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## Morocco: The Virtuous Circle of Resilience

*For this edition of the AGR House View, we focus on the virtuous circle of resilience on which Morocco will rely to achieve its strategic objectives. In fact, the post-Covid experience reveals that resilience can also trigger virtuous cycles to the benefit of some countries.*

### 1 THE PROVEN RESILIENCE OF THE ECONOMY...

*Morocco's capacity to absorb external shocks becomes a major competitive advantage and a crucial criterion in the decision-making process of investors.*

### 2 ...THE STRONG CREDIBILITY AT INTERNATIONAL LEVEL...

*The quality of management of the various crises has enabled Morocco to improve its capital of trust toward the international community.*

### 3 ... CREATE OPPORTUNITIES FOR MOROCCO

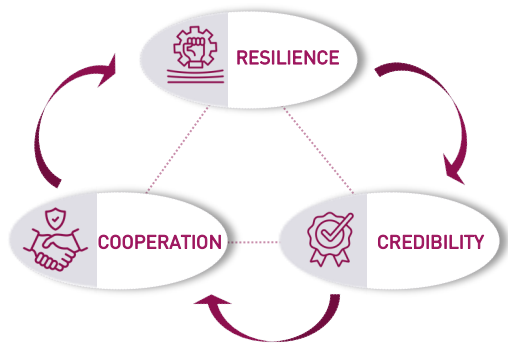
*With its resilience and credibility on the international level, Morocco is well positioned to benefit from bilateral and regional cooperation.*

In February 2023, I had the opportunity to speak with Suman Modwel<sup>(1)</sup>, professor emeritus at École des Ponts Business School. On this date, Suman asked me three questions relating to the Moroccan economy:

- What is the GDP growth rate? The consensus forecast was less than 2.0% for 2023E;
- What is the level of inflation? At that time, Morocco showed a peak of more than 10.0%;
- What is the unemployment rate? The latest figures showed a high level of 12.0%.

Based on these indicators, Suman's reaction was, "...and you're still alive? ". Certainly, Suman's response was ironic but at the same time very telling. This highlights a strong point of the Moroccan economy. This is its capacity to absorb external shocks within an environment where the crises have been almost permanent since 2020.

Thanks to its **resilience** which is becoming a critical criterion in investors decision-making process, Morocco is considerably improving its **credibility** toward the international community, allowing the Kingdom to seize the new opportunities offered by the several models of **cooperation**. This is what we call the new **Virtuous Circle of Resilience**.



The positive performance of external indicators is the result of the Kingdom's sectoral strategies.

Morocco outperforms the African continent in terms of currency resilience and budget balance.

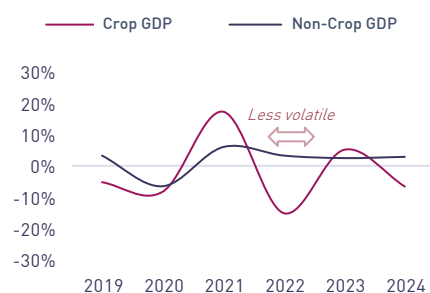
## A STRONG ECONOMIC RESILIENCE IN THE FACE OF THE SEVERAL WAVES OF CRISES

The term *resilience* perfectly sums up the behavior of the Moroccan economy during recent years. This ability to absorb external shocks within an environment marked by successive crises becomes a strong competitive advantage for economies :

- Since the Covid crisis, the Moroccan economy has shown a modest but continuous recovery, going from 1.3% in 2022 to 3.2% in 2024E. It is interesting to note the rise of non-crop component whose growth profile is less volatile. This configuration allows Morocco to better absorb drought shocks compared to past years;
- Thanks to the sectoral strategies deployed over the last decade, such as Automotive, Phosphate, Tourism, Marhaba Operation, etc., we notice a favorable orientation of Morocco's external indicators compared to pre-Covid levels. Performances which brought foreign exchange reserves to a record of MAD 359 Bn in 2023.

