

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing June 2016

---

#### Morocco Summary 21 June 2016

*The Bank al-Maghrib (BAM) (central bank) promises to implement a flexible exchange rate system in 2017, after the finance ministry revises its growth projections to below 2% for 2016. The BAM also discusses greater cooperation with the Central Bank of China. The Cour d'appel de Casablanca (Casablanca court of appeal) confirms that Morocco's sole oil refinery, Société anonyme marocaine de l'industrie du raffinage (Samir) (Moroccan industrial refining company td), will enter liquidation. The government will now search for a buyer. L'Autorité Marocaine du Marché des Capitaux (Moroccan capital markets authority) announces that the government will sell a 40% interest in state-owned port operator Marsa Maroc, through an initial public offering (IPO) on the Bourse de Casablanca (BdC) (Casablanca stock exchange). France-based discount supermarket chain Leader Price announced plans to open 50 stores in Morocco by 2020.*

---

#### Government to introduce flexible exchange rate by 2017

The **Bank al-Maghrib (BAM)** (central bank) has promised that it will implement a flexible exchange rate system in 2017, as the finance ministry revises growth forecasts for 2017 to below 2%. BAM governor **Abdellatif Jouahri** told the media on 5 June that **Morocco** will introduce its flexible exchange rate system by early 2017.<sup>1</sup> The **International Monetary Fund (IMF)** has encouraged Morocco to make the dirham more flexible by tying it to a wider range of international currencies.<sup>2</sup>

The announcement came shortly after the finance ministry cut Morocco's gross domestic product (GDP) growth forecast to below 2% on 23 May.<sup>3</sup> A region-wide drought and poor grain harvest have reduced growth projections for 2016 due to the need to import grain. Finance minister **Mohammed Boussaid** said that the reduction in growth to below 2% from the 3% the finance ministry projected in October 2015 was primarily due to a reduction in agricultural output.<sup>4</sup> Boussaid announced that the value that agriculture adds to Morocco's economy will decline by 7.6% for 2016.<sup>5</sup> Grain production is down by 70%, but is somewhat balanced by an increase in fruit cultivation of 15%, industry crops of 5%, and vegetable crops a further 5%.<sup>6</sup>

The development of the flexible exchange rate has been in progress for some time. The BAM re-pegged the currency in April 2015, moving the euro rating from 80% to 60% and the dollar rating from 20% to 40% (see *ARC Briefing Morocco April 2015*).<sup>7</sup> The BAM and the IMF are working together to implement the flexible exchange rate system in the second half of 2017.<sup>8</sup> However, neither has released any details of what the system might look like, only that it would introduce "greater exchange rate flexibility".<sup>9</sup> The new system will increase the flexibility to target inflation, which spiked to 1.9%

---

<sup>1</sup> Reuters, 5 June 2016.

<sup>2</sup> Reuters, 5 June 2016.

<sup>3</sup> L'Economiste, 23 May 2016.

<sup>4</sup> L'Economiste, 23 May 2016.

<sup>5</sup> L'Economiste, 23 May 2016.

<sup>6</sup> L'Economiste, 23 May 2016.

<sup>7</sup> Reuters, 5 June 2016.

<sup>8</sup> Reuters, 5 June 2016.

<sup>9</sup> Joahri in Reuters, 5 June 2016.

in 2013 but has remained low at 0.4% throughout the first half of 2016.<sup>10</sup> According to economic sources:

*“A flexible exchange rate allows the currency to be more resilient; it won’t rise as high on the strengthening of a single currency but will be much more resilient to shocks...given the past five years of the euro and the possibility of a rate raise of the **United States (US)** federal reserve, it may actually strengthen the economy in the medium term.”<sup>11</sup>*

The BAM is also working with **China** to increase the cooperation between their banking systems. This could be linked to an increasingly important place for the yuan under the new flexible exchange regime. Jouahri and the **China Banking Regulatory Commission (CBRC)** vice president, **Wang Zhaoxing**, signed a memorandum of understanding (MoU) on banking control, information sharing and general cooperation in June.<sup>12</sup> The MoU is a sign of the increasing influence of the Chinese banking system in Africa and the importance of the yuan as a reserve currency for African central banks.<sup>13</sup> The MoU lays out provisions for sharing documents useful for both institutions in the fields of banking supervision, cooperation on surveillance of cross-border institutions and on-site controls.<sup>14</sup>

