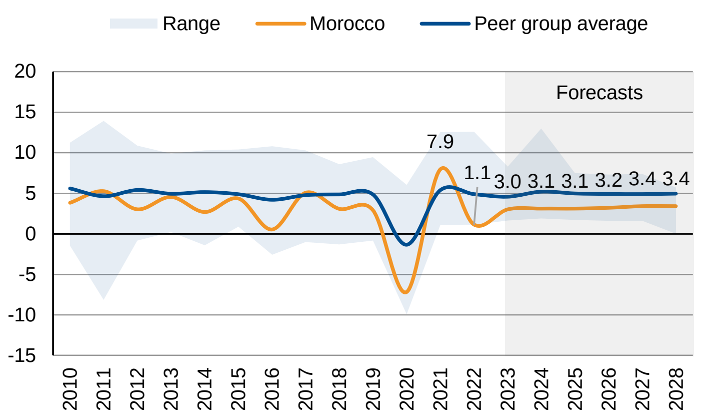
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Growth potential of the economy	Neutral	0	Moderate growth potential; rising investment and structural reforms support long-term growth
	Monetary policy framework	Strong	+1/3	Sophisticated central bank vis-à-vis peers with good record of inflation control; gradual transition to inflation targeting
	Macro-economic stability and sustainability	Neutral	0	Macroeconomic stability is constrained by volatile agricultural output amid challenging climate dynamics

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

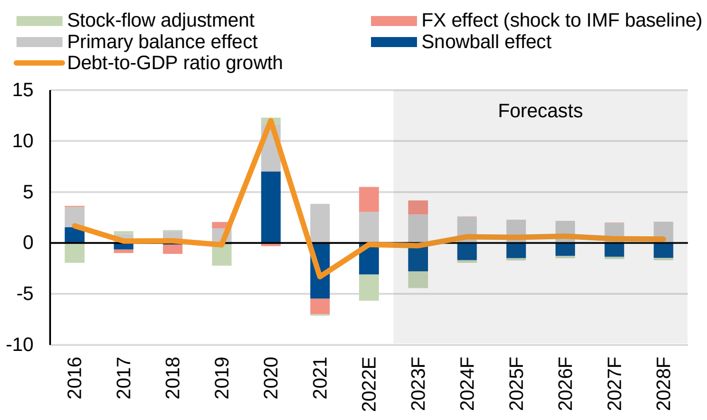
Public Finance Risks

- **Fiscal outlook:** Morocco's budget performance continues to improve gradually since 2020's Covid crisis. The budget deficit stood at 5.1% of GDP in 2022, after 5.9% and 7.1% in 2021 and 2020 respectively. The government introduced timely support measures to mitigate the impact of rising prices for households, including subsidies for essential goods. The government's multi-annual fiscal strategy balances the need to support structural economic reforms through public investment and that to rebuild fiscal buffers while widening social safety nets. Importantly, the government plans to eliminate major food and energy subsidies by 2025 while broadening the tax base and unifying rates across major tax items such as value-added tax and corporate income tax, supporting long-term fiscal resilience. We expect the budget deficit to narrow gradually to around 4% of GDP by 2028.
- **Debt trajectory:** Public debt stood at 69% of GDP in 2022, up from 60% of GDP in 2019. We expect it to remain broadly stable in coming years thanks to sound growth and moderate fiscal consolidation. While the debt-to-GDP ratio is higher than that of most sovereign rating peers, this is mitigated by better revenue mobilisation (at above 25% of GDP). At 290%, Morocco's public debt-to-government revenue ratio is among the lowest of its peers. Importantly, the net interest burden should reach 8.2% of total revenue by 2028, down from 8.9% in 2019 despite the increase in debt and substantial tightening of global financial conditions. These factors are important strengths and underpin debt sustainability. The government is considering the introduction of a debt anchor rule with support from the IMF, which would further anchor fiscal policy credibility.
- **Debt profile and market access:** The public debt structure is favourable with a long average maturity of around seven years and a moderate share of short-term debt (14.4%) and foreign currency debt (24%). Morocco also benefits from a large domestic investor base, which holds 76% of its debt and includes mostly long-term investors. The government has strong market access and a record of capital market issuance at favourable funding rates. In March 2023, Morocco successfully issued a USD 2.5bn Eurobond with 5- and 10-year maturities at a coupon of 5.95% and 6.5% respectively, reflecting investor confidence despite tight funding conditions.

