

AFRICA RISK CONSULTING

Morocco Monthly Briefing June 2019

Morocco Summary 26 June 2019

The government signs agreements with the World Bank, the European Union (EU) and the Arab Fund for Economic and Social Development (AFESD) to boost tourism, increase exports and diversify the economy. Foreign minister Nasser Bourita signs a military technology sharing deal with Brazil to develop a local military industry to reduce the country's dependence on foreign arms and because of increased regional instability. France-based car maker Groupe PSA, Switzerland-based telecommunication company TE Connectivity, and United Kingdom-based development finance agency CDC Group make significant investments in Morocco as the country aims to slash its budget deficit by 0.6 % through privatisation. Tourist arrivals rose 6% in the first quarter of 2019 compared to the last quarter of 2018, indicating that the tourism industry is recovering after the attack on two female Scandinavian tourists in December.

Government signs agreements with key international organisations

Morocco's government has recently signed agreements with the **World Bank**, the **European Union (EU)** and the **Arab Fund for Economic and Social Development (AFESD)**, indicating that the international community and funding agencies are warming to Morocco's economic liberalisation. Morocco is investing heavily in infrastructure and development projects to boost tourism, increase exports and diversify an economy that is heavily dependent on agriculture, and much relies on foreign direct investment to achieve this.

The World Bank announced on 21 June a \$500m programme to support Morocco's **2015-2030 Education Sector Vision**, a plan to expand access and improve quality of pre-primary education. Despite Moroccan families having universal access to primary schools, in 2017 only 50% of children aged four and five attended pre-school facilities. Morocco's government increased the education budget by 5.4 billion Moroccan dirhams (MAD) (\$561m) in 2019 to MAD68 billion (\$7.12 billion).

Finance minister **Mohamed Benchaaboun** signed a deal on 19 June to borrow MAD2.27 billion (\$237m) from the **Kuwait**-based AFESD to finance a road and dam upgrade projects.¹ The AFESD has given Morocco 72 loans totalling \$4.4 billion over the past four decades. Benchaaboun said:

*"The loan we have received will contribute to funding the orbital highway project for **Laayoune**, the largest city in the **Sahara** region, and a project related to **Mohamed V Dam** in the eastern region of the country. The orbital road project of Laayoune is part of an axis of roads that are very important in linking the northern and southern area of the Kingdom, as well as Morocco and its deep territory in **Africa**."²*

The Moroccan **house of representatives** unanimously voted in favour of a bill approving the Morocco-EU fisheries deal on 24 June, which renews a deal initially made on 14 January.³ The fisheries agreement sets the conditions for access for **European** trawlers and provides the requirements for sustainable fishing. The agreement upholds that Morocco's fishing zone extends from **Cape Spartel** in northern Morocco to **Cape Blanc** to the south of **Dakhla**. The deal increases the

¹ Reuters, 19 Jun 2019

² Middle East Monitor, 20 Jun 2019

³ North Africa Post, 25 Jun 2019

number of permitted EU vessels to 128 from 120. The new deal also provides for a 30% increase in the financial payment to Morocco, up from €40m (\$45.45m) a year to €52.2 (\$59.30m). The agreement also increases penalties from 5% to 15% in case of non-compliance with the landing requirements.

... as the government agrees on a military deal with Brazil

Foreign minister **Nasser Bourita** signed a military technology sharing deal with **Brazil** on 18 June during his visit to Brazil.⁴ Morocco seeks to develop a local military industry to reduce the country's dependence on foreign arms and because of a surge of instability in **North Africa** and an arms race with **Algeria** that shows no signs of abatement. Morocco has signed similar deals with **Spain** and the **United Kingdom (UK)**.

British trade minister **Liam Fox** said on 31 May that the UK sees promising prospects to develop cooperation with Morocco in the defence industry. A Moroccan source said that a joint venture was under preparation between Morocco and the UK's **Chemical Military Product (CMP)**, an ammunition manufacturer. The project is worth MAD300m (\$31.39m), with Morocco owning 10% of the company's capital.