The flexible exchange rate is not the only fiscal instrument the government is employing to ensure economic stability. The finance ministry is now planning to renegotiate the terms of an emergency line of credit with the IMF.<sup>15</sup> Boussaid told the media the decision to renegotiate was purely precautionary.<sup>16</sup> However, according to local sources, the finance ministry is hoping to achieve better terms despite the agricultural downturn:

*“Boussaid is going to the IMF to try and get a better deal saying...we (Morocco) have a problem with the grain productions and might need the credit line, but our economy is doing better because of the low price of energy so you should give us a better rate...reducing the growth forecast is part of looking credible to the economists in **Washington DC.**”<sup>17</sup>*

### Court confirms Samir’s liquidation

The **Cour d’appel de Casablanca** (Casablanca court of appeal) confirmed on 1 June that Morocco’s sole oil refinery, **Société anonyme marocaine de l’industrie du raffinage (Samir)** (Moroccan industrial refining company ltd), will enter liquidation.<sup>18</sup> If Samir halts its refining operations Morocco will not be able to refine crude oil, necessitating purchasing refined oil products at an increased price.<sup>19</sup> The ruling is the end of a year-long struggle for control of the company between its owners and its creditors, which include the Moroccan government. The court of appeal upheld the ruling of the **Tribunal de commerce de Casablanca** (Casablanca commercial court) of 21 March that the company be placed into liquidation under the supervision of an emergency trustee guided by a judge.<sup>20</sup> Samir’s owners, **Saudi Arabia-based Corral Holdings**, can still take the case to the **Cour du Cassation** (Supreme court) but its legal team said it had not yet decided to do so.<sup>21</sup>

Corral did not fulfil a commitment to the \$1.04 billion recapitalisation plan they agreed with the government in October 2015. Saudi Arabian and **Ethiopian** billionaire **Mohammed al-Amoudi**

<sup>10</sup> World Bank, 2016

<sup>11</sup> Source, economist, Rabat

<sup>12</sup> www.marocgazette.com

<sup>13</sup> www.marocgazette.com

<sup>14</sup> www.marocgazette.com

<sup>15</sup> Reuters, 23 May 2016.

<sup>16</sup> Reuters, 23 May 2016.

<sup>17</sup> Source, economist, Rabat

<sup>18</sup> L’Economiste, 1 Jun 2016.

<sup>19</sup> L’Economiste, 1 Jun 2016.

<sup>20</sup> The National, 21 Mar 2016.

<sup>21</sup> L’Economiste, 1 Jun 2016.

controls Corral.<sup>22</sup> Samir reported that it would publish a greater than expected loss for 2015 on 18 March.<sup>23</sup> Samir has an estimated total debt of \$4.55 billion and the local banking sector is highly exposed to this.<sup>24</sup> Samir operates the 200,000 barrel per day **Mohammedia** refinery, the only oil refinery in Morocco. It employs 1,200 workers and is currently still paying salaries and pension contributions for them.<sup>25</sup> The government will now reportedly seek a buyer for the company's operations.<sup>26</sup> According to sources in the industry there is no clear frontrunner:

*"Potential buyers look at the relationship between Samir, the government and Corral and think twice about investing. Purchasing heavily indebted key national assets comes with significant political exposure and no guarantee of the security of your investment if the market drives its value down."*<sup>27</sup>

### Government to sell stake in national port operator

**L'Autorité Marocaine du Marché des Capitaux** (Moroccan capital markets authority) announced on 13 June that the government will sell a 40% interest in state-owned port operator **Marsa Maroc**, through an initial public offering (IPO) on the **Bourse de Casablanca (BdC)** (Casablanca stock exchange).<sup>28</sup> The Marsa Maroc offering is the first IPO on the BdC this year, and the first ever for a privatisation, and is expected to help renew investor interest in the BdC, which is still recovering from the negative effects of low economic growth in **Europe**.<sup>29</sup> The objective of the privatisation process is to finance the expansion of Marsa Maroc. The government established the company in 2006; it manages terminals at nine Moroccan ports and provides logistic services.<sup>30</sup> Marsa Maroc will use the expected \$200m from the IPO to refurbish and expand its current port terminals; bid for two other terminals at Casablanca Port and look for opportunities elsewhere in **North** and **West Africa**.<sup>31</sup> The finance ministry hired Morocco-based **Attijariwafa Bank** to advise on the IPO, which is expected to take place before 30 June.<sup>32</sup>