Overview of Scope's assessments for Morocco's *Public Finance Risks*

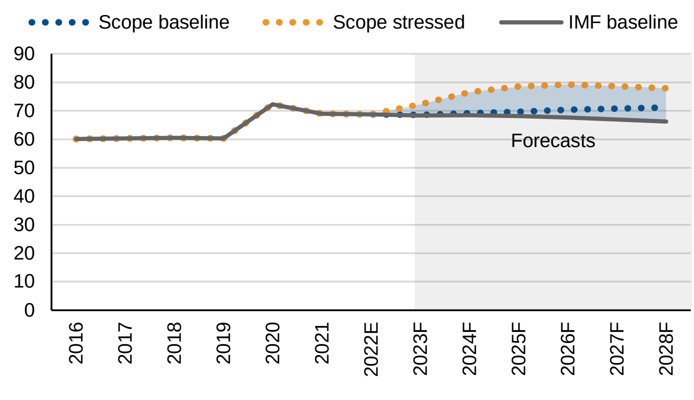
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb+	Fiscal policy framework	Strong	+1/3	Sophisticated fiscal administration with enhanced public financial management frameworks; well-designed medium-term fiscal strategy
	Debt sustainability	Neutral	0	Elevated public debt mitigated by good revenue mobilisation, moderate interest burden; debt-to-GDP to stabilise
	Debt profile and market access	Strong	+1/3	Strong market access and funding flexibility relative to peers; favourable debt profile and pro-active debt management strategy

Contributions to changes in debt levels, pps of GDP



Source: Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

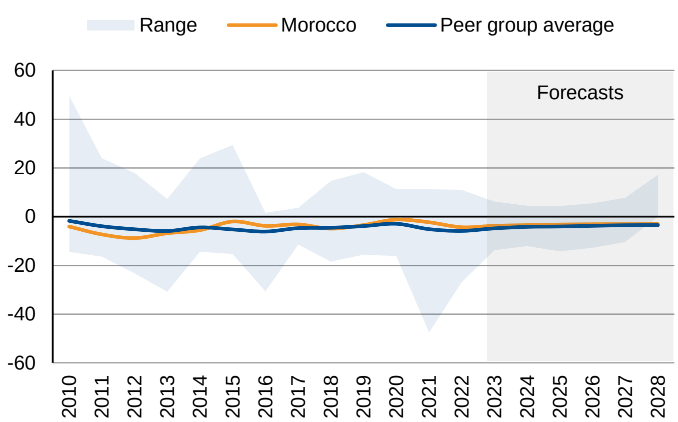
External Economic Risks

- **Current account:** Morocco, posted consistent current account deficits averaging 3.4% of GDP over 2015-19. The trade balance is characterised by wide goods trade deficits which are partly offset by surpluses in services trade and secondary income. This reflects the economy's import dependence and low value added of agriculture exports while the importance of tourism supports services exports. The current account deficit widened to 4.3% of GDP in 2022, after 2.3% in 2021 due to rising import prices, only partly offset by high export values and resilient tourism services and remittances receipts. We expect the current account deficit to converge with pre-pandemic levels at around 3% of GDP by 2026-27. Importantly, Morocco mostly funds its current-account deficit with robust foreign direct investments, which mitigate associated vulnerabilities.
- **External position:** The net international investment position improved slightly in 2022, reaching -59% of GDP, versus -66% of GDP in 2019. External debt is moderate and stood at around 40% of GDP in 2022 with a favourable structure, 85% of which is long-term with a relatively low share of foreign-currency-denominated instruments (less than one third). Around two thirds of external liabilities relate to the government or state guaranteed enterprises. The IMF assessed the external position as sustainable and broadly in line with fundamentals and desirable policies in 2022.
- **Resilience to short-term external shocks:** Reserve holdings are comfortable and provide a substantial external buffer. Official reserve assets of the BAM stood at USD 35bn in August 2023, USD 9bn above pre-pandemic levels. The IMF projects reserve coverage at around 120% of the adjusted reserve adequacy metric in 2022 and to remain stable through 2028. In April 2023, the IMF approved a USD 5bn (4% of GDP) Flexible Credit Line, further enhancing external buffers. The ongoing move to a free-floating exchange rate should lower the need to hold reserves over the medium-term and reinforce resilience to short-term external shocks, an important step in bolstering credit fundamentals.

