

## AFRICA RISK CONSULTING

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#### Morocco Summary 27 February 2015

*Morocco drafts a new banking law granting greater independence to its central bank, the Bank al-Maghrib. The bank will acquire powers to implement monetary policy, trade in foreign currency reserves, and buy into national banks. Morocco's financial sector prepares to offer Islamic financial products, as a council of Islamic scholars is set up to approve them. Morocco and France re-open security and judicial cooperation following a year of suspended relations. France seeks access to Moroccan intelligence on Islamist groups in North Africa following the terrorist attacks in Paris in January 2014. Morocco's telecoms sector draws further international investment as French telecoms giant Orange buys a controlling stake in Meditel, Morocco's second-largest operator. King Mohammed VI (1999-present) tells United Nations secretary general Ban-Ki Moon that Morocco is open to granting autonomy to Western Sahara. In practice this means no real movement on the long-running dispute.*

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#### Morocco reforms central bank and prepares for Islamic finance launch

The Moroccan government has drafted a new law that reforms the role of the country's central bank, the **Bank-al Maghrib (BAM)**. The draft was put out for public consultation on 26 February. It proposes to redefine the bank's role as an independent guarantor of price stability, giving it powers to form and enact monetary policy independently. If passed, the draft law will also give the bank new duties to prevent systemic risk and promote fiscal stability through purchasing interests in, or offering credit facilities to, Moroccan commercial banks. The bank would also acquire regulatory powers to compel commercial banks and funds to implement temporary or permanent credit guarantee mechanisms. Finally, the draft law would give the bank free rein to trade in foreign currency reserves in order to preserve the value of the dirham.<sup>1</sup>

There are also new proposals to improve the BAM's internal corporate governance through enshrining in law its independence from government, particularly the finance ministry. For example, the draft law prevents BAM board members from holding conflicting positions in other financial institutions.<sup>2</sup> Three new committees would oversee the bank's operations: a monetary and financial committee, a financial stability committee, and an audit committee.<sup>3</sup> The new law is linked to **International Monetary Fund (IMF)** pressure on Morocco to have more exchange rate flexibility and make its economy more competitive in global markets.<sup>4</sup>

*"The BAM badly needed overhauling, the weak performance of the dirham in 2014 has shown that [the bank] was not fit for [modern] purpose...[But] it will be important that it [actually] be allowed to operate independently without interference from the ministers or the palace as and when this law is eventually passed."<sup>5</sup>*

Morocco's banking sector is increasingly attractive to international investors, especially with the prospect of a suite of regulated Islamic finance products. The **House of Representatives** issued final

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<sup>1</sup> L'Economiste, 27 Feb 2015

<sup>2</sup> Reuters, 26 Feb 2015

<sup>3</sup> L'Economiste, 27 Feb 2015

<sup>4</sup> Reuters, 26 Feb 2015

<sup>5</sup> Source: financial journalist, Casablanca

approval of the new Islamic finance law in November 2014. Banks from **Kuwait, Bahrain** and the **United Arab Emirates (UAE)** have all expressed an interest in investing in the Moroccan market. As the law was being passed, the government announced the creation of a council of Islamic scholars to regulate the Islamic finance sector. The new **Sharia Committee for Participative Finance** will approve Islamic financial products and advise the MAB's monetary policy in Islamic finance.<sup>6</sup>

*"The introduction of Islamic finance to Morocco has the potential to grow the banking sector even further [and capitalise on Morocco's growing **sub-Saharan Africa** investment].... Moroccan banks are now pan-African banks and the **West African** Islamic finance sector – in particular – could be theirs for the taking."*<sup>7</sup>

Moroccan commercial banks are planning to launch Islamic finance products in parallel. The **Banque Centrale Populaire** and **BMCE Bank** are negotiating joint ventures with international Islamic banks to set up subsidiaries in Morocco. The **Attijariwafa Bank** plans to launch its own Islamic finance subsidiary, despite receiving proposals for joint ventures from other parties. According to CEO **Mohamed Kettani**, the bank intends to transform its Islamic subsidiary into a fully-fledged entity in its own right.<sup>8</sup> Attijariwafa posted a 5.2% increase in profits in 2014 to \$463m. This was due mainly to the bank's recent expansion into sub-Saharan Africa, particularly West Africa. The royal holding company **Société Nationale d'Investissement (SNI)** owns a controlling stake in Attijariwafa.<sup>9</sup>

### Morocco and France reopen security and judicial cooperation

Morocco and **France** restored security and judicial cooperation on 14 February. Speaking alongside his French counterpart, **Bernard Cazeneuve**, Moroccan interior minister **Mohamed Hassad** declared the kingdom's willingness to deepen intelligence exchanges with **Paris**. Hassad also announced an increase in the frequency of exchanges and meetings between both countries' security officials to combat terrorism and organised crime.<sup>10</sup>

Morocco suspended cooperation with France on security issues in January 2014 when French authorities detained **Abdellatif Hammouchi**, the director of Morocco's intelligence service, the **Direction générale de la surveillance du territoire (DGST)**, after civil rights groups started court proceedings against him for alleged torture of terrorism suspects (see *ARC Morocco January 2015 Briefing*). However, after the terrorist attacks on the *Charlie Hébdo* magazine and a Jewish supermarket in Paris in January 2015, the French government offered Hammouchi the **Legion d'Honneur**, France's highest civil honour. Cazeneuve justified the award by saying that France was showing its respect for Hammouchi's counter-terrorism work.<sup>11</sup>

