

AFRICA RISK CONSULTING

Morocco Monthly Briefing June 2015

Morocco Summary 22 June 2015

The Bank Al-Maghrib (BAM), Morocco's central bank, keeps its benchmark interest rate stable at 2.5%. The rate change shows a measure of caution despite strong economic forecasts from the BAM and an International Monetary Fund (IMF) mission that predict 5% growth for 2015 and an improving debt position. Moroccan financial services companies take a further step into sub-Saharan Africa as major financial services company FinanceCom and leading insurer Saham enter into a joint-venture. The new company will sell insurance products to large scale customers in banking and other sectors across the region. Morocco is moving to become the regional leader on clean energy and environmental issues. The government seeks to reduce carbon emissions 13% by 2030 and the Noor II and III solar projects reach full funding of \$2 billion.

Central bank keeps rates stable amidst strong economic forecasts

The **Bank Al-Maghrib (BAM)**, Morocco's central bank, released strong economic performance forecasts on 16 June but took the decision to keep its benchmark interest rate flat at 2.5%.¹ The BAM's quarterly report and the **International Monetary Fund (IMF)** have in the past month both forecast strong economic growth. According to economic observers, increasing wages and low inflation should improve the government's prospects in the upcoming municipal elections scheduled for October 2015.

"Moroccans should begin to feel the effects of the country's good circumstances as growth drives wage inflation and CPI inflation keeps the costs of goods and services relatively low...the government could benefit from this in the upcoming elections."²

An IMF mission from 28 May to 5 June came to Morocco to review the \$5 billion two-year **Precautionary and Liquidity Line (PLL)** loan it approved in July 2014.³ The IMF mission forecast that GDP growth, which was at 4.4% in Q1 2015, should reach around 5% in 2015. Factors that support this are strong agricultural output, the reduced price of oil imports, and growth in other sectors of the economy such as the automobile sector. Over the medium term the IMF predicted an acceleration of growth so long as the government continues to implement economic reforms. It praised measures the government has taken to reduce the current account deficit, steps taken to reduce popular but expensive subsidies on foodstuffs and fuel, and the rebalancing of the dirham to be less reliant on the euro.⁴

The BAM backed the IMF prediction of 5% GDP growth in 2015, driven by a 15% increase in revenues generated from agriculture and a 3.5% average increase across other sectors. The current account deficit is forecast to decrease to 3.3% of GDP. The government has improved its debt position dramatically from 2012 when the deficit rose to 9.2% of GDP due to low productivity and a record high energy bill. Morocco's trade balance improved 23.5% across the second quarter of 2015 mainly driven by a 5.8% increase in exports year-on-year.⁵ The country has also increased its net external

¹ L'Economiste, 17 Jun 2015

² Source, developmental economist, Cambridge

³ IMF press release, 5 Jun 2015

⁴ IMF press release, 5 Jun 2015

⁵ Le Matin, 16 Jun 2015

currency reserves to \$19 billion, partly due to a 22.3% increase in foreign direct investment (FDI) across the first two quarters of 2015.⁶ These are up from \$14.5 billion in 2012, and \$18.1 billion in 2014 and are forecast to increase further over the course of the year.⁷ Government tax revenues have also increased 4.8% so far across 2015.⁸ The strong growth and high liquidity of local banks has reduced inflationary pressure, leaving the consumer price index (CPI) rate of inflation forecast at 1.5% in 2015 and at 1.4% across the next six quarters.⁹

However, both the BAM and the IMF issued warnings over Morocco's long-term economic stability. According to the IMF the economy remains vulnerable to increased energy prices or low growth in key **European** export markets.¹⁰ The government still needs to take significant steps to counter unemployment, particularly in the 18-25 year age bracket, as well as implement pension reforms. It also called for sustained effort to improve the business environment, increasing transparency and competition.¹¹ The BAM also acknowledged that Morocco's current economic success relies on a number of external factors including the low price of oil and a good harvest in late 2014.¹² The BAM monetary policy committee's decision not to increase interest rates from 2014 shows an awareness of the precarious nature of the economic position and a measure of caution:

"Morocco has a strong hand at the moment...it has low public debt, strong productivity, inflation well below 2% and a rapidly improving trade balance...the central bank could afford to be more bullish in this climate and get away with it, too, but the problems the economy had over 2010-2014 are a warning against hubris."¹³

New joint-venture shows growth of pan-African financial services sector in Morocco