Overview of Scope's assessments for Morocco's *External Economic Risks*

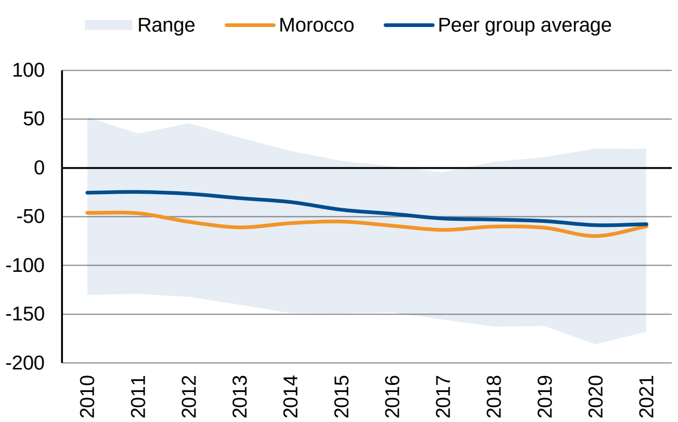
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Current account resilience	Neutral	0	Consistent current account deficits mostly funded through foreign direct investment; exports are concentrated in a few key sectors
	External debt structure	Strong	+1/3	External debt structure is favourable; low share of short-term and foreign-currency debt
	Resilience to short-term shocks	Strong	+1/3	Resilience to short-term shocks is underpinned by good reserve coverage and gradual transition to a floating exchange rate regime