*"Morocco has France over a barrel, forcing the French government to make a major statement of respect for Hammouchi, even if French officials can't interfere in judicial proceedings."*<sup>12</sup>

France wants access to DGST intelligence on Islamist extremists in **North Africa**, and their possible links to extremist groups and lone activists in France. To this end, Morocco has agreed to amend the Franco-Moroccan judicial cooperation covenant to allow greater information sharing. Morocco also knows that, in return, it can count on customary French support in the **Western Sahara** dispute (see below).<sup>13</sup>

<sup>6</sup> Reuters, 17 Feb 2015

<sup>7</sup> Source: economist, Rabat

<sup>8</sup> Morocco World News, 18 Feb 2015

<sup>9</sup> Reuters, 19 Feb 2015

<sup>10</sup> Morocco World News, 16 Feb 2015

<sup>11</sup> France 24, 14 Feb 2015

<sup>12</sup> Source: security analyst, London

<sup>13</sup> Al-Arabiya, 1 Feb 2015

## Moroccan telecoms sector attracts further international investment

French media reported on 23 February that telecoms giant **Orange** was in the process of buying Morocco's second largest telecoms company, **Meditel**, for \$805m. The deal is currently before the Moroccan telecoms regulator, the **Agence Nationale de Réglementation des Télécommunications (ANRT)**, whose approval is required. Meditel had 13.59 million subscribers as of the end of 2014. The transaction will enable the French group to include its Moroccan subsidiary in its group accounts and rename it Orange Morocco.<sup>14</sup>

*"By opening up the sector to outside [mergers and acquisitions], Morocco is allowing not only much-needed capital infusions into the sector but also additional expertise to strengthen competition and modernise and boost Meditel."*<sup>15</sup>

Meditel currently faces fierce competition in the telecoms market from **Maroc Telecom** and **Wana Corporation**. Maroc Telecom, the largest operator in the country, has recently posted sharply higher profits from its expansion into sub-Saharan Africa (net profit grew 5.6% to \$613m in 2014). However, Maroc Telecom's profits fell by 0.8% in Morocco itself, its primary market. The growth was generated by strong performance in subsidiaries, like its **Gabon** and **Mali** subsidiaries, which recorded profit rises of 21% and 10% respectively.<sup>16</sup>

## Rabat offers 'political solution': autonomy for Western Sahara

The Moroccan government's official spokesperson, **Mustapha El Khalfi**, stated on 19 February that Morocco was prepared to grant autonomy to the long-disputed Western Sahara but within territorial Morocco. El Khalfi claimed that the new framework would represent a practical solution within the currently agreed **United Nations (UN)** parameters for resolving the dispute. El Khalfi made the statement following a phone call between Morocco's King **Mohammed VI** (1999-present) and UN secretary general **Ban-Ki Moon**. The king reportedly offered to redouble cooperation with the UN to find a mutually beneficial solution to the dispute. The king is said to have called Western Sahara an *"artificial conflict that has gone on for too long"*.

The UN special envoy for Western Sahara, **Christopher Ross**, toured the region in February to attempt to promote a solution to the conflict. Morocco has controlled Western Sahara since 1979 after the former colonial power, **Spain**, withdrew. Morocco has so far refused to allow a referendum on independence to take place.

*"Morocco's renewed commitment to Western Sahara is hot air; the kingdom is just trying to look good for its international investors.... The 'southern territories,' as they are called in Morocco, are a politically charged domestic issue and the government that lost them or handed them over would be very unpopular.... if autonomy [were ever to] move ahead it would only be autonomy with considerable Moroccan control."*<sup>17</sup>

The autonomy offer was rejected by indigenous **Sahrawi** groups campaigning for independence and a referendum for the territory, and by the Sahrawis' main backers, **Algeria**.

## Implications

Morocco's private banking sector is one of the country's strongest assets and increasingly internationalised. It acts as a motor force for growing Moroccan investment south of the Sahara especially. In this context, the MAB has been unable to keep up with the sector's growth based on its current regulatory powers. The introduction of a new bill reforming the institution indicates that

<sup>14</sup> MAP, 16 Feb 2015

<sup>15</sup> Source: senior telecoms analyst, London

<sup>16</sup> Reuters, 23 Feb 2015

<sup>17</sup> Source: academic, Rabat

Morocco is serious about attracting finance into its own domestic markets as well as becoming a banking hub for the **Sahel** and West Africa regions especially, but also north into **Europe** and east into the **Gulf**. It is not yet known whether the Islamic finance market will have the same traction in Africa as it has had in the **Middle East**, but if the enthusiastic uptake of Islamic sovereign bonds in **Senegal** is an indicator, initial demand for products will be high.

The resumption of French-Moroccan security and judicial cooperation is more important for France than for Morocco, but it has given Morocco leverage. The security cooperation has made the headlines but the reopening of judicial cooperation will likely have positive economic benefits (in both directions). Morocco and France have long been major trade and investment partners and the economic benefit may outlast the immediate security need.

Morocco's business sector is a hot investor target at present. The decision by Orange to buy Meditel highlights Morocco's standing as a strategic hub and its relatively well-managed economy by regional standards (despite an ongoing reputation for bureaucratic slowness and interference). It is also home to a large number of small and mid-sized, locally owned companies that are market leaders, or at least serious market contenders domestically. The logical next step for Orange Morocco would be to take on Maroc Telecom in West Africa as well as in Morocco.

Morocco is under pressure to appear to be flexible on Western Sahara. It is highly unlikely that there will be any major developments in the territory in the short or medium term, leaving it off-limits to potential mining and energy investors.