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The ruling Parti de le Justice et du Démocratie (PJD) comes under pressure after a series of scandals which may affect campaigning in the run up to the 8 October general election. The latest scandal involves police arresting two vice presidents of its religious wing for being in a 'sexual position' on a public beach. A senior European Union (EU) legal adviser tells EU judges that the existing EU trade agreements with Morocco did not cover the contested region of Western Sahara. This would annul an EU ruling to have them overturned but also establishes a legal precedent for independence for the region. Ratings agency Fitch warns that Morocco's banking sector may face a dip in profits due to low growth and high debt exposure.

Scandals hit PJD as run-up to campaigning begins

The ruling **Parti de le Justice et du Démocratie (PJD)** is under pressure after a series of scandals, the latest of which broke on 26 August. This will affect the period of official campaigning in the run up to the 8 October general election, which starts on 25 September.¹ The PJD is fighting to retain its ruling coalition, and the election campaign is likely to be hard-fought with both opposition **Parti d'Authenticité et Modernité (PAM)** and **Istiqlal** parties united in unseating the government. Police detained **Moulay Omar Benhammad** and **Fatima Nejjar**, both vice presidents of the **Mouvement Unicité et Réforme (MUR)**, the religious wing of the ruling PJD, on 26 August. They found the couple in a "sexual position" on a beach in the port city of **Mohammedia**.² PAM and Istiqlal politicians have seized upon the incident as evidence of poor governance practices within the PJD.³ Local elections in October 2015 showed that the PJD remains popular but will have a tough fight against the opposition (see *ARC Briefing Morocco October 2015*).⁴ PJD figures argue that the scandals are a result of selective reporting by the media that is close to the opposition, particularly in conservative rural areas.⁵ According to local observers the elections are too close to call:

*"What is certain is that no party will win a majority. The PJD could well win the most votes and still not form a government because Istiqlal and the PAM will ally against them. The PJD has to win as close to a majority as possible to retain power, which is hard after a term in office."*⁶

This is the latest in a series of scandals to hit the PJD. Police arrested a member of the PJD with 3 tonnes of cannabis in July; a PJD governor is under fire for allegedly using political influence to force through a sale of 200 hectares of farmland; and last year a party activist filed a sexual harassment complaint against a PJD candidate.⁷ The PAM and Istiqlal have vowed to "liberate" the country from the PJD – which has failed to tackle corruption despite its solid economic record.⁸ They have stoked popular sentiments against the PJD in urban areas resulting in a number of allegedly politically

¹ Le 360, 26 Aug 2016.

² Le 360 26 Aug 2016.

³ Al Jazeera, 29 Aug 2016.

⁴ Al Jazeera, 29 Aug 2016.

⁵ Al Jazeera, 29 Aug 2016.

⁶ Source, academic, Rabat

⁷ Al Jazeera, 29 Aug 2016.

⁸ Al Jazeera, 29 Aug 2016.

unaffiliated marches against prime minister **Abdelilah Benkirane**.⁹ Several thousand people attended the largest march, held in **Casablanca** on 19 September, carrying banners protesting the “Islamisation of society”. However, local media outlets reported that unknown parties had bussed most of the participants in from nearby towns telling them the march was in solidarity with a Moroccan ex-pat facing prison in **Saudi Arabia**.¹⁰

“The irony is that the Islamist PJD has passed laws to uphold human rights, and strengthened access to women’s health services, something that Istiqlal had no interest in doing when it was in power...they [the PJD] have largely kept religion out of their policy...the unions dislike them for their labour reforms and removal of subsidies.”¹¹

PJD lawmaker **Abdelaziz Aftati** told the media that: “The source of this aggression against the party today is made up of what I call the deep state.”¹² Justice minister **Mustapha Ramid** accused interior minister **Mohammed Hassad**, a palace-appointed technocrat, on 16 September of interfering with the electoral process.¹³ Ramid accused Hassad of cutting the justice ministry out of electoral consultations and of briefing civil servants and the media against him.¹⁴ However, many commentators in the local media argue that the scandals show hypocrisy in the moderate Islamist party’s supposedly moral leadership.¹⁵

“The PJD came to power to be the moral party in politics in 2011, but in the end they are just like the rest of the political parties. If they want to hold moral authority they need to act like they teach. Otherwise how can the people trust them?”¹⁶