Current account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

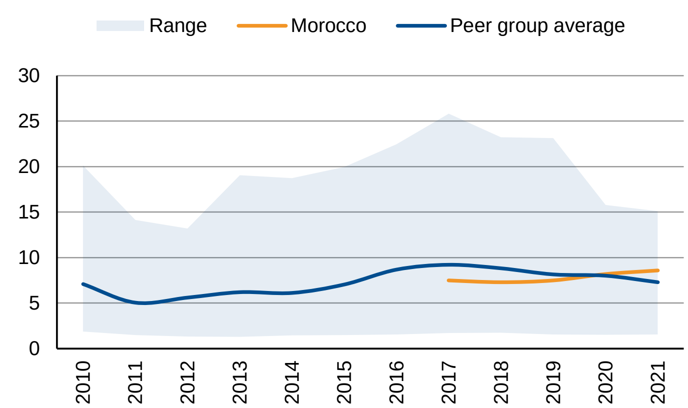
Financial Stability Risks

- **Banking sector:** Morocco has a well-developed but concentrated banking sector. Profitability is comfortable, as reflected in average sector return on equity of 10.9% as of June 2022. The tier 1 capital ratio stood at 11.8% of risk-weighted assets in June 2022, up from 11.5% at end-2019. Asset quality has weakened in recent years, as reflected in the increase of the non-performing loan (NPL) ratio, to 8% in January 2023 from 7.5% in 2017. Asset quality was stable in 2021-22 despite the withdrawal of most debt relief measures, in part owing to strong rebound in economic activity. Basel-III standards have been fully phased in with the introduction of a minimum leverage ratio for the banking sector and maximum exposure regulations to interest rate risks while improvements in bank resolution are ongoing. Sustained improvements in financial supervisory frameworks are crucial to preserving financial stability as the financial system develops.
- **Private debt:** Private sector debt is elevated relative to that of peers but remains low in an international context. Household debt declined to 30% of GDP in 2021, from 32% in 2020 due to the denominator effect of the strong economic rebound. Most household debt (65%) are mortgage loans, 92% of which are on fixed rates, reducing risks from the rise in interest rates. Non-financial corporate debt declined to 64% of GDP in 2021, back to its pre-crisis level after a strong increase to 70% in 2020. The NPL ratio in the sector rose by 50bps to 11.3% in 2021 with the tourism and accommodation sector showing the highest credit risk (NPL ratio of 24%).
- **Financial imbalances:** The real estate market has experienced sluggish, unstable growth in recent years, although in line with economic fundamentals. Price growth has been muted, reflecting unstable transaction dynamics. Despite robust recovery in market activity, with a 33% rebound in transactions, real estate prices remained on a declining trend in 2021 (-3.2%). The central bank has taken steps to enhance financial reporting and the country transitioned to International Financial Reporting Standards in 2022. Finally, good progress on strengthening anti-money laundering and countering the financing of terrorism frameworks resulted in Morocco's removal from the Financial Action Task Force's grey list in February 2023.

Overview of Scope's assessments for Morocco's *Financial Stability Risks*

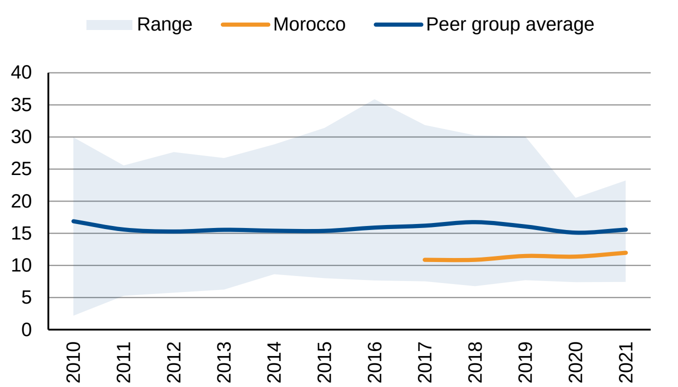
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b+	Banking sector performance	Neutral	0	Well-developed banking sector with adequate capitalisation and moderate asset quality; exposure to climate-related risks is high.
	Banking sector oversight	Strong	+1/3	Strengthened oversight frameworks increasingly in line with international supervisory standards
	Financial imbalances	Neutral	0	Elevated but manageable and declining private debt levels; real estate sector vulnerabilities are contained

Non-performing loans, % of total loans



Note: Data for Morocco are from the IMF report on the request for a Flexible Credit Line.
Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Note: Data for Morocco are from the IMF report on the request for a Flexible Credit Line.
Source: IMF, Scope Ratings

ESG Risks

- **Environment:** Morocco is particularly exposed to natural hazards given reliance on agriculture, fishery, and tourism, which are exposed to climate change. Water scarcity is a challenge that could affect almost every aspect of the country's socioeconomic development. The economy displays low greenhouse gas emissions intensity both in per capita and per unit of GDP terms and its ecological footprint per capita is broadly in line with the world's biocapacity. Morocco's climate policies are pro-active and ambitious, especially in renewable energy. It ranked 4th globally according to the Climate Change Performance Index, which tracks countries' climate action efforts. Morocco's climate targets include an unconditional emissions reduction target of 18.3% below the business-as-usual scenario, a conditional 45% reduction objective, and a renewable energy share of 52% by 2030. It is also implementing a comprehensive adaptation strategy covering multiple sectors to reduce the impact and improve the management of climate change, with a strong focus on effective water management.

