

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing August 2017

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#### Morocco Summary 28 August 2017

*Ilyas El Omari, leader of the opposition royalist Parti d'Authenticité et Modernité (PAM), resigns citing the poor performance of the party in the October 2016 election. Omari was responsible for economic development in the Rif Region where protests have taken place since October 2016. The Cour des Comptes (CC) (audit office) announces the budget deficit decreased by over 45% year on year in the first seven months of 2017. However, the Office des Changes (foreign exchange office) announced the trade deficit increased by 7.9% year-on-year. Agriculture minister Aziz Akhannouch launches 39 agriculture projects with a combined value of \$190.2m in the city of Tinghir. The energy minister, Aziz Rabbah, announces the government has committed \$2.3 billion to increase the use of solar energy in agricultural production.*

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#### PAM opposition party leader resigns over Rif region connections

Ilyas El Omari, leader of the opposition royalist **Parti d'Authenticité et Modernité (PAM)**, resigned on 8 August.<sup>1</sup> El Omari cited a personal responsibility for the party's poor performance in the October 2016 general election.<sup>2</sup> However, analysts in Morocco believe his resignation is linked to his role in the **Rif** region where anti-government protests have taken place since October.<sup>3</sup> The PAM is the largest opposition party and was expected to present a serious challenge to the ruling **Parti de la Justice et du Développement (PJD)** in the 2016 election.<sup>4</sup> Although the PAM doubled its vote share and increased its number of seats by 55, it finished 7% and 23 seats behind the PJD in the vote.<sup>5</sup> El Omari told the media that he needed to accept "*political responsibility*" for the poor performance.<sup>6</sup> However, El Omari resigned the day after the PAM leadership held a closed doors meeting to discuss his suitability as leader, and ten months after the last election.<sup>7</sup>

*"The PAM has internal problems to sort out following the election, they lost key urban support bases...but they still held a strong position overall...El Omari has not gone because of this."<sup>8</sup>*

El Omari served as head of the council governing the **Tangier-Tetouan-Al Hoceima Region** from December 2015.<sup>9</sup> In this position he was responsible for orchestrating the funding of \$665m of development projects in **Al Hoceima**.<sup>10</sup> However, popular protests have continued in Rif since October 2016.<sup>11</sup> One of the key complaints of protestors was that few of the region's development projects were ever completed due to government incompetence and alleged corruption. King **Mohamed VI** (1999-present) criticised politicians and public servants in a speech on 29 July for failing to serve the people and deliver development projects. Analysts in Morocco speculate that El

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<sup>1</sup> Le Matin, 8 Aug 2017.

<sup>2</sup> Le Matin, 8 Aug 2017.

<sup>3</sup> Le Matin, 8 Aug 2017.

<sup>4</sup> Le Matin, 8 Aug 2017.

<sup>5</sup> Le Matin, 8 Aug 2017.

<sup>6</sup> Le Matin, 8 Aug 2017.

<sup>7</sup> Le Matin, 8 Aug 2017.

<sup>8</sup> Source, journalist, Casablanca

<sup>9</sup> North Africa Post, 8 Aug 2017.

<sup>10</sup> North Africa Post, 8 Aug 2017.

<sup>11</sup> Le Matin, 8 Aug 2017.

Omari is the first of many politicians to be tacitly removed from their posts under pressure from the palace:

*“The PAM is a royalist party with strong links to the palace. El Omari’s position as head of the regional council meant that he was vulnerable to criticism and pressure from the king to step down ... he is the first of many who will step down over this.”<sup>12</sup>*

Mohamed VI promised in June that officials who failed to carry out infrastructure improvements in Al Hoceima would be held to account. However, in a move characteristic of the way the king wields power, the first high-profile resignation has happened for opaque reasons not linked to the trouble in the region. It is possible that the PAM has chosen to distance itself from El Omari as a way to gain support from the Al Hoceima protest movement against the current government. However, the PAM’s royalist credentials make it an unlikely party of choice for those protesting the status quo.

### Budget deficit decreases as trade deficit increases

Morocco’s economic position improved across the first seven months of 2017 according to the **Cour des Comptes (CC)** (audit office), which released new statistics on 22 August showing the budget deficit decreased by over 45%.<sup>13</sup> However, the **Office des Changes** (foreign exchange office) announced on 15 August that Morocco’s trade deficit for the first seven months of 2017 increased by 7.9% year-on-year.<sup>14</sup> Morocco’s economy remains vulnerable to fluctuations in the price of imports which are responsible for the increased trade deficit. However, efficient government operations and tax increases are helping the government improve liquidity and ease its debt burden.

