

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing March 2024

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#### Morocco Summary 20 March 2024

*The Bank al-Maghrib (BAM) (central bank) opts on 19 March to leave interest rates unchanged at 3% for another quarter, following advice from the International Monetary Fund (IMF) to act cautiously after sharp price increases led to nationwide strikes demanding pay rises. The Algerian foreign ministry says on 17 March that Algeria will retaliate against Morocco's plan to annex the site of its former embassy in Rabat, increasing tensions between the long-feuding countries. Local farm lobby group Comader says on 4 March that Morocco will have to increase its wheat imports to make up for a smaller crop amid drought. United Kingdom (UK)-based Xlinks First, the developer of a £16 billion (\$20.6 billion) project to export renewable energy from Morocco to Europe, adds an option that could transmit electricity to Germany instead of the UK.*

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#### Morocco holds key rate at 3% after IMF inflation warning...

The **Bank al-Maghrib (BAM)** (central bank) opted on 19 March to leave interest rates unchanged at 3% for another quarter, following the **International Monetary Fund's (IMF)** advice to act cautiously after sharp price increases led to nationwide strikes demanding pay rises.<sup>1</sup> In its statement, BAM cited “*significant uncertainties*” surrounding the global outlook for economies and inflation and noted that a rate hold will “*further strengthen the anchoring of anticipations for inflation*”, adding that it may opt to leave the rate unchanged throughout 2024 due to inflation concerns and the local currency's exchange rate.<sup>2</sup> On the upside, BAM projected that annual inflation in Morocco will further slow down to 2.2% in 2024, compared to the 2.4% projected at the December meeting.<sup>3</sup>

The decision to hold rates means that BAM has extended a rate pause to a full year. BAM paused a rare monetary tightening cycle in mid-2023, citing a need to assess its economic impact. Local lenders expected the rate pause after annual inflation slowed to 2.3% in January, its lowest recorded in over two years.<sup>4</sup> A harsh historic regional drought and tailwinds from the **Russian-Ukraine** conflict saw consumer price growth in Morocco reach 10.1% in February 2023, the highest rate recorded in three decades.<sup>5</sup> Inflation has gradually cooled since then, but last month the IMF warned of a potential rise in inflation in the next two years and recommended that BAM hold firm on rates even as economic pressures decline.

In addition to inflation on the key rate, BAM also announced that,

- After a 7.3% year-to-year decline in the trade deficit in 2023, exports are expected to grow in 2024 by 4.1% and 8.5% in 2025, led by automotive and phosphates
- Grain harvests in Morocco fell to 2.5 million tons compared to 5.5 million tons in 2023.
- An “*expected momentum*” in tourism will drive a 7.5% annual rise in travel receipts, which will reach MAD 120.8 billion (\$12 billion) in 2025.
- Remittances in 2024 recorded at MAD 116.5 billion (\$11.6 billion) are expected to rise to MAD 122.4 billion (\$12.2 billion) in 2025.<sup>6</sup>

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<sup>1</sup> Bank al-Maghrib, 19 Mar 2024

<sup>2</sup> Bank al-Maghrib, 19 Mar 2024

<sup>3</sup> Bank al-Maghrib, 19 Mar 2024

<sup>4</sup> Bloomberg, 19 Mar 2024

<sup>5</sup> Bloomberg, 19 Mar 2024

<sup>6</sup> Bank al-Maghrib, 19 Mar 2024

In addition to the IMF's warning of an uptick in inflation, BAM authorities may also have held rates because they want to observe how a planned reform of state subsidies for this year and 2025 plays out. Those reforms are set to begin with the removal of cooking gas subsidies in April. Removing state subsidies for many basic goods supporting millions of Moroccans will undoubtedly lead to an increase in inflation. Despite a relatively low inflation rate compared to 2023, Moroccans are still struggling with tough economic pressures, leading to demonstrations. The **Haut Commissariat au Plan (HCP)** (higher commission of planning) has said the **Covid-19** pandemic and successive harsh droughts pushed at least 3.2 million Moroccans into poverty between 2019 and 2022, adding to the government's cost-cutting challenges.<sup>7</sup>