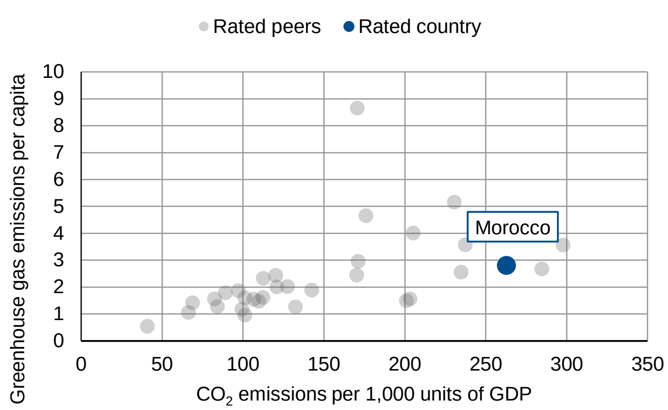
- **Social:** The economy stands as among those in Africa with the lowest poverty levels both as regards the international and national poverty lines and has achieved significant gains in terms of poverty reduction since the early 2000s. Inequalities are elevated but have improved in recent years and remain slightly below peer group averages. The country has sound education and health outcomes relative to peer economies, supporting human capital formation. However, poor employment opportunities, regional inequalities, high social exclusion for some segments of the population, and human rights issues pose risks, which could result in social and political instability. Ongoing efforts to widen social protection and reform healthcare and education systems are crucial steps to addressing social challenges.

- **Governance:** Morocco performs better than most peer countries regarding governance quality as measured by the Worldwide Governance Indicators and benefits from strong political stability although power is highly concentrated. King Mohammed VI has been in power since 1999 with a pro-reform policy stance. An important geopolitical risk is the ongoing Western Sahara conflict which has stressed relations with neighbouring nations.

Overview of Scope's assessments for Morocco's *ESG Risks*

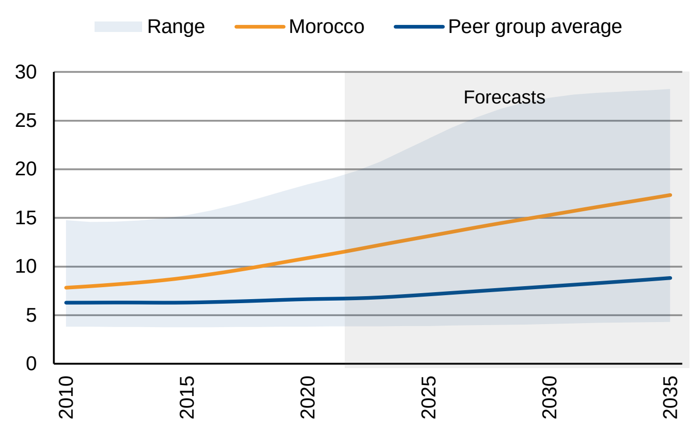
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Environmental factors	Strong	+1/3	Ambitious climate plans and policies help reduce transition and natural disaster risks relative to peers
	Social factors	Neutral	0	Better education, healthcare, poverty levels than peers; labour market bottlenecks, inequalities and social discontent are challenges
	Governance factors	Strong	+1/3	Better governance quality, political stability than peers; geopolitical tensions are a risk

