Morocco

Outlook

	Average 10-14	2015	2016	2017	2018	2019	Forecast 2020	Forecast 2021	Forecast 2022
GDP growth (%)	3.9	4.6	1.0	4.2	3.0	2.2	-7.0	4.9	3.5
CPI inflation (%)*	0.8	1.4	1.5	0.7	1.6	0.2	0.2	0.8	1.2
Fiscal balance (% of GDP)	-5.6	-4.2	-4.5	-3.5	-3.7	-4.1	-7.8	-6.0	-4.5
Public debt (% of GDP)	56.6	63.7	64.9	65.1	65.3	65.8	76.9	76.6	75.6
Reference rate (%)*	3.1	2.5	2.3	2.3	2.3	2.3	1.8	1.8	2.0
Exchange rate (MAD/USD)*	8.4	9.7	9.8	9.7	9.4	9.6	9.5	9.3	9.4
Current account balance (% of GDP)	-7.0	-2.1	-4.1	-3.4	-5.3	-4.2	-7.3	-5.2	-4.6
External debt (% of GDP)	34.0	43.3	45.9	47.7	43.7	45.6	52.5	50.2	50.7

Note: * Annual average.
Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- **Within the context of the global pandemic, Morocco is one of the hardest hit economies on the African continent.** The COVID-19 crisis has erupted in an economy already suffering the negative effects of the weather and the slowdown in growth of its main trading partners (especially the EU). Other than South Africa, Morocco is the African nation where the pandemic has had the biggest impact, leading to strong isolation measures for several months, which has worsened unemployment, fiscal imbalances and social unrest. The economic measures adopted to date have not been sufficient to restore a certain level of stability in domestic demand and investor confidence. Although economic activity has responded positively to the relaxation of restrictions on mobility imposed until July, we expect the economic recovery to be weak and dependent on the progression of the health crisis, both in this country and in its European trading partners.

- **Real shock of COVID-19.** The pandemic has had a very big impact on the Moroccan economy due to its heavy dependence on international trade, mainly with the EU and specially with Spain (the country where around 24% of all its exports go) and due to the importance of the tourism industry (8% of GDP). Despite the gradual lifting of the restrictions on mobility during Q3 2020, the economy declined by 8.7% year-on-year (compared to –14.9% in Q2), largely due to the slowdown in domestic consumption (–10.8% year-on-year) and the fall in global demand for Moroccan goods (–10.2% year-on-year). We expect the economic recovery process to be slow in 2021 and dependant on the evolution of the pandemic. During that recovery, exports, the production of goods with high added value (e.g. components for the aviation and automotive industries) and tourism will see the biggest improvements.

- **Economic policy response**
  - **Monetary policy.** During 2020 the Bank Al-Maghrib (Alawite Central Bank) adopted accommodative monetary measures with the aim of mitigating the combined impact of the pandemic and the drought on the real economy and the financial sector. Specifically, it lowered the reference rate by 75 bp to 1.50%, its lowest ever level. Additionally, the institution supported the banking sector by lowering the cash reserve ratio to 0% (from the previous 2%) and, in order to protect the relatively good position of the banks from the impact of the pandemic, it ordered an increase in liquidity provisions and the suspension of bank dividend payments in 2020. In light of the low inflationary pressures expected, we believe that the Central Bank will have ample scope over the coming quarters to hold interest rates at levels that are only marginally higher

Outlook *(continued)*

than at present. This monetary strategy may continue until 2023, since the Maghribi authority follows a monetary policy similar to that of the ECB, due to the close trading relationship between Morocco and the euro area and the dominance of the euro in the benchmark currency basket (the euro represents 60% of the basket, with the dollar representing the remaining 40%).

- In turn, the banking sector introduced a moratorium on loan repayments until July, without imposing any exceptional interest rates or penalties, with the aim of easing debt pressure on households and businesses.
- **Fiscal policy.** Within the context of the health crisis, the government implemented expansionary fiscal measures that were equivalent to 10.4% of GDP in 2019, e.g. subsidy and transfer payments to disadvantaged households and struggling sectors and extending loan moratoria. Additionally, in Q4 it received a loan from the African Development Bank and issued sovereign debt in the local currency on several occasions. Nevertheless, despite the increase in the fiscal deficit, in 2021 we expect the government to gradually resume the fiscal consolidation process started in 2018 and to cut part of the deficit in the coming years.

- **Evolution of the exchange rate.** In March, the Central Bank accelerated the process of liberalising the exchange rate system (which had already begun in 2018) to mitigate the increase in exchange rate volatility caused by the virus shock. Going forwards, we believe that the dirham liberalisation approach will continue and its exchange rate with the dollar will follow a similar pattern to that of the euro and the dollar, due to the strong presence of the European currency in the Maghribi balance of payments.