Authorities have now started giving in to demands for wage increases, which were led by school teachers in December and spread to local councils, public health, the finance ministry, and even BAM (See *ARC Briefing Morocco Feb 2024*). Increasing wages will add pressure on the government, which is already facing a hefty \$11.7 billion in earthquake reconstruction costs and another estimated \$5 billion to co-host the **2030 FIFA World Cup**.<sup>8</sup> The demands will also make it more challenging for Morocco to trim its spending and regain an investment-grade credit score from the **United States** rating agency, **S&P Global Ratings**.<sup>9</sup>

### Old embassy is the latest flashpoint in Morocco-Algeria diplomatic feud...

The **Algerian** foreign ministry in a statement published on 17 March vowed that Algeria will retaliate against Morocco's plan to annex the site of its former embassy in **Rabat**, increasing tensions between the long-feuding countries.<sup>10</sup> Algeria accused Morocco of "*robbery*" and "*a new phase of escalation in its provocative action*" after Morocco's foreign ministry informed title holders on 15 March of a move to take over property adjacent to its headquarters in Rabat that included the location of Algeria's former embassy.<sup>11</sup> The Algerian foreign ministry also vowed to use all its means to protect its interests, including taking the matter to the **United Nations (UN)**.<sup>12</sup> The Moroccan intelligence website reported on 15 March that the government had confiscated the properties and land to allow Morocco to expand its foreign affairs ministry buildings.<sup>13</sup>

The Moroccan government's decision, published in the official gazette on 13 March, gives the owners of the properties in question two months to express their comments or objections to this measure.<sup>14</sup> Therefore, Morocco's decision to take over the property may not be final as reported in Algeria. In this case, Algeria appears to be overreacting given that its former embassy in Rabat was vacated more than two years ago, and Algerian diplomats moved to a new embassy that now only provides consular services.<sup>15</sup> Morocco has also denied Algeria's real estate confiscation allegations with a Moroccan diplomatic source noting on 19 March that only one building has been the subject of discussions with the Algerian authorities and that Algiers had been informed two years ago.<sup>16</sup>

The incident is the latest diplomatic rift in the decades-old feud between the two countries, highlighted by Algeria's overreaction to the decision. Tensions previously hit a new low in October 2020 when Algeria cut off diplomatic relations and gas exports to Morocco (See *ARC briefing Morocco Nov 2020*). The two countries are also involved in a bitter decades-old standoff over the **Western Sahara**, a territory subject to a decades-old dispute between Morocco and the **Polisario Front**, an

<sup>7</sup> Bloomberg, 19 Mar 2024

<sup>8</sup> Morocco World News, 7 Oct 2023; Bloomberg Law, 15 Feb 2024

<sup>9</sup> Hespress English, 18 Feb 2024; Bloomberg Law, 15 Feb 2024

<sup>10</sup> Algerian Foreign Ministry, 17 Mar 2024

<sup>11</sup> Algerian Foreign Ministry, 17 Mar 2024; Middle East Monitor, 18 Mar 2024

<sup>12</sup> Middle East Monitor, 18 Mar 2024; Arabi21 18 Mar 2024

<sup>13</sup> Middle East Monitor, 18 Mar 2024

<sup>14</sup> Middle East Monitor, 18 Mar 2024

<sup>15</sup> Bloomberg, 18 Mar 2024

<sup>16</sup> Morocco World News, 19 Mar 2024

armed separatist movement supported by Algeria. There is no real political will from both sides to de-escalate tensions, and relations between Algeria and Morocco will remain fraught for the foreseeable future.