### Leader Price to open 50 stores in Morocco

**France**-based discount supermarket chain **Leader Price** announced plans on 4 June to open 50 stores in Morocco by 2020.<sup>33</sup> Morocco is already a relatively saturated market with multiple local and international supermarket chains operating, especially in major cities and commercial centres.<sup>34</sup> The company will open its first store on 8 June at **Avenue Moulay Hassan I** in commercial capital **Casablanca**.<sup>35</sup> It is also in the process of recruiting an expert country manager to help with the large-scale roll-out.<sup>36</sup> Leader Price is part of **Groupe Casino**, a major retail and grocery company based in **Paris**, France.<sup>37</sup> In May the group purchased a 50% stake in joint venture partner **Geimex**, a **Poland**-based **Baud** family operation, which operated the Leader-Price brand's international operations.<sup>38</sup> The group released a statement following the transaction saying that it would actively develop the

<sup>22</sup> The National, 21 Mar 2016.

<sup>23</sup> L'Economiste, 1 Jun 2016.

<sup>24</sup> L'Economiste, 1 Jun 2016.

<sup>25</sup> L'Economiste, 1 Jun 2016.

<sup>26</sup> L'Economiste, 1 Jun 2016.

<sup>27</sup> Source, energy analyst, Casablanca

<sup>28</sup> Reuters, 13 Jun 2016.

<sup>29</sup> Reuters, 13 Jun 2016.

<sup>30</sup> Reuters, 13 Jun 2016.

<sup>31</sup> Reuters, 13 Jun 2016.

<sup>32</sup> Reuters, 13 Jun 2016.

<sup>33</sup> Morocco World News, 4 Jun 2016.

<sup>34</sup> Telquel, 4 Jun 2016.

<sup>35</sup> Telquel, 4 Jun 2016.

<sup>36</sup> Telquel, 4 Jun 2016.

<sup>37</sup> Telquel, 4 Jun 2016.

<sup>38</sup> Groupe Casino press release, 26 May 2016.

Leader Price brand internationally. The brand already has a presence across North and West Africa.<sup>39</sup> The market may be competitive but sources in the retail sector argue that Leader Price will be able to compete with other international brands, including France-based rival **Carrefour**:

*“There is still room in Morocco for other retail chains. The need for such stores is still huge and is likely to develop further over the next few years.”<sup>40</sup>*

## Implications

The flexible exchange rate will help make Morocco’s economy more resilient to external market shocks, however it will not solve the issues driving growth down, which are primarily related to poor agricultural output this year. However, a flexible rate will open the dirham up to flexible and more advantageous rates with currencies other than the dollar and the euro. The new deal with **Central Bank of China**, along with the cooperation agreements the government signed last month (see *ARC Briefing Morocco May 2016*), may lead to this situation with the dirham and yuan – which would serve as a conduit for valuable investment from China.

The government has managed to claw back some of its losses from Samir. Corral’s poor management of the plant, leveraging it into almost \$4 billion of debt from 2012 to 2016, is partially to blame for its liquidation. However, the fall of the price of oil in 2013 is another contributing factor. The government will need to convince any potential buyers that the Samir refinery is not just a key strategic asset, but also a profitable investment. The government has taken a highly aggressive line with Corral, pursuing it through the courts, and working with labour unions to put pressure on the Saudi-based owners. The stabilising price of oil may attract buyers, but they may need assurances that their agreements with the government will protect them from such action in the future.

The floating of Marsa Maroc on the CSX is good news for the ports and good news for the bourse. Morocco’s ports are in need of upgrade and the government is not currently in the position to fund such an expansion. Floating the company on the CSX will keep much of the capital inside Morocco. A major IPO will also attract international capital to the bourse, which is currently strongly weighted towards domestic investment.

Morocco is a major retail market in North Africa. The arrival of Leader Price into an already well served market shows major brands see the potential for successful competition. Leader Price has had great success targeting the emerging middle class in North and West Africa over the last five years. It stands a good chance of moving Moroccans in this bracket from more established and more expensive competition or introducing them to supermarket retail taking business from sole traders and markets.

<sup>39</sup> Groupe Casino press release, 26 May 2016.

<sup>40</sup> Source, retail sector expert, Casablanca

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)