### GROWTH IS SUPPORTED BY THE LOW VOLATILITY OF THE NON-CROP COMPONENT

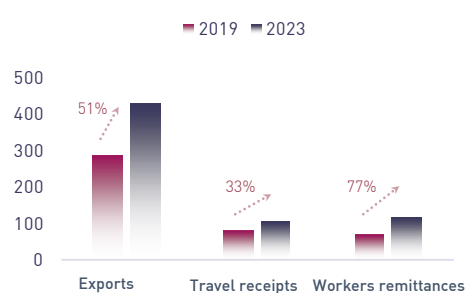
Evolution of crop and non-crop GDP 2019-2024E



Sources: HCP, BAM, AGR calculations

### EXTERNAL INDICATORS SHOW HIGH PERFORMANCE COMPARED TO PRE-COVID PERIOD

Exports, Travel receipts, Workers remittances (MAD Mn)

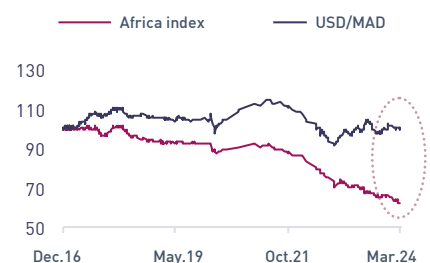


Sources: Foreign Exchange Office, AGR calculations

- The solid performance of Morocco's external indicators supported the liquidity of the local currency, the MAD. In 2023, the MAD remains almost stable relative to the dollar against depreciations ranging from -18% to -52% for Kenya, Nigeria, Ghana, Egypt or Turkey. A situation which contributes to the easing of inflationary pressures in Morocco with reassuring forecasts of 2.4% over the period 2024E-2025E compared to 6.1% in 2023;
- Morocco was able to preserve its budgetary balances, despite the increase in public CAPEX by 32% between 2019 and 2023. This evolution was justified by the investment effort, the support of households' purchasing power, the management of various crises and the deployment of the new social state project. Thanks to fiscal leverage and innovative financing, the fiscal deficit and the debt level remain controllable in 2024E at 4.0% and 70% of GDP respectively.

### VISIBLE RESILIENCE OF THE MAD IN THE FACE OF INFLATIONARY PRESSURES

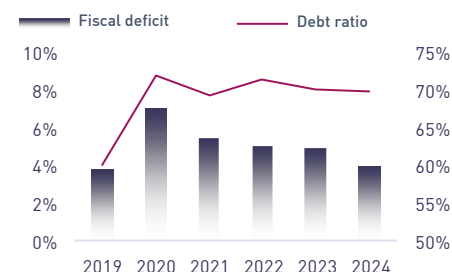
USD/MAD Parity Vs. Africa Currency Index



Sources: AGR calculations, Bloomberg

### CONTROL OF BUDGETARY BALANCES DESPITE THE WEIGHT OF PUBLIC EXPENDITURES

Fiscal deficit Vs. Public debt rate



Sources: Ministry of Finance, BAM, AGR calculations

*In Covid crisis, Morocco prioritized the health of citizens through a three-month confinement period.*

*Al-Haouz earthquake of September 8<sup>th</sup> 2023, caused 3,000 deaths and more than 50,000 houses destroyed.*

*The proven independence of Bank Al-Maghrib has enabled better control of inflation in Morocco.*

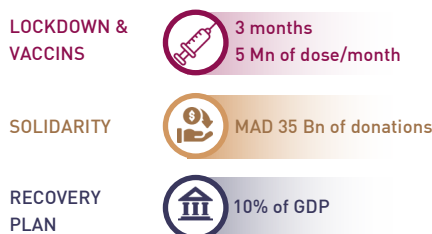
### A PROVEN CREDIBILITY ON THE FIELD...

We believe that the various crises were ultimately an opportunity for Morocco to strengthen its credibility and capital of trust toward the international community. This concerns the quality of management of the health crisis, the natural disasters and the inflationary shock:

- Strong responsiveness and great responsibility in the face of the health crisis. We note: the adoption of one of the longest periods of lockdown in the world, the production of 5 million doses of vaccine per month, the deployment of one of the most ambitious recovery plans in Africa and the civil society solidarity through a solidarity fund of more than MAD 35 Bn;
- Exemplary management of the earthquake that struck Al-Haouz region in September 2023, through a plan structured into three phases: (1) Emergency aid to victims thanks to the effective deployment of the army, (2) Financial support to victims (MAD 30,000 per person MAD 140,000 per household), (3) the deployment of an ambitious rehabilitation plan for the region of MAD 120 Bn over 5 years;

#### EFFECTIVE MANAGEMENT OF THE COVID-19 HEALTH CRISIS

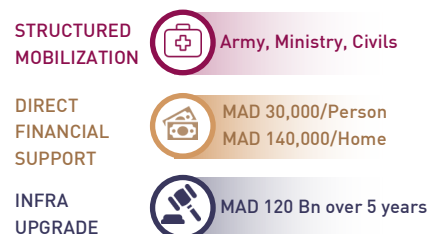
General mobilization of different stakeholders