### Morocco may need more wheat imports as another drought looms...

Local farm lobby group **Comader**'s chairman **Rachid Benali** said on 4 March that Morocco will have to increase its wheat imports to make up for an expected smaller crop as the country faces another biting drought.<sup>17</sup> Benali highlighted that Morocco, which is often cited as being among the most vulnerable countries to climate change in the **Mediterranean** basin, suffered from a lack of rainfall during its autumn months, impacting harvests.<sup>18</sup> Benali forecast that the wheat crop, which is a staple in Morocco and is included in many local diets, will be "*a lot less*" than last year's harvest of four million tonnes and the country's grains harvest will be much less than the 7.5 million tonnes the government budgeted.<sup>19</sup> He also stressed how dire Morocco's situation is by highlighting that,

*"Agriculture is a whole cycle and this year we did not have a proper start for that cycle."*<sup>20</sup>

Benali noted that planting issues also apply to other grains and sugar in Morocco. Morocco is a major wheat importer and is dependent on its agricultural sector, which contributes around 12% to the country's gross domestic product (GDP). However, a series of harsh droughts in recent years have negatively impacted local supplies and led to job losses that increased the country's unemployment rate to 13% in 2023 (See ARC briefing Morocco Feb 2024). Morocco's situation is made worse by the fact that while the amount of water provided by rainfall and snow each year has declined significantly in recent years, the population has almost doubled.<sup>21</sup> With dams in the country close to empty, Moroccan authorities have restricted the irrigation of farms, pushed up desalination plans, and ordered that thousands of public baths be closed three days a week, promoting protests. Ultimately, it will be an economic pain for Morocco to spend more on imports, particularly when its finances are already stretched by increased spending on earthquake recovery, FIFA World Cup constructions and wage protests by public servants. However, Morocco will be helped by relatively low global wheat prices.

### UK-Morocco power cable could be scrapped in favour of Germany...

**United Kingdom (UK)**-based firm **Xlinks First**, the developer of a £16 billion (\$20.6 billion) project to export renewable energy from Morocco to **Europe**, has added an option that could transmit electricity to **Germany** instead of the **United Kingdom (UK)**.<sup>22</sup> When constructed, Xlinks says that the Morocco-UK cable will be the longest in the world and will pass through **Portugal, Spain and France** via a 3,800-kilometer high-voltage subsea power cable.<sup>23</sup> The power will come from a 10.5 gigawatts (GW) facility of new wind and solar farms in southern Morocco that will be aided by 5GW of battery storage.<sup>24</sup>

Xlinks said in April 2023 that the UK would receive 3.6GW of electricity generated from the project which represents nearly 8% of the UK's current power demand, enough to power seven million homes.<sup>25</sup> The UK's energy security department and UK technology firm **Net Zero** had also formed a team to work with Xlinks on the ambitious project.<sup>26</sup> Xlinks aims to complete the project by 2030 and

<sup>17</sup> Comader, 4 Mar 2024

<sup>18</sup> Comader, 4 Mar 2024

<sup>19</sup> Comader, 4 Mar 2024

<sup>20</sup> Comader, 4 Mar 2024

<sup>21</sup> Bloomberg, 4 Mar 2024

<sup>22</sup> Bloomberg, 11 Mar 2024

<sup>23</sup> Xlinks First, 26 Apr 2023

<sup>24</sup> Middle East Monitor, 27 Apr 2023; Bloomberg, 26 Apr 2023

<sup>25</sup> Bloomberg, 26 Apr 2023

<sup>26</sup> Bloomberg, 26 Apr 2023

boasted that it would deliver energy at a much cheaper cost to UK consumers than current wholesale prices.<sup>27</sup> However, planning documents published on the website of Europe's transmission system operators show that Xlinks had added a German option.<sup>28</sup>

The German possibility could reportedly pressure UK authorities to support the project, which could be critical to meeting the country's net-zero objectives. A spokesperson for the company said on 11 March that while it is "100% focused on the UK market", it is also considering other links in markets including Germany.<sup>29</sup> The spokesperson also noted that those other potential links would be in addition to the UK route. It's unclear if the UK will provide the kind of support Xlinks is demanding, however, the government has classified the project as a **Nationally Significant Infrastructure Project**.<sup>30</sup>

While the project is still in the planning stage, key investors have confirmed millions in funding for the ambitious project.<sup>31</sup> The **United Arab Emirates (UAE)** energy company, **Abu Dhabi National Energy**, also known as **Taqa**, and UK renewable energy group, **Octopus Energy**, announced on 26 April 2023 that they will fund the interconnector project for £30m (\$37m).<sup>32</sup> French oil giant **TotalEnergies** is also injecting £20m (\$21.5m) into the project.