Moroccan companies are continuing the trend of looking to **sub-Saharan Africa** as a market for their products, particularly in the financial services sector. Two of Morocco's largest corporates, financial services focused **FinanceCom** and insurer **Saham** announced a joint venture on 6 June to support an expansion of their businesses in sub-Saharan Africa.¹⁴ The two companies will create a joint-venture in which they are 50/50 partners. The yet-to-be-named company will focus on expanding financial and insurance products across sub-Saharan Africa.¹⁵ These include bank insurance products, life and non-life asset management and other products for corporate customers.¹⁶ The joint venture aims for a presence in ten countries by 2020 and annual premium income of between \$400-\$500m by the end of the same period.¹⁷

FinanceCom is a major financial services group with holdings worth more than \$20 billion. These include **Banque Marocaine du Commerce Extérieur (BCME)**, Morocco's second largest bank, and its African subsidiary, **Bank of Africa (BoA)**. The company also has stakes in **Republic of Congo**-based **La Congolaise de Banque** (25%) and the **Banque de Developpement du Mali** (27.38%).¹⁸ FinanceCom controls insurer **RMA Watanya** as well as telecoms company **Meditel** in partnership with **France**-based **Orange**.¹⁹ Morocco's richest man, **Othman Benjelloun**, controls the company.²⁰

⁶ L'Economiste, 17 Jun 2015

⁷ L'Economiste, 17 Jun 2015

⁸ Le Matin, 16 Jun 2015

⁹ L'Economiste, 17 Jun 2015

¹⁰ IMF press release, 5 Jun 2015

¹¹ IMF press release, 5 Jun 2015

¹² L'Economiste, 17 Jun 2015

¹³ Source, developmental economist, Cambridge

¹⁴ Agence Ecofin, 8 Jun 2015

¹⁵ Agence Ecofin, 8 Jun 2015

¹⁶ L'Economiste, 10 Jun 2015

¹⁷ L'Economiste, 10 Jun 2015

¹⁸ IMF 'Pan-African Banks, challenges for cross-border oversight', May 2015

¹⁹ FinanceCom website 2015

²⁰ FinanceCom website, 2015

Saham is Morocco's largest insurer. Founder **Moulay Hafid Elalamy** remains the owner and CEO of the group.²¹ Saham has operations, under the Saham name, in insurance, healthcare, real estate and asset management and has a presence in 24 African countries.²² Saham entered sub-Saharan Africa in 2011 when it purchased African insurer **Groupe Colina** for \$75m.²³ Colina was, and remains, the leading insurer on the **Conférence Interafricaine des Marchés d'Assurances (Cima)**.²⁴

*"This is FinanceCom coming to Saham for its insurance expertise and African reach...Watanya can't compete with Saham in its [Saham's] well established African markets...FinanceCom can use its banking network to draw in major corporate clients."*²⁵

The financial sector is a key sector for Moroccan businesses entering sub-Saharan Africa. Three of the continent's 11 pan-African banks are based in Morocco, more than in any other country, and all offer insurance products that they are keen to sell across the continent.²⁶ BCME acquired 73% of the BoA in 2008, to consolidate its Africa business. The **Attijawarifa Bank** has been expanding across north and francophone west Africa since 2005. Attijawarifa is majority owned by the royal holding company **Société d'Investissement Nationale (SNI)**.²⁷ The **Groupe Banque Centrale Populaire (BCP)**, a credit union listed on the **Casablanca Stock Exchange (CSE)**, purchased subsidiary **Atlantic Bank** in 2012 which has operations across the **Union Economique et Monétaire Ouest Africaine (UEMOA)** [West African economic and monetary union also known as the **Franc Zone**].²⁸

*"The pan-African financial services market still has plenty of space in which companies can grow, but the major players are increasingly aggressive at buying out local banks to gain a footing in new markets...the Moroccan banks are some of the most competitive players out there."*²⁹

Morocco manoeuvres for position as regional clean energy leader

Morocco is positioning itself as the North African leader on clean energy and environmental issues. Environment minister **Hakima el Haite** announced on 2 June that Morocco would reduce its carbon emission 13% by 2030 at a cost to the state of \$10 billion.³⁰ The announcement was timed to fall before preparations begin for the 21st session of the **Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC)** in **Paris** in December. Morocco is due to host the 22nd session of the UNFCCC in 2016 and is laying the groundwork for its position as North Africa's environmentally conscious state.³¹

The UNFCCC has tried for six years to reach an agreement on the reduction of carbon emissions. The Moroccan government's announcement means that it goes into the congress as part of an increasing number of countries that have committed to emission reductions. El Haite claimed that Morocco could reduce emissions by a further 19% to a total reduction of 32% by 2030 based on an extra \$35 billion in state funding.³² However, some sources in Morocco doubt that the government will be able to fulfill its emission cutting promise.

