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Morocco enjoys an upturn in its economic fortunes. The central bank cuts the base rate of interest by 0.25% to 2.5% and appeals to banks to increase lending in order to stimulate growth. The Moroccan finance ministry estimates that the economy will grow 4.4% next year and that inflation will fall. Morocco – a net energy importer – benefits from falling oil prices, and the government immediately uses the reduction in costs to lower its budget deficit and fund a new natural gas terminal. However Morocco’s embryonic oil and gas industry suffers. Morocco raises \$1.7 billion to fund solar energy including the second and third stages of the 500MW Noor solar plant. Independent solar power producers ask the government for tax breaks to increase their profitability. Morocco and the European Union reaffirm their political and economic cooperation and announce that negotiations on a free trade agreement are in their final stages.

Central bank cuts interest rate to 2.5% and appeals to banks to lend more

Morocco’s central bank, the **Bank Al-Maghrib**, cut the base rate of interest by 0.25% to 2.5% on 18 December. The reduction comes just three months after the bank’s last cut - from 3% to 2.75% - in September.¹ The bank governor, **Abdellatif Jouahri**, said that the latest loosening was aimed at stimulating growth while keeping to government targets to lower the budget deficit. He emphasised that the central bank was reacting to an easing of private sector lending activity in the markets and said that it was “*the duty*” of Morocco’s (profitable) banking sector to stimulate lending and grow the economy.² However, he did not address the risks to banks that have caused the downward pressure in lending, such as double-digit growth in non-performing loans across 2014.

Moroccan banks are especially sensitive to the domestic economic situation as they derive the majority of their income from domestic banking services for Moroccan corporates and small and medium-sized enterprises (SMEs).³ Ratings agency **Fitch** gave the sector an overall stable outlook for 2015, predicting that the non-agricultural sector’s performance would pick up in 2015 and generate modest commercial growth. Fitch also gave Morocco’s three largest banks, **Attijariwafa Bank**, the **BMCE Bank**, and the **Banque Marocaine pour le Commerce et l’Industrie (BMCI)** a stable outlook. All three currently have a BB+ rating.⁴ However, these banks have increased their exposure to risk, notably through expanding their investment in sub-Saharan Africa in recent years, adding a new layer of moderate risk to the financial sector.⁵

Even before the recent fall in global oil prices, Morocco’s economy (a net energy importer) was poised to expand in 2015. Growth in 2014 came in relatively low by historical standards, at 2.5% of gross domestic product (GDP). In October, finance minister **Mohammed Bousaid** estimated growth for 2015 rising to 4.4%: this now seems likely to be an underestimate. The government received a \$5 billion structured loan from the **International Monetary Fund (IMF)** in July to stimulate economic growth, but has recouped costs due to the falling price of energy imports, lower government energy bills and a strong export market (see below).

¹ L’Economiste, 18 Dec 2014

² L’Economiste, 18 Dec 2014

³ Libération, 17 Dec 2014

⁴ Fitch press release, 17 Dec 2014

⁵ Fitch press release, 17 Dec 2014

“To those of us used to seeing Morocco at risk of slipping into instability, things look – weirdly – much more stable all of a sudden. In part, this is because the king and the government have been doing the right things in the difficult times in managing the tight fiscus and investing in key economic and politically-sensitive sectors like agriculture and energy.”⁶

The finance ministry has used the improvement in Morocco’s finances to narrow the budget deficit – which stood at 4.9% of GDP in 2013 – to 4.3% in 2014. Since May 2014, the dirham has depreciated around 11% against the **United States (US)** dollar – from D8.11 to the dollar in May to D9 to the dollar on 20 December – offsetting some of the gains from falling oil prices but boosting exports.⁷ The central bank and finance ministry are reportedly considering reweighting Morocco’s foreign exchange regime slightly towards the dollar and away from the Euro to compensate for the former’s recent weakness against the latter.⁸

The **Casablanca Stock Exchange (CSE or La Bourse de Casablanca)** – Africa’s third-largest after **Johannesburg** and **Lagos** - has struggled throughout 2014 due to a lack of liquidity and a dearth of investors. However, activity seems to be growing – albeit modestly – in December, with construction company **Residences Dar Saada** successfully securing \$128m from an initial public offering (IPO) on 3 December, raising hopes that this market will rebound in 2015.⁹