With regards to Morocco, Xlinks plans to keep the generation aspect the same. For Morocco, the project is expected to create 10,000 jobs domestically and fits into the government's plan to raise the country's share of renewable sources to more than 52% of the national electricity mix by 2030.<sup>33</sup> Renewable energy sources provide approximately 20% of Morocco's energy demand, and the country still imports the majority of its energy from Spain and Algeria.<sup>34</sup> A local source told **Africa Risk Consulting & Briefing (ARC Briefing)** in May 2023 that the project is a "smart investment" for Morocco,

*"Seems like a no-brainer to use solar energy to power countries. The world is also moving in that direction and Morocco should not be left behind".<sup>35</sup>*

## Planner

20-31 May 2024 **(Morocco) Africa Lion** military drills

2026 **(Morocco)** General election

## Chronology

19 Mar 2024 **Rabat (Morocco) Morocco World News. Nigeria National Petroleum Company Limited (NNPCL) CEO Mele Kyari** says the final investment decision for the \$25-billion **Nigeria-Morocco Gas Pipeline (NMGP)** will be made by the end of 2024;

<sup>27</sup> Xlinks First, 26 Apr 2023

<sup>28</sup> Bloomberg, 11 Mar 2024

<sup>29</sup> Bloomberg, 11 Mar 2024

<sup>30</sup> Bloomberg, 11 Mar 2024

<sup>31</sup> Bloomberg, 26 Apr 2023

<sup>32</sup> Middle East Monitor, 27 Apr 2023

<sup>33</sup> Energy & Utilities, 22 Feb 2023

<sup>34</sup> Energy & Utilities, 22 Feb 2023

<sup>35</sup> ARC Source, Local Resident

19 Mar 2024 **Rabat (Morocco)** *North Africa Post*. King **Mohammed VI** congratulates Russian president **Vladimir Putin** on his re-election;

18 Mar 2024 **Rabat (Morocco)** *Morocco World News*. Morocco's education sector receives a significant boost with the signing of a €134.7m (\$148m) programme between the economy and finance ministry and the **Agence Française de Développement (AFD)** (French development agency);

13 Mar 2024 **Rabat (Morocco)** *Morocco World News*. Solidarity, social integration and family minister **Aawatif Hayar** highlights the efforts Morocco had made under the leadership of King **Mohammed VI** to promote women's rights;

12 Mar 2024 **Rabat (Morocco)** *Middle East Monitor*. Morocco joins other international efforts to deliver humanitarian supplies to **Gaza**, conducting its first airdrops;

10 Mar 2024 **Rabat (Morocco)** *Morocco World News*. Islamic affairs ministry announces that 12 March will be the first day of **Ramadan** in Morocco;

7 Mar 2024 **Rabat (Morocco)** *Morocco World News*. As Ramadan approaches, digital transition and administrative reform ministry announces the suspension of daylight saving time, with the country returning to GMT on 10 March at 3:00 am;

6 Mar 2024 **Rabat (Morocco)** *France24*. Morocco's meteorological department says the country has experienced record heat during its winter as the country enters its sixth year of drought, citing climate change as the driving force behind the weather patterns;

4 Mar 2024 **Rabat (Morocco)** *Morocco World News*. Morocco and **Germany** agree to bolster bilateral military cooperation to address several challenges including terrorism, irregular migration, cross-border crime and illicit trafficking;

3 Mar 2024 **Rabat (Morocco)** *Morocco World News*. **Office d'Exchange** reports that foreign direct investment (FDI) increased by an annual rate of 25% at end January, reaching \$249m, its highest level in the past five years;

29 Feb 2024 **Rabat (Morocco)** *Morocco World News*. **Algeria** reportedly cancels **Spanish** foreign affairs minister **Jose Manuel Albares'** previously scheduled visit to Algiers at the last minute due to his refusal to discuss the **Western Sahara** dispute;

26 Feb 2024 **Rabat (Morocco)** *North Africa Post*. **French** foreign minister **Stephane Séjourné** says that Morocco can rely on France for support over **Western Sahara** and Morocco's autonomy plan for the region;

### About Africa Risk Consulting:

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