Senior EU adviser argues trade agreements don’t cover Western Sahara

A senior **European Union (EU)** legal adviser told EU judges on 13 September that the existing EU trade agreements with **Morocco** do not cover the contested region of **Western Sahara**.¹⁷ The advice would allow trade agreements to continue despite the suit by the **Polisario Front (PF)**, which advocates in the European Courts for an independent Western Sahara to remove them. Advocate general **Melchior Wathelet**, the EU’s most senior legal adviser, argued that the trade deals should remain as Western Sahara was not part of Morocco.¹⁸ The **European Court of Justice (ECJ)** is ruling whether or not to uphold the decision of the **General Court of the EU (GCEU)** in December 2015 to suspend trade agreements between Morocco and the EU.¹⁹ The GCEU ruled on the basis that the trade deals would allow for greater exploitation of Western Sahara by Morocco and the EU should therefore suspend them.²⁰ The EU is appealing the GCEU ruling and Wathelet is their advocate in the ECJ.²¹

There is a long history of the ECJ ruling in agreement with the EU’s advocate general.²² Wathelet argued that as the EU had never formally recognised the territory of Western Sahara as part of Morocco, the ruling to disqualify the trade deals as a result of actions in the territory was invalid.²³

⁹ Morocco World News, 19 Sept 2016.

¹⁰ Akhbar Al Yaoum, 19 Sept 2016.

¹¹ Source, academic, Rabat

¹² AFP, 30 Aug 2016.

¹³ ENCA, 19 Sept 2016.

¹⁴ ENCA, 19 Sept 2016.

¹⁵ AFP, 30 Aug 2016.

¹⁶ Source, journalist, Casablanca

¹⁷ EU Observer, 13 Sept 2016.

¹⁸ EU Observer, 13 Sept 2016.

¹⁹ EU Observer, 13 Sept 2016.

²⁰ EU Observer, 13 Sept 2016.

²¹ EU Observer, 13 Sept 2016.

²² Reuters, 13 Sept 2016.

²³ Sahara News, 14 Sept 2016.

This is because the ruling was made on the basis that Western Sahara was part of Morocco's sovereign territory.²⁴

Morocco and the EU have two trade deals currently in force. The first is the **EU-Morocco Association Agreement** signed in 2000 and the second is the **EU-Morocco Agreement on liberalization of trade in agriculture and fishery products** signed in 2012.²⁵ Morocco and the EU are currently in talks for a deeper free trade agreement, although the December ruling led to Morocco freezing the talks until the EU rules on the existing agreements.²⁶

Stopping trade between Morocco and the region would have serious economic consequences for Morocco. It is the trading bloc's 26th largest trading partner and the two did a total of €30.6 billion (\$34.4 billion) trade in 2015, a 12.3% increase from 2014.²⁷ Conversely, the EU as a bloc is Morocco's largest trading partner for both exports and imports – most of which are bound for **France** or **Spain**.²⁸ Moroccan exports to the EU have steadily increased since 2009 from €6.6 billion (\$7.4 billion) to €12.4 billion (\$13.9 billion) in 2015.²⁹ Morocco exports primarily machinery, appliances, textiles, transport equipment and grain to the EU.³⁰ It imports mainly electronics and home appliances, and chemicals from the EU.³¹

Wathelet's solution allows for the EU and Morocco to continue trading and avoid a damaging diplomatic clash. However, it does involve Morocco accepting a ruling that Western Sahara is not part of its territory – something the Moroccan government works hard to avoid in all circumstances.³² This plays into the hands of the PF and its allies who are putting pressure on Morocco to hold a self-determination referendum in the region.³³ The PF released a statement through lawyer **Gilles Devers** following Wathelet's testimony saying that:

*"We welcome this opinion which confirms that Morocco has no sovereignty over Western Sahara. The advocate general affirmed that Western Sahara is a territory that must be decolonized. This opinion paves the way for holding the self-determination referendum."*³⁴

Tensions between the PF and Morocco have escalated in recent months as the two sides have struggled for influence in the **United Nations (UN)** and the **African Union (AU)** (see *ARC Briefing Morocco March – August 2016*). The latest development is the rejection on 13 September by the **UN Security Council (UNSC)** of plans by Morocco, France and **Senegal** to build a road through the **El Guergarat** buffer zone to the border with **Mauritania**.³⁵ The UNSC ruled that it would violate the ceasefire agreement.³⁶

Fitch warns about banking sector profitability

Ratings' agency **Fitch** on 5 September warned about profitability in Morocco's banking sector due to low economic growth and high loan impairment charges.³⁷ Fitch's warning is unlikely to undermine investor confidence as Morocco's banking sector is one of **Africa's** best developed and has enjoyed substantial, steady annual growth in recent years.³⁸ Fitch warned that quality metrics – including

²⁴ Sahara News, 14 Sept 2016.