The CC released figures showing that the budget deficit decreased to \$1.83 billion from \$2.55 billion across the same period in 2016.<sup>15</sup> A primary driver of growth in government revenues is higher tax receipts, which increased 7.1% year-on-year, almost double gross domestic product (GDP) growth of 3.7%.<sup>16</sup> Morocco reformed its taxation system last year, introducing proportional-stepped corporation taxes.<sup>17</sup> Receipts from the *impot sur les sociétés* (corporation tax) increased 18.8% year-on-year to \$3.25 billion from \$2.71 billion.<sup>18</sup> Other tax revenues increased modestly. Value added tax (VAT) receipts increased 6.1% to \$3.45 billion from \$3.25 billion.<sup>19</sup> Overall, government revenue in the period increased by 5.3% to reach \$13.76 billion from \$12.99 billion the year before.<sup>20</sup> Expenses increased by 5.5% to \$19.74 billion from \$18.71 billion in 2016.<sup>21</sup> The primary drivers of the increase in expenditure are an increase in government operating expenses and rising debt services costs.<sup>22</sup>

*“The price of borrowing for Morocco is going up as a delayed response to poor growth figures across 2016, it is important for the government to cut the debt burden while import costs are comparatively low.”<sup>23</sup>*

The Office des Changes figures showed the trade deficit increased to \$10.9 billion from \$10.1 billion across the first seven months of 2017.<sup>24</sup> The total import bill was \$25.77 billion and total exports increased \$14.87 billion.<sup>25</sup> The primary driver of the increasing trade gap was energy imports, which

<sup>12</sup> Source, journalist, Casablanca

<sup>13</sup> L’Economiste 22 Aug 2017.

<sup>14</sup> Le Matin, 15 Aug 2017.

<sup>15</sup> L’Economiste 22 Aug 2017.

<sup>16</sup> L’Economiste 22 Aug 2017.

<sup>17</sup> L’Economiste 22 Aug 2017.

<sup>18</sup> L’Economiste 22 Aug 2017.

<sup>19</sup> L’Economiste 22 Aug 2017.

<sup>20</sup> L’Economiste 22 Aug 2017.

<sup>21</sup> L’Economiste 22 Aug 2017.

<sup>22</sup> L’Economiste 22 Aug 2017.

<sup>23</sup> Source, journalist, Casablanca

<sup>24</sup> Le Matin, 15 Aug 2017.

<sup>25</sup> Le Matin, 15 Aug 2017.

increased 33.4% to \$4.3 billion from \$3.22 billion in 2016.<sup>26</sup> The increased spending on crude oil and electricity imports is the result of increasing demand for power and fuel.<sup>27</sup> Spending on raw materials for construction projects rose 11.6% to \$1.26 billion from \$1.12 billion in 2016 due to an increase in construction projects this year.<sup>28</sup> Exports also rose by 7.1% from \$13.88 billion in 2016.<sup>29</sup> The primary drivers of the increase were a 7.9% increase in phosphate exports and a 10.1% increase in agricultural exports.<sup>30</sup> Tourism receipts fell by 2.3%, reflecting the region-wide concern over security of tourist resorts.<sup>31</sup> Foreign direct investment, however, increased 33.8% to \$1.73 billion from \$1.29 billion in 2016, due to large-scale investments from the **Gulf States** in the energy and construction sectors.<sup>32</sup>

Morocco's economy remains stable, however the country has not had the boom some analysts predicted following the collapse of the price of oil in 2013. Government intervention to increase revenues through taxation has allowed the public purse to improve its position despite poor growth in 2016. However, the government has not managed to reduce reliance on agriculture or exposure to energy import prices so the economy remains vulnerable to further shifts. In order to continue to decrease the budget deficit but improve the trade gap, the government will need to address both these issues. This is unlikely to happen in the medium term, but the short-term outlook remains positive.