²¹ Saham website, 2015

²² Saham website, 2015

²³ Jeune Afrique, 23 Nov 2010

²⁴ Saham website, 2015

²⁵ Source, economic journalist, Casablanca

²⁶ IMF 'Pan-African Banks, challenges for cross-border oversight', May 2015

²⁷ IMF 'Pan-African Banks, challenges for cross-border oversight', May 2015

²⁸ IMF 'Pan-African Banks, challenges for cross-border oversight', May 2015

²⁹ Source: trader at pan-Africa bank, Johannesburg

³⁰ L'Economiste, 2 Jun 2015

³¹ L'Economiste, 2 Jun 2015

³² Middle East Online, 2 Jun 2015

*"If the PJD [the ruling **Parti de la Justice et du Développement**] get re-elected then they will have to begin to act on this...the oil price won't be low forever...this sounds more like an election promise than a serious policy statement."³³*

The government has a good record on environmental issues through its renewable energy policy. It aims for 40% electricity generation through renewable sources by 2020. The government is developing the 2 gigawatt (GW) **Noor** solar park at **Quarzazate** in the south of the country which, when completed, will be the largest solar installation in the world.³⁴ **Saudi Arabia**-based **ACWA Power International**, which leads the consortium developing the **Noor II** and **Noor III** solar projects, secured \$2 billion in donor funding to cover the cost of developing the sites.³⁵ The company announced financial completion on 29 May and ACWA along with partners, **Spain**-based technology provider **Sener** and **China**-based construction and engineering company **Sepco**, will now be able to move ahead with construction.³⁶ The final piece of funding was a **European Union (EU)** loan of \$47.8m that closed on 20 May.³⁷ Raising such a large amount of money for a solar project shows the appetite for clean energy investment from international lenders.

"If the project is a success, and there is every indication at this stage that it will be, then it will set a benchmark for other governments and agencies against which to raise [capital] when developing large scale solar projects...other renewable generation projects as well."³⁸

Implications

The BAM is taking the sensible step of keeping interest rates low to allow for broad-based economic growth in the current favourable external conditions. Raising the rates, which would appease lenders, runs the risk of discouraging enterprises from expanding in domestic and international markets. The BAM has now set the rate for the year and, while it will review it every quarter, there is unlikely to be any movement until 2016. Businesses based in Morocco can take advantage of this favourable climate to borrow to expand operations. In the best possible scenarios this could begin to tackle continuing unemployment problems. The vote of confidence from the IMF is a reflection of Morocco's good position and will help to improve market confidence. Morocco's success is relative to the poor state of its economy just three years ago and the international markets are aware that a sudden change in external factors, such as the oil price, could reverse the trend. However, medium term oil price forecasts remain low and the government's earlier decision to reduce its budget deficit make this scenario unlikely.

The announcement of cooperation between two of the country's largest corporate entities signals how important sub-Saharan African markets are for Moroccan financial services firms. It is a big step for both companies that have set aside their competition in the domestic market to seek greater profit across the region. Both of these businesses are currently more focused on Europe than on sub-Saharan Africa. However, if this venture is successful, it may speed up the trend of Moroccan involvement in emerging financial markets in the continent. What remains to be seen is whether Moroccan banks and insurers can break out of Francophone West Africa and into the more competitive markets in the rest of the region.

Morocco has played its renewable energy policy to its advantage in attracting large scale investment. The government uses reduced carbon emissions targets and the development of renewable energy to improve perceptions among investors. This helps to counteract some of the continuing difficulties in doing business in the country, including corruption in administration and the judicial system, and

³³ Source: financial journalist, Casablanca

³⁴ Morocco World News, 29 May 2015

³⁵ Morocco World News, 29 May 2015

³⁶ Clean Technica, 29 May 2015

³⁷ Utilities-ME, 21 May 2015

³⁸ Source, renewable energy developer, London

more high profile issues such as allegations of human rights violations against the intelligence agencies and the continuing **Western Sahara** issue.

About Africa Risk Consulting:

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