

## AFRICA RISK CONSULTING

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*King Mohammed VI (1999-present) names the cabinet of prime minister Saad Eddine El-Othmani's new coalition government. Members of the moderate Islamist Parti de la Justice et du Modernité criticise the appointments after they lose the justice minister post to coalition partners the royalist Rassemblement National des Indépendants (RNI). Bank al Maghrib (BaM) (central bank) governor Abdellatif Jouahri announces that the BaM plans to start to liberalise the exchange rate of the Moroccan dirham by June 2017 and will also issue an Islamic-compliant sukuk bond in the same time frame. Morocco's economy has had a mixed first quarter, with gross domestic product (GDP) growth at 4.3%, but a 20.6% increase in the trade deficit.*

#### PJD claims unfair treatment in Othmani cabinet

King **Mohammed VI** (1999-present) named the cabinet of prime minister **Saad Eddine El-Othmani's** new coalition government on 6 April.<sup>1</sup> The cabinet make-up shows the influence the palace and the minority coalition partners will have on the government. The coalition is led by moderate Islamist **Parti de la Justice et du Modernité (PJD)**, in partnership with royalist **Rassemblement National des Indépendants (RNI)**, centre-left **Mouvement Populaire (MP)** and **Union Constitutionnelle (UC)**, the leftist **Union Socialiste des Forces Populaires (USFP)** and **Parti du Progrès et du Socialisme (PPS)**. Mohammed VI issued an ultimatum to the PJD after former leader **Abdelilah Benkirane** failed to form a government due to tensions with the RNI for five months (see *ARC Briefing Morocco March 2017*).

*"Popular sentiment here (Morocco) was just resigned to almost indefinite delays...most people I talk to are just happy there are ministers at all to do their jobs...those who care more are usually linked to a political party."<sup>2</sup>*

The new cabinet has RNI and technocratic ministers in all strategic economic ministries, with PJD ministers in fewer senior roles, despite winning 102 seats to the RNI's 37 in the October 2016 elections.<sup>3</sup> The cabinet has 39 positions, including 20 ministers, six junior ministers and 13 state secretaries.<sup>4</sup> The PJD has 11 positions, including four state secretaries (one of whom is Othmani himself), but holds no strategic economic ministries. In contrast the RNI holds five positions with three state secretaries in strategic ministries.<sup>5</sup> The RNI retained control of the key economic ministries. RNI leader **Aziz Akhannouch** remains agriculture minister, **Mohammed Boussaid** remains finance minister and **Moulay Hafid Elalamy** remains trade and industry minister.<sup>6</sup> The RNI has taken control of the key justice ministry from the PJD, putting **Mohamed Aujar** (the former representative of Morocco to the **United Nations (UN)**) in post, replacing the PJD's **Mustapha Ramid** who is now a junior minister in the department with a human rights portfolio.<sup>7</sup> The RNI has lost the

<sup>1</sup> L'Economiste, 6 Apr 2017.

<sup>2</sup> Source, journalist, Casablanca

<sup>3</sup> L'Economiste, 6 Apr 2017.

<sup>4</sup> L'Economiste, 6 Apr 2017.

<sup>5</sup> www.maroc.ma

<sup>6</sup> L'Economiste, 6 Apr 2017.

<sup>7</sup> L'Economiste, 6 Apr 2017.

foreign affairs portfolio to **Nasser Bourita**, a technocrat who is close to the king.<sup>8</sup> Other technocratic appointments were **Abdelouafi Laftit**, former governor of capital **Rabat** and a fierce critic of the PJD, as interior minister. **Mohammed Hassad**, another technocrat opposed to the PJD, has moved from interior minister to education minister.<sup>9</sup> Technocrats also hold the defence ministry, all ministries relating to internal government affairs and the majority of junior ministerial positions.<sup>10</sup> After the prime minister, the most senior position the PJD holds in the government is **Abdelkader Aamara** as transport minister.<sup>11</sup> He replaces PJD minister **Aziz Rabbah** who has moved to the energy ministry.<sup>12</sup> The PJD also has the only female minister, **Bassima El Hakkaoui**, as families and social development minister.<sup>13</sup>

*"The PJD are making lots of noise about how they have been unfairly treated, but this is very similar to the way it was before...they just lost Aujar because he was too openly critical of the judges and the palace."*<sup>14</sup>