Main risks

The balance of risks is on the downside. Specifically, the risks come in several forms:

- **Macroeconomic and social risk.** A global rise in infections would worsen the current account balance, due to stagnation in exports, tourism and overseas remittances. Domestically, there would be further lockdowns, which would aggravate the climbing unemployment rate – mainly among the younger population – and wage inequality. Additionally, these adverse conditions would feed social discontent (historically high) and the possibility of popular protests. This would be worsened if the recent regional geopolitical tensions were to escalate.

- **Risk of a rise in bank NPLs**. During the first nine months of 2020, non-performing loans rose by 14.6% year-on-year. Under this forecast scenario, we expect the rise in the rate of bad debt to accelerate, partly due to the fall in production in the agricultural sector (which generates around 30% of all employment), construction and the manufacturing sector, in addition to the imposition of tighter lending requirements by the authorities.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	BBB-	15/11/13	Negative	02/10/20
Moody's	Ba1	22/07/99	Stable	20/11/18
FitchRatings	BB+	23/10/20	Stable	23/10/20

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

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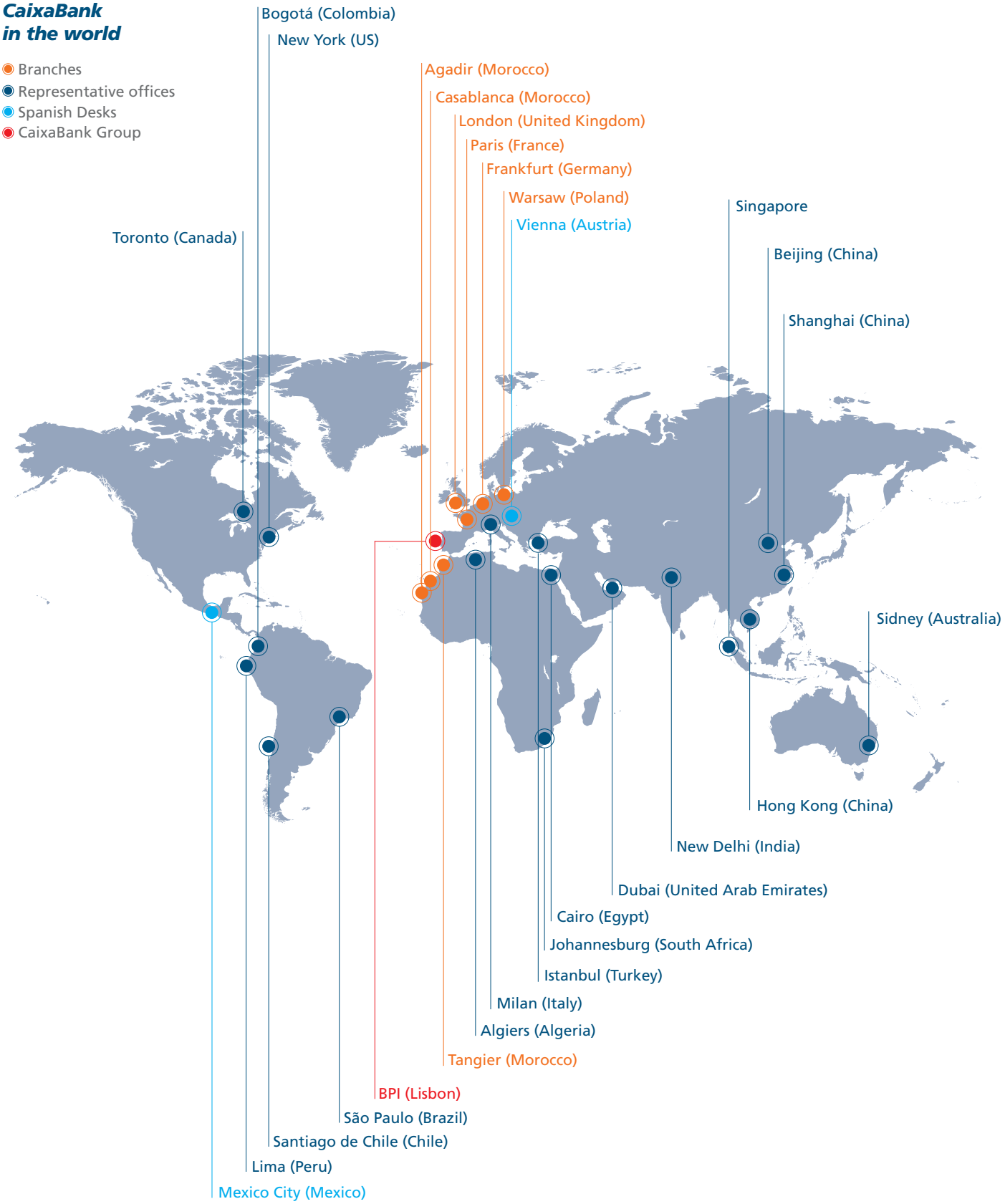

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