### Agricultural investment to boost key sector

The agriculture and energy ministries both announced investments in the agriculture sector in August. Agriculture is the largest contributor to GDP, accounting for 15% in 2016, and output was badly hit during a region-wide drought in 2016 (see *ARC Briefing Morocco* coverage across 2016). The agriculture minister, **Aziz Akhannouch**, launched 39 agriculture projects with a combined value of \$190.2m in the city of **Tinghir (Drâa-Tafilalet Region)** on 17 August.<sup>33</sup> The projects are part of Morocco's 'green plan' which is a government policy to promote local sustainable development through agricultural activity and production, particularly among smaller and artisanal farmers.<sup>34</sup> The projects included the cultivation of date palms, olive trees, almond trees, aromatic plants, malus, saffron, henna, figs, cattle, goats, sheep and beekeeping.<sup>35</sup> The largest project announced was an \$82.13m date palm cultivation programme that covers 28,000 hectares.<sup>36</sup> Local farmers had planted 9,000 date palms at a series of oases: **Draâ, Todgha, Maider, Aliat Draâ and Bani**.<sup>37</sup> The project also includes the costs of reconstructing irrigation networks over 224 kilometres and building two dams to ensure water stock.<sup>38</sup> Once completed, the project will include 18 cooling and stock keeping units allowing local farmers to store 3,000 tonnes of dates for the local and export markets.<sup>39</sup>

Improving irrigation is a key part of Morocco's agricultural strategy, ensuring that the sector builds resilience to fluctuations in rainfall. The energy minister, **Aziz Rabbah**, announced on 10 August that the government has committed \$2.3 billion to increase the use of solar energy in agricultural production.<sup>40</sup> Morocco is committed to increasing renewable energy generation to 50% of its energy

<sup>26</sup> Le Matin, 15 Aug 2017.

<sup>27</sup> OBG, 1 Aug 2017.

<sup>28</sup> Le Matin, 15 Aug 2017.

<sup>29</sup> Le Matin, 15 Aug 2017.

<sup>30</sup> Le Matin, 15 Aug 2017.

<sup>31</sup> Le Matin, 15 Aug 2017.

<sup>32</sup> Le Matin, 15 Aug 2017.

<sup>33</sup> Trade Arabia, 17 Aug 2017.

<sup>34</sup> Trade Arabia, 17 Aug 2017.

<sup>35</sup> MWN, 17Aug 2017.

<sup>36</sup> MWN, 17Aug 2017.

<sup>37</sup> Trade Arabia, 17 Aug 2017.

<sup>38</sup> Trade Arabia, 17 Aug 2017.

<sup>39</sup> Trade Arabia, 17 Aug 2017.

<sup>40</sup> L'Economiste, 10 Aug 2017.

mix by 2030 and this programme is part of the government's efforts to achieve this goal.<sup>41</sup> It will also help improve Morocco's food security and reduce vulnerability to drought. Rabbah noted that the government will use the funds to build solar power water pumping systems, which will reduce the burden on local electricity grids.<sup>42</sup> It will also reduce the use of butane gas that is popularly used to power irrigation and water spraying systems.<sup>43</sup> The energy ministry agreed a first phase of the project over 100,000 hectares of agricultural land in **Agadir Province**.<sup>44</sup> The energy ministry commissioned a \$363m project to **Spain**-based energy company **Abengoa** on 9 August.<sup>45</sup> The energy ministry first awarded Abengoa the tender for this project in 2014, but put it on hold for three years while it completed a desalination plant to provide water to the new systems.<sup>46</sup> Abengoa expects to complete the first water pumps by 2019.<sup>47</sup>

Agriculture is a key sector of the economy. Much of the rural population relies on agricultural production for its livelihood. Agricultural products such as fruit and vegetables are key imports to the **European Union (EU)** and other key trading partners. Investing in the sector will help improve both productivity and resilience to drought and price fluctuation. Solar power allows the government to install complex and responsive irrigation systems without having to build numerous power plants in rural areas. It will also allow other uses for electricity in rural areas, encouraging diversification of the economy as well as improving quality of life. Continued investment in the sector will also result in opportunities for international firms such as Abengoa to win contracts improving infrastructure or buying into agricultural operations.

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<sup>41</sup> L'Economiste, 10 Aug 2017.

<sup>42</sup> L'Economiste, 10 Aug 2017.

<sup>43</sup> L'Economiste, 10 Aug 2017.

<sup>44</sup> Jeune Afrique, 10 Aug 2017.

<sup>45</sup> Jeune Afrique, 10 Aug 2017.

<sup>46</sup> Jeune Afrique, 10 Aug 2017.

<sup>47</sup> Jeune Afrique, 10 Aug 2017.

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