The cabinet list has led the PJD to distance itself from the Othmani government. **Abdelali Hamieddine**, member of the PJD secretariat, issued a statement saying that the party should not support a government in which it has so little influence.<sup>15</sup> PJD activists remain supporters of Benkirane, who refused to compromise over cabinet positions and inclusion of five other coalition partners.<sup>16</sup> The PJD's coalition with opposition party **Istiqlal** broke down in 2013, leading to the first coalition with the RNI.<sup>17</sup> PJD figures may hope that the El Othmani government also fails due to the large number of parties within it, giving an opportunity to reclaim some influence in the cabinet.<sup>18</sup>

The primary message of the cabinet is one of continuity. The palace remains the powerful silent partner behind all of the major ministerial appointments, controlling many of the junior ministerial posts that are responsible for key policy implementation. The PJD's hope that the Othmani government collapses is unlikely to come to pass. After five months without a government the palace and its allies, the RNI, are unlikely to let the government fail and Othmani is now committed to supporting the government in its current incarnation. Then he can demonstrate to the PJD that he can still push their policy agenda without the justice minister. It is also worth noting that Aujar failed to push through judicial reforms during his tenure, despite his public criticism of the judiciary on numerous occasions.

### Central bank to liberalise dirham & issue sukuk bond by third quarter

**Bank Al-Maghrib (BaM)** (central bank) governor **Abdellatif Jouahri** told finance ministers from **Gulf** states on 18 April that the BaM plans to start to liberalise the dirham by June 2017 and would also issue an Islamic-compliant *sukuk* bond in the same time frame.<sup>19</sup> Morocco is pushing the timetable for complex economic liberalisation reforms in order to maintain a positive relationship with donors including the IMF and international investors. Jouahri said that the plans, which the BaM drew up in 2016 to move to a 5% fluctuation in exchange rate against major currencies, would start by June.<sup>20</sup> Currently the BaM controls the exchange rate based on a 60% weighting against the euro and a 40% rating against the dollar.<sup>21</sup> The BaM plans to introduce a fully flexible exchange rate

<sup>8</sup> L'Economiste, 6 Apr 2017.

<sup>9</sup> www.maroc.ma

<sup>10</sup> www.maroc.ma

<sup>11</sup> www.maroc.ma

<sup>12</sup> www.maroc.ma

<sup>13</sup> www.maroc.ma

<sup>14</sup> Source, journalist, Casablanca

<sup>15</sup> Reuters, 7 Apr 2017.

<sup>16</sup> Reuters, 7 Apr 2017.

<sup>17</sup> Reuters, 7 Apr 2017.

<sup>18</sup> Reuters, 7 Apr 2017.

<sup>19</sup> Reuters, 18 Apr 2017.

<sup>20</sup> Reuters, 18 Apr 2017.

<sup>21</sup> Reuters, 18 Apr 2017.

gradually with the full process taking up to 15 years.<sup>22</sup> Finance minister **Mohamed Bousaid** confirmed on 18 April that the BaM is able to start the new flexible rate from June, and hinted that the bank would wait for a strong moment for the dirham to introduce it.<sup>23</sup> Bousaid also confirmed that the BaM and the government would release a locally denominated *sukuk* before June.<sup>24</sup> The BaM said in late 2016 that the government would release it in the first half of 2017 (see *ARC Briefing Morocco January 2017*). Bousaid said that Morocco would not release an internationally denominated *sukuk* in the immediate future.<sup>25</sup>

*“Morocco is in a strong position to issue debt, particularly on the Islamic markets where its close relationship with the Gulf states will translate into high investor confidence... keeping it in dirhams allows the government greater control of the product, which broader investors will watch closely, and will draw further international funds into the country.”<sup>26</sup>*

The BaM had planned to introduce the first exchange rate flexibility before the end of 2016, and analysts in Morocco believed that the delays to forming a government after the October 2016 elections would delay this process further.<sup>27</sup> The same concerns applied to the *sukuk* bond, which many commentators also believed the government would push until the latter half of 2017. A local analyst commented that this reflects the concerns of the incoming administration not to lose momentum on fiscal reforms:

*“Bousaid is eager to continue his programme of liberalisation, and the palace is right behind him ... the BaM and finance ministry have been working to prepare the ground for months, or this would not be possible...this shows the new regime will be economically liberal despite the more leftist elements in the coalition.”<sup>28</sup>*

The BaM is taking centre stage in the government’s economic policy, putting in place further reforms to continue attracting investment to Morocco. The dirham stands to gain on the open currency market in the current political and economic situation. However, if markets lose confidence, the safety net of controlled exchange is no longer there. Both the BaM and the markets will watch the fluctuations as the controls are phased out. The locally denominated *sukuk* is another demonstration for the markets and investors that Morocco is a safe and profitable centre of sharia-compliant finance in North Africa. Currently, other regional players lag behind Morocco. If the locally denominated *sukuk* is a success, it is likely the government will issue an internationally denominated one in the medium term.