CO_2 emissions per GDP and per capita, $mtCO_2e$



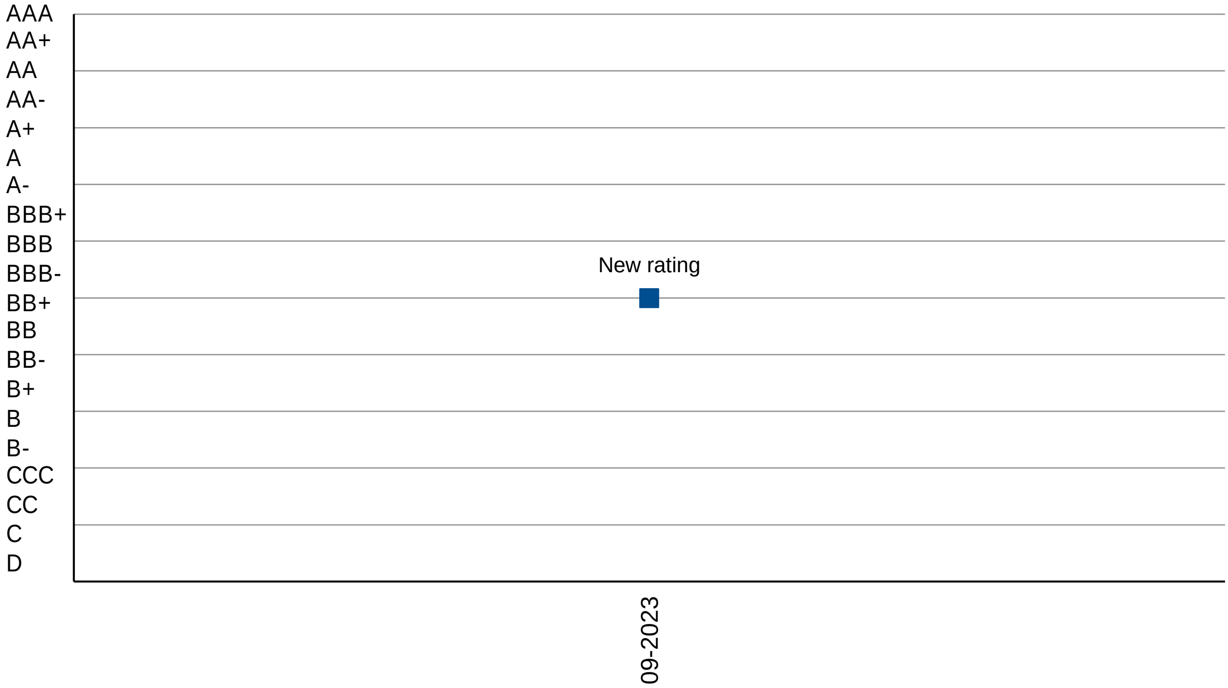
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Egypt

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	3.6	3.6	3.4	3.9	3.8
	Nominal GDP, USD bn	IMF	127.3	128.9	121.3	142.9	138.1
	Real growth, %	IMF	3.1	2.9	-7.2	7.9	1.1
	CPI inflation, %	IMF	1.6	0.2	0.6	1.4	6.6
	Unemployment rate, %	WB	9.2	9.2	11.1	10.5	10.5
Public Finance	Public debt, % of GDP	IMF	60.5	60.3	72.2	68.9	68.8
	Net interest payment, % of revenue	IMF	9.3	8.9	9.2	8.4	8.0
	Primary balance, % of GDP	IMF	-1.2	-1.4	-4.7	-3.8	-3.0
External Economic	Current-account balance, % of GDP	IMF	-4.9	-3.4	-1.2	-2.3	-4.3
	Total reserves, months of imports	WB	5.0	5.6	8.9	6.8	5.1
	NIIP, % of GDP	IMF	-60.2	-61.5	-69.9	-60.0	-56.3
Financial Stability	NPL ratio, % of total loans	IMF	7.3	7.3	7.5	8.6	8.5
	Tier 1 ratio, % of risk-weighted assets	IMF	10.9	11.5	11.4	12.0	11.8
	Credit to the private sector, % of GDP	WB	79.0	81.5	91.0	85.9	85.9
ESG	CO_2 per EUR 1,000 of GDP, $mtCO_2e$	EC	243.7	259.0	257.3	262.9	-
	Income share of bottom 50%, %	WID	13.6	13.6	13.6	13.6	-
	Labour-force participation rate, %	WB	48.5	48.6	46.6	48.7	-
	Old-age dependency ratio, %	UN	10.0	10.4	10.9	11.3	11.8
	Composite governance indicators*	WB	-0.3	-0.3	-0.3	-0.3	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification	Emerging Market and Developing Economy
5y USD CDS spread (bps) on 5 September 2023	141.6

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