Source: AGR estimate

#### EXEMPLARY MANAGEMENT OF THE WORST EARTHQUAKE IN THE RECENT HISTORY MOROCCO

A plan structured in three major stages

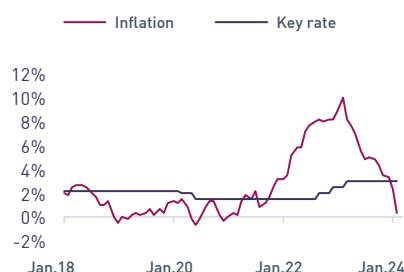


Source: AGR estimate

- An effective monetary policy to counter the strongest inflationary spiral in the last four decades. Based on its independence, Bank Al-Maghrib raised its Key rate from 1.5 to 3.0% between September 2022 and March 2023 while ensuring the liquidity needs of the financial market. An orientation which was consistent with the policies of the major central banks;
- Government actions aimed at controlling inflation via the Supply component. In fact, supporting Demand can lead to upward price movement and neutralize the central bank actions. In consequence, the subsidies concerned strategic activities such as transport, agriculture, electricity and gas. Recall that 60% of electricity in Morocco is produced from coal.

#### EFFECTIVE MONETARY DECISIONS IN THE FACE OF INFLATIONAL SHOCK

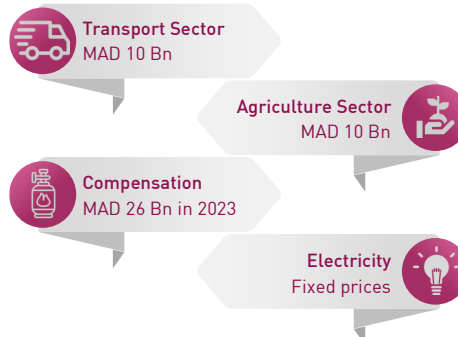
A recognized Central Bank Independence



Sources: BAM, AGR calculations

#### ADEQUATE GOVERNMENT ACTIONS TO SUPPORT PURCHASING POWER

Support for strategic sectors



Source: AGR estimate

*The improvement in Morocco's capital of trust is reflected in the quality of its relationship with international authorities.*

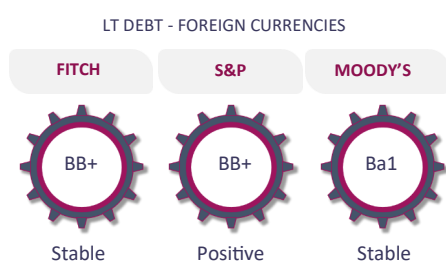
### ...AND RECOGNIZED INTERNATIONALLY

Morocco's ability to manage various crises while ensuring its budgetary balances had a positive impact on its capital of trust on a global scale. This confidence could be assessed through sovereign ratings, the level of accessibility to international institutions and financing conditions:

- After maintaining its sovereign ratings over the last years, S&P has upgraded the outlook for the Kingdom's "BB+/B" ratings from "stable" to "positive" in March 2024. An upgrade which crowns the resilience of Morocco facing external shocks as well as its socio-economic and budgetary reform efforts;
- Morocco's exit from the "FATF" gray list allowed the granting by the IMF in April 2023 of a \$ 5 Bn Flexible Credit Line (FCL). This is a security cushion for the Kingdom against external shocks but also a signal of confidence toward international funders;

#### STABLE FINANCIAL RATINGS IN FAVOR OF MOROCCO'S CREDIBILITY

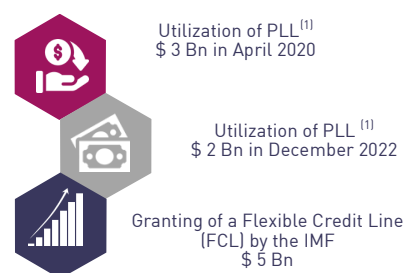
Rating of Morocco's Long-Term Debt



Sources: AGR calculations, Bloomberg

#### CONFIDENCE SIGNALS ISSUED BY THE IMF IN FAVOR OF MOROCCO

Different lines of credit activated by the IMF



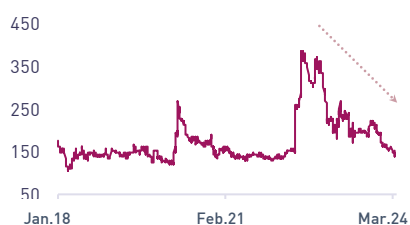
Source : BAM

*Morocco benefits from attractive financing conditions on international markets.*

- The proven confidence of rating agencies and financial institutions is clearly reflected in Morocco's risk premium levels. This is a 10-year CDS<sup>(2)</sup> which has clearly improved, going from 380 BPS in July 2022 to 150 BPS currently;
- Morocco's financing conditions remain more advantageous compared to emerging countries. For example, Egypt, Brazil and even Turkey display risk premiums ranging from 230 to 618 BPS regarding a maturity of 10 years.