### First quarter economic report: growth at 4.3% but trade deficit widens

Morocco’s economy has had a mixed first quarter, with gross domestic product (GDP) growth at 4.3%, but a 20.6% increase in the trade deficit. Both data points are linked to poor agricultural production in 2016 – growth increases as primary production in 2017 starts, but import bills remain high as the shortages of consumer-ready agricultural products continue.

Morocco’s **Haut Commissariat au Plan (HCP)** (state planning agency), on 5 April, released statistics showing 4.3% GDP growth in the first quarter of 2017.<sup>29</sup> The HCP statistics put growth on track to hit the finance ministry projection of 4.4% across 2017.<sup>30</sup> The growth is up 2.6% year-on-year from 1.7% in first quarter 2016.<sup>31</sup> The primary reason for the increase in growth is higher agricultural output, which grew 12.9% in first quarter 2017 up from 9% in the first quarter 2016.<sup>32</sup> Agriculture accounts

<sup>22</sup> Reuters, 18 Apr 2017.

<sup>23</sup> Reuters, 18 Apr 2017.

<sup>24</sup> Reuters, 18 Apr 2017.

<sup>25</sup> Reuters, 18 Apr 2017.

<sup>26</sup> Source, emerging markets analyst, Casablanca

<sup>27</sup> Source, investment analyst, Casablanca

<sup>28</sup> Source, investment analyst, Casablanca

<sup>29</sup> L’Economiste, 5 Apr 2017.

<sup>30</sup> L’Economiste, 5 Apr 2017.

<sup>31</sup> L’Economiste, 5 Apr 2017.

<sup>32</sup> L’Economiste, 5 Apr 2017.

for roughly 15% of Morocco's GDP, and a poor harvest in 2016 saw output drop 70% from 2015.<sup>33</sup> The better rainfall for the 2017 harvest season will lead to a projected 41% increase in output across 2017 and an associated steady increase in growth.<sup>34</sup> The finance ministry projects growth to increase to 4.6% across the second quarter of 2017.<sup>35</sup> Steady growth in the non-agriculture sector of 3% year-on-year growth will support this.<sup>36</sup> However, Morocco's current account deficit is widening due to the ongoing high cost of energy.<sup>37</sup> High energy import prices and higher oil prices have widened the deficit by 21% across the first quarter.<sup>38</sup>

The **Office des Changes (OC)** (exchange regulator) announced, on 17 April, that Morocco's trade deficit rose by 20.6% year-on-year in the first quarter of 2017 on 17 April.<sup>39</sup> The deficit increase is mostly due to the continuing impact of the poor 2016 harvest on export receipts. The trade deficit increased to \$4.53 billion from \$3.75 billion in first quarter 2016.<sup>40</sup> Wheat imports increased 27% year-on-year to \$254m due to poor rainfall in 2016, which account for most of the increase.<sup>41</sup> Total exports increased 3% year-on-year due to an increase in exports of phosphates.<sup>42</sup> Tourism receipts decreased 4.9% as low confidence in the Maghreb as a tourist destination continues. Foreign direct investment fell 23.2% to \$658m due to government freezing investment tenders and programmes.<sup>43</sup>

The fluctuations in trade balance are an inevitable consequence of the poor agricultural performance in 2016. The trade balance will adjust across the rest of 2017. However, beyond agriculture the dip in tourism receipts is more concerning. While Morocco has a strong security record, attacks in the region have a knock-on effect. Agriculture and manufacturing will continue to drive growth, but growth in tourism receipts would help push growth beyond 5% of GDP.

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<sup>33</sup> L'Economiste, 5 Apr 2017.

<sup>34</sup> L'Economiste, 5 Apr 2017.

<sup>35</sup> L'Economiste, 5 Apr 2017.

<sup>36</sup> L'Economiste, 5 Apr 2017.

<sup>37</sup> L'Economiste, 5 Apr 2017.

<sup>38</sup> L'Economiste, 5 Apr 2017.

<sup>39</sup> L'Economiste, 17 Apr 2017.

<sup>40</sup> L'Economiste, 17 Apr 2017.

<sup>41</sup> L'Economiste, 17 Apr 2017.

<sup>42</sup> L'Economiste, 17 Apr 2017.

<sup>43</sup> L'Economiste, 17 Apr 2017.