Falling oil prices narrow trade deficit and help fund new gas terminal

The sharp fall in international oil prices since mid-year helped to narrow Morocco’s 2014 trade deficit by 6.8% year-on-year at the end of November 2014. Morocco’s energy imports by cost decreased by 8.3%, despite rising demand.¹⁰ Unlike many of its North African neighbours, Morocco has a diversified economic base, and its automotive and electronics industries further helped narrow the deficit as automotive exports have risen 27.5% in 2014 and electronics exports 25.3%.¹¹

The Moroccan government plans to use the financial windfall from the falling energy prices to reduce its budget deficit (see above). It has also revived a dormant \$4.6 billion natural gas import plan. On 16 December, energy minister **Abdelkader Amara** announced plans to build a liquid natural gas (LNG) terminal at the industrial port of **Jorf Lasfar**. The terminal will allow Morocco to import up to 7 billion cubic metres (bcm) of gas by 2025. The gas will be fed to the industrial hubs at Jorf Lasfar, **Casablanca** and **Tangier**. Morocco’s energy utility **Office Nationale de l’Électricité et de l’Eau Potable (ONEE)** also plans to build four 600 megawatt (MW) power plants in the Tangier area.

Amara said that the tendering process for the project, which will include pipelines, a jetty and a gasification plant, would begin in 2015. Amara said:

“All the [construction] projects will be awarded via international tenders. The first step in early 2015 will be negotiations of supplies with gas exporters to get the best deals. If they fail (the negotiations), we will launch [supply] tenders directly in the international markets.”¹²

The government hasn’t given an official reason for the revival of the Jorf Lasfar LNG project, which was first slated in 2011. Industry experts opine that the falling oil price has created a window of opportunity to diversify the country’s energy imports, as gas is a far cheaper commodity. Morocco currently consumes 1 bcm of gas per year but produces only 70 million cubic metres (mcm) of gas domestically.

“Morocco would do well to take advantage of low oil prices to reduce its economic exposure to the commodity.... The price of gas is politically charged, [as it used by households, including the

⁶ Source, published international economist specialising in Morocco.

⁷ XE.com

⁸ Bloomberg, 17 Dec 2014

⁹ Agence Ecofin, 3 Dec 2014

¹⁰ Al-arabiya, 12 Dec 2014

¹¹ Al-arabiya, 12 Dec 2014

¹² <http://www.researchviews.com/energy/oil-gas/lng/NewsReport.aspx?ArticleID=4471022>

poor, so] greater imports that take the pressure off more costly imports will be good news for all Moroccans.”¹³

Morocco’s oil industry has suffered as a result of the slump in prices. The country’s only oil refinery, **Samir**, issued a profit warning for 2014 citing the slump in international oil prices. However, the local company has also recorded an increase in overall sales and profit margins over the course of the year.¹⁴ The embryonic oil exploration sector is also struggling. International oil companies that have been exploring for oil and gas offshore in Morocco for a number of years have made no major discoveries to date. There has been some limited success with onshore gas exploration. **Circle Oil** has made a second gas discovery at its **K-12** well in its **Sebou** concession. This follows a discovery at its **SAH-W1** well in June 2014. The reserves are significant enough to justify extraction and refining. However, they are only large enough to feed local industries in the Sebou region.¹⁵

Overall, Morocco’s hopes of becoming a major international oil and gas producer appear to be fading, and industry insiders say that international oil companies may soon end exploration efforts off the **Atlantic** coast absent a significant find.¹⁶

State raises \$1.7 billion for solar sector, as IPPs push for tax breaks

The **Moroccan Agency for Solar Energy (Masen)**’s CEO **Mustapha Bakkoury** announced on 19 December that the government had raised \$2 billion from the **World Bank** and the **European Investment Bank** to develop solar energy in the country.¹⁷ Morocco’s energy diversification programme includes a major push for renewable energy as originally set out in its 2008 *Plan de développement des énergies renouvelables et de l’efficacité énergétique* (Renewable energy and energy efficiency plan). This includes building 4 gigawatts (GW) of renewable energy capacity in the country by 2020 that will ultimately grow to contribute 42% of total electricity generation in the country.