#### AN IMPROVEMENT IN MOROCCO'S RISK PREMIUM ON THE INTERNATIONAL MARKET

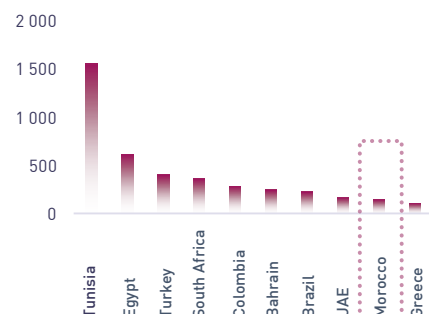
Evolution of Morocco's 10-year CDS since 2018 (BPS)



Sources: AGR calculations, Bloomberg

#### RELATIVELY ADVANTAGEOUS FINANCING CONDITIONS OF MOROCCO

Comparison of 10-year CDS of comparable countries (BPS)



Sources: AGR calculations, Bloomberg

(1) LPL: Precautionary and Liquidity Line (2) CDS: Credit Default Swap, risk premium or credit spread



*Thanks to its resilience and credibility, Morocco will be called to establish new models of partnerships over the next years.*

*The ZLECAF is one of the biggest opportunities for African-based companies over the next decade.*

## INTERNATIONAL COOPERATION..., A KEY ACCELERATOR OF MOROCCO'S DEVELOPMENT

In an environment where the succession of crises is permanent, countries seem increasingly aware that it is difficult to act alone. Faced with the economic, environmental, social and security challenges ahead, international cooperation is becoming a priority. The objective is twofold: to strengthen the resilience of countries and to ensure sustainable development of their economy.

With its resilience and credibility on an international scale, Morocco is well positioned to benefit from this development lever. Over the next decade, we are seeing two strategic cooperation in favor of the Kingdom:

- The "Morocco-United Arab Emirates" partnership which aims to finance strategic projects having positive impacts within the African space. We note Kenitra-Marrakech High Speed Line, Dakhla Hub Airport, the ports of Nador West Med and Dakhla Atlantique, Morocco-Nigeria Gas Pipeline, hydroelectric dams, the production of green hydrogen and, the projects dedicated to food safety in partnership with OCP Group...;
- The "African Continental Free Trade" Zone, called ZLECAF, which constitutes one of the greatest growth opportunities for companies based in Africa over the next decade. An ambitious project which will allow the emergence of the largest free trade zone in the world, i.e. : 48 African countries, a market of 1.3 Bn inhabitants and an aggregated GDP of \$ 3.5 Tn.

With a contribution of only 2.7% to global production, the integration of African economies would allow a reconfiguration of Africa's participation in global value chains, compared to Latin America (26%) or Asia (42%). Consensus forecasts anticipate a doubling of African GDP to exceed \$ 7.0 Tn by 2050 driven by the ZLECAF.

Morocco's geostrategic position would be crucial to catalyze trade between the African continent and Europe and therefore capture an interesting part of this new growth dynamic. In this perspective, the Moroccan initiative which consists of promoting access of the Sahel States to the Atlantic Ocean, offers great opportunities for economic cooperation within the region.

### THE MOROCCO-UAE PARTNERSHIP WOULD ALLOW AN ACCELERATION OF STRATEGIC PROJECTS

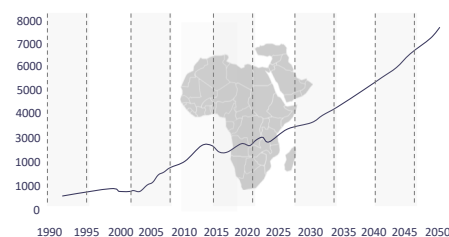
Main fields concerned by the Morocco-UAE partnership



Source: MOROCCO-UAE partnership press release

### THE ZLECAF WOULD PROVIDE A STRONG IMPULSE FOR AFRICAN ECONOMIC GROWTH

GDP driven by the ZLECAF in 2050 (\$ Bn)



Source: ZLECAF Forecast Consensus 2023

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