²⁵ Reuters, 13 Sept 2016.

²⁶ Reuters, 13 Sept 2016.

²⁷ EU Trade Service, 26 Jul 2016.

²⁸ UN Data Service, 2016

²⁹ EU Trade Service, 26 Jul 2016.

³⁰ EU Trade Service, 26 Jul 2016.

³¹ EU Trade Service, 26 Jul 2016.

³² Reuters, 13 Sept 2016.

³³ Reuters, 13 Sept 2016.

³⁴ Sahara News, 14 Sept 2016.

³⁵ Middle East Monitor, 13 Sept 2016.

³⁶ Middle East Monitor, 13 Sept 2016.

³⁷ Reuters, 5 Sept 2016.

³⁸ Reuters, 5 Sept 2016.

asset quality and obligor concentration – deteriorated in 2015.³⁹ Fitch expects this to continue through 2016 due to subdued economic growth and depressed exports to **Europe**.⁴⁰ This will deter both lending activity and new acquisitions before 2017.⁴¹ Capital ratios will also remain modest because of loan book concentration, only adequate reserve coverage of impaired loans, and exposure to volatile African economies.⁴²

However, Morocco's largest banks including **BMCE Bank**, **Attijariwafa Bank** and **Groupe Banque Centrale Populaire** will continue to benefit commercially from their lending activities in **sub-Saharan Africa**.⁴³ The **Bank Al-Maghrib's** (central bank) 25 basis points interest rate cut in March (see *ARC Briefing Morocco March 2016*) will also improve gains on their bond portfolios.⁴⁴ Fitch also notes that the funding profile of these banks is solid as stable retail customer deposits form the majority of their funding base.

Implications

The October 7 election is close-fought – there is little information from polls as to which party is likely to form a government. This is largely due to the complex coalitions that the leading party has to form to find a workable majority. The palace has made little secret of its dislike for the PJD. Despite no legislative attempts to make Morocco more '*Islamic*', the figures within the PJD come from outside the ruling elite with which the king and his courtiers traditionally surround themselves. The PJD's accusations that the "*deep state*" is plotting against them are, therefore, not unfounded. However, the palace and the royalist parties will only have so much impact. The real battleground of the election remains the economy. Morocco's macro-economic outlook has improved greatly since 2011, but will the Moroccan people feel the impact enough to keep the PJD in power?

Wathelet has produced a compromise position that will be palatable, if not desirable, for both the Moroccan government and the European courts. Morocco gets to keep its existing trade framework with its largest trading partner. The finance ministry's initial moves to block all trade between the two are not economically sustainable in the long run – there is simply too much money involved. The European courts in turn retain their commitment to upholding human rights and fair trade by not overturning a key part of the first ruling: that Morocco's moves to liberalise the agriculture sector in Western Sahara effectively remove the inhabitants from the local economy. The ruling is a gift to the PF and other pro-independence activists in the region, but mainly for publicity purposes. The ECJ cannot rule on the EU's attitude towards Western Sahara unless another court case comes before them.

Morocco's banking sector retains pre-existing vulnerabilities to Morocco's trade flows as it is highly invested in domestic countries. However, the trend towards expanding operations into sub-Saharan Africa and the **Middle East** mitigate this. Fitch's warning is a further call to action to the sector that is steadily embracing a more international outlook. There is no current reason to believe that this trend will reverse in the short to medium term.

³⁹ Reuters, 5 Sept 2016.

⁴⁰ Reuters, 5 Sept 2016.

⁴¹ Reuters, 5 Sept 2016.

⁴² Reuters, 5 Sept 2016.

⁴³ Reuters, 5 Sept 2016.

⁴⁴ Reuters, 5 Sept 2016.