The first phase of the state-owned **Noor** solar power plant in the southern city of **Ouarzazate** is due to come online in October 2015. The €600m (\$733m) project will have a maximum generating capacity of 160MW. The 200MW Noor 2 and 100MW Noor 3 phases of the 500MW capacity power project will begin by the end of February 2015.¹⁸ The government has released tenders for the work, and a number of international companies and consortia are bidding for the work. They include **Spanish** firm **Abengoa**, a consortium of **French** companies **EDF** and **Alstom**, **Saudi Arabia**’s **International Company for Water and Power Projects (ACWA Power)**, and **Dubai**-based **GDF Suez**. The government plans to announce the winning bid in December 2014 or early January 2015.¹⁹

As well as state-backed projects, the government has opened up the solar sector to independent power producers (IPPs). Part of the agreed international financing for the sector has been apportioned to financing schemes and component subsidies for the private sector. IPPs active in Morocco are also lobbying the government for tax breaks to support solar developments.²⁰ For example, **Miriam Bensalah**, head of the **Confédération Générale des Entreprises du Maroc (GCEM)**, called on the government to provide incentives for independent projects at the **Climate Technology Forum** in **Skhirat** on 17 December. Industry representatives argue that they could generate 50,000 jobs by 2020 but need further breaks in order to increase project viability and profitability. However, at Skhirat, trade and industry minister **Moulay Hafid Elalamy** responded that the government could not provide tax incentives during a period of fiscal consolidation.²¹

¹³ Source: energy industry consultant, Casablanca

¹⁴ L’Economiste, 10 Dec 2014

¹⁵ Reuters, 19 Dec 2014

¹⁶ Source: energy industry consultant, Casablanca

¹⁷ AFP, 19 Dec 2014

¹⁸ AFP, 19 Dec 2014

¹⁹ IPP Journal, 30 Nov 2014

²⁰ L’Economiste, 16 Dec 2014

²¹ L’Economiste, 16 Dec 2014

“The independent producers are [somewhat] out in the cold, there is a big government scheme to produce solar energy but there isn’t much funding available to develop these expensive facilities. Meanwhile the government pours its money into Noor.”²²

Morocco and EU reaffirm political and economic ties

The 28 member states of the **European Union (EU)** reaffirmed their political and economic ties to Morocco as part of the **European Neighbourhood Policy (ENP)**.²³ **Johannes Hahn**, European commissioner for the ENP, told diplomats and business leaders in **Rabat** on 11 December that positive political developments in Morocco since the constitutional referendum of July 2011 had been crucial to the reaffirmation of relations.²⁴ Hahn also emphasised the value of bilateral cooperation on combatting human trafficking and prevention of terrorism in the **Sahel/Saharan** region, where the EU sees Morocco as a key partner.²⁵

“Moroccans often see the EU and other international partners as looking down on us for our monarchy or on human rights issues. It is good to see more equitable statements of partnership.”²⁶

For Morocco, new economic cooperation gains with Europe preceded the reaffirmation. In November, the EU and Morocco signed a memorandum of understanding (MoU) for a single (financial) support framework (ssf) and a comprehensive bilateral cooperation agreement for 2014-2017. Collectively, they will amount to grants and financial support from the EU to Morocco of between €728m (\$890m) and €890m (\$1 billion) over three years. The grants will be split four ways, : citizen access to basic social services (30%), democratic governance and the rule of law (25%), jobs and sustainable growth (25%), and civil society development (20%). Now that the memorandum has been signed the financial support should begin flowing from January 2015, adding a further boost to the fiscus.²⁷

Morocco and the EU are also in the final stages of completing a **Deep and Comprehensive Free Trade Agreement (DCFTA)**. The two have been in slow negotiations since 2013, but EU trade commissioner **Cecilia Malmstrom** said on 18 December that she hoped that the negotiations would conclude in the first half of 2015.²⁸

“Morocco has a unique partnership with the EU as it operates as both a key political ally in an unstable region, a recipient of financial support, and a major trade partner. The EU sees the maintenance of ties with Morocco as key.”²⁹

Political dividend?

