

MOROCCO: RESILIENT ECONOMIC PERFORMANCE AND PROJECTED STRENGTHENING OF MACROECONOMIC FUNDAMENTALS SUPPORT RISK CLASSIFICATIONS



2/06/2025

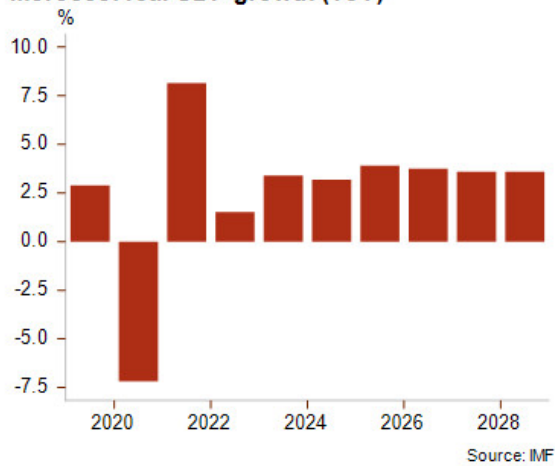
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RESILIENT MACROECONOMIC PERFORMANCE

Morocco's economy has been resilient to the multiple external shocks of recent years. In the aftermath of the Covid-19 pandemic, Morocco has shown an overall robust economic performance with real GDP growth averaging 4.1%. Overall, the country has withstood shocks much better than peer North African economies thanks to its good macroeconomic fundamentals and prudent economic policies. Indeed, unlike other emerging economies, Morocco avoided the worsening of external shocks and rebounded rapidly from the Covid-19 pandemic and the surge in commodity prices following the war in Ukraine. The positive economic performance should continue in 2025. For this year, real GDP growth is projected to accelerate to 3.9% from 3.2% in 2024, supported by the tourism and industrial sectors. Over the medium term, real growth should average 3.6%.

Morocco: real GDP growth (YoY)



MACROECONOMIC STANDING SHOULD STRENGTHEN OVER THE MEDIUM TERM

On account of the authorities' fiscal reform programme (medium-term fiscal framework) and expected commitment to reforms, current public finance vulnerabilities should ease. In line with recent years, primary fiscal deficits should continue to narrow, reverting to pre-pandemic levels of around 1% of GDP over the 2025-28 period. Public debt levels, which have been moderately high since the Covid-19 pandemic (at 70% of GDP in 2024), are also projected to decrease slowly starting this year but remain higher than before the pandemic at around 66% of GDP.

Additionally, Morocco's external position is strong and should also remain robust over the medium term. Indeed, the country's liquidity is supportive given the more than adequate foreign exchange reserves, moderate short-term external debt, good financial market access and mitigating effect of the recently approved IMF flexible credit line arrangement. Moreover, external debt levels are moderate and likely to remain stable as well.

THE ECONOMY IS FACING IMPORTANT CHALLENGES

The rosy economic outlook, however, faces significant downside risks. Notwithstanding the resilience over the past years and overall robust economic growth, Morocco's economy has underperformed compared with its potential, and economic growth has been volatile. A key challenge for the North African economy has been the high exposure to climate change. Indeed, despite diversification efforts, the agricultural sector remains central for Morocco's economy. In 2023 it still accounted for more than 10% of nominal GDP and for around a third of total employment. Therefore, the recurrent water shortages – five out of the six past years have been characterised by water scarcity – have adversely affected agricultural yields and livelihoods. Since reliance on the sector is expected to persist, economic growth and employment, and therefore the ability to implement reforms to strengthen macroeconomic fundamentals will continue to be subject to weather patterns.

Another important challenge for the country arises from the ongoing geopolitical shifts and the risks related to geoeconomic fragmentation. While Morocco is trying to position itself as a production hub and a gateway to Africa, tensions between the USA/EU and China, along with overall erratic global trade policies might sap trade flows and hinder investment in key sectors such as the automotive sector.

Considering Morocco's expected strengthening of macroeconomic fundamentals and the country's significant challenges, Credendo maintains a stable outlook for its short-term and medium-term political risk classifications.

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