Morocco’s improving economic horizon seems set to bring a much-needed political dividend for Morocco’s ruler, **King Mohammed VI** (king, 1999-present) and the moderate Islamist government of prime minister **Abdellilah Benkirane** and his **Parti de la justice et du développement (PJD)**, which is inspired by **Egypt’s Muslim Brotherhood** and the **Turkish** model of Islamic governance. Mohammed – and the royal place more broadly – remains Morocco’s dominant political actor (with its own ‘party’ in coalition with Benkirane) and economic actor (with its own corporations). And both Benkirane and Mohammed have high personal political ratings among the electorate.

“The monarchy is unchallenged (again). It has allowed the civil government to assume certain powers and prerogatives, but Mohammed retains a grip – as defender of the Islamic faith-- on his

²² Source: journalist, Rabat

²³ Libération, 17 Dec 2014

²⁴ EU press release, 11 Dec 2014

²⁵ EU press release, 11 Dec 2014

²⁶ Source: journalist, Rabat

²⁷ Libération, 17 Dec 2014

²⁸ Morocco world news, 18 Dec 2014

²⁹ Source: DG external affairs, Brussels

*corporate interests and the support of his traditional support in conservative rural areas. If he were sensible, he'd use the current upturn in fortunes to re-open the long-closed land border with **Algeria** in the north. Jobs, investment and trade could only improve if he did so. In **Western Sahara**, it is business as usual. No change, and no likelihood of a change in policy."*³⁰

But failure to deliver on bread-and-butter social and economic issues since the new, more liberal constitution and government took centre-stage in 2011 – notably the huge inequalities between Morocco's elite and the urban and rural poor – had threatened to undermine the project. 2014 started badly: a disastrous harvest, external factors such as the slump in Morocco's key export market, the **Eurozone**, plus persistently-high energy prices. Other factors were less tangible, but no less important, such as reported confusion in the bureaucracy and political system about who could decide what under the new constitution. The system developed by Mohammed's father, **Hassan II** (king, 1961-1999) had relied on all offices of state looking to the monarchy for guidance. The new system still appears to be settling down.

Implications

Morocco is, in theory, very well placed to benefit from a raft of economic trends that have turned positive in recent months. The deal with the EU, the IMF loan and the significant improvement in the fiscus and balance of payments due to lower oil prices, have suddenly given the government breathing space to tackle chronic socio-economic challenges. The improvement in the US economy – the largest customer for its critically important phosphates industry – is another positive trend (though legal action to recover debts from a major US phosphates buyer have not yet concluded).

There is domestic opposition to a proposed free trade agreement with the EU, especially from farmers and small businesses fearing cheaper (or subsidised) EU goods could price them out of the market. However, the government and the palace have put their weight behind it as Morocco's booming high-value exports of cars and electronic components (and urban employment) can only gain from the removal of trade barriers.

In addition, a strong banking sector likely to heed the central bank's call to keep on lending to business, and a consistent stream of international firms opening branches in Morocco, all point to a good year ahead. Morocco's weak currency casts a slight shadow over this. While it helps exports, it leaves the country potentially vulnerable to price fluctuations in key imports such as energy. Morocco also had to double its grain imports in 2014, due to excess rains ruining the grain harvest (and hitting the country's biggest economic sector by employment) The fall in the price of oil helped offset the costs, but (in other circumstances) it could have had a serious effect.

Politically, Morocco (namely the king and Benkirane) may also soon enjoy a positive upturn in fortunes. Neither has ever been unpopular, but both have struggled to deliver on Morocco's entrenched (and significant) socio-economic inequalities. International concern about the destabilisation and radicalisation of the Sahel and the role of **North African** militants in the **Islamic State in Syria** and **Iraq** also bring important allies to security-conscious and moderately Islamic Morocco. The instability in Morocco's North African neighbours since 2011– except Algeria, which faces significant reform and modernisation challenges – also gives political and economic structures in Morocco a greater sense of durability and sustainability.

In the context of a readjustment in international oil prices, Morocco should be able to cope with the likely withdrawal of international oil companies from the upstream exploration sector, especially offshore.

³⁰ Source, experienced political analyst, Morocco