Spanish defence minister **Angel Olivares Ramirez** held talks in March with Morocco's minister delegate to defence during which the launch of joint ventures was discussed, notably in fields relating to military aircraft and military ship hardware. Morocco's defence budget is expected to increase from \$3.5 billion in 2018 to \$3.9 billion by 2022.

Significant investment from foreign companies

France-based car maker **Groupe PSA**, **Switzerland**-based telecommunication company **TE Connectivity**, and **UK**-based development finance agency **CDC Group** have made significant investments in Morocco as the country aims to slash its budget deficit by 0.6 % through the privatisation programme. The government's vast economic modernisation programme, the **Industrial Acceleration Plan 2014-2020**, is having a sizeable effect in attracting more FDI and boosting development.

Groupe PSA opened a \$630m factory in **Kenitra's Atlantic Free Zone** near **Rabat** on 20 June.⁵ Industry minister **Moulay Hafid Elalamy** said PSA would initially produce an annual 100,000 cars in 2020, increasing to 200,000 by 2023. PSA's investment has encouraged the setting up of plants by 27 car part suppliers in Kenitra, including **China**-based global aluminium manufacturer **Citic Dicastal**. Automotive sector sales accounted for 27.1% of Morocco's exports at MAD27.7 billion (\$2.90 billion) in the first four months of 2019, up 0.3% compared to the same period last year.

Manufacturing giant **TE Connectivity** opened a second factory at **Tangier Automotive City** on 19 June.⁶ The new plant specialises in the production of plastic injection systems and components of technical cable systems to supply the industrial and heavy vehicle market in Europe, Africa, and the **Middle East**. **TE Connectivity** opened its first Moroccan factory in 2015 in the export free zone in **Tangier**. The supervisory board of the **Tangier-Mediterranean Special Agency** chairman, **Fouad Al-Barini**, said the factory "*is of great importance and provides job opportunities for the Moroccan workforce.*"⁷

The UK's development finance agency, **CDC Group**, acquired nearly 5% stake in Morocco's **BMCE Bank of Africa** on 19 June after a \$200m capital injection.⁸ **CDC Group** said the new cash will help **BMCE Bank of Africa** expand on the continent. African branches accounted for 46% of the bank's

⁴ Morocco World News, 18 Jun 2019

⁵ Reuters, 20 Jun 2019

⁶ Business Recorder, 19 Jun 2019

⁷ Business Recorder, 19 Jun 2019

⁸ Reuters, 19 Jun 2019

profits in 2018, while Morocco and Europe represented 48% and 6% respectively. CDC Group said in November that it plans to invest up to \$4.5 billion across Africa over the next four years to boost ties with the continent.

Finance minister Benchaaboun has placed privatisation firmly on Morocco's economic agenda. In November the government passed a law paving the way for privatisation, starting with the proposed sale of 51% of the luxury **La Mamounia Hotel** in **Marrakech**, which the government expects to generate at least MAD3 billion (\$313m) (see *ARC Briefing Morocco November 2018*). The Moroccan government announced this month that it plans to sell an 8% stake, worth \$920m, in the country's largest telecoms operator, **Maroc Telecom**, to help curb the budget deficit to 3.3% this year, from 3.7% last year. The government said 6% of the stake will be sold to local investors. Morocco-based **Régime Collectif d'Allocation de Retraite (RCAR)** (collective retirement benefit scheme) announced the acquisition of 16 million shares from Maroc Telecom on 17 June, taking its overall ownership to 5.81%.⁹ The government's ownership has dropped from 33% to 22%. Other companies such as the **Office National des Aéroports (ONDA)** (national airports office) and the **Office National des Chemins de Fer (ONCF)** (national railway office) have previously been mentioned as candidates for privatisation.

FDI inflows picked up in 2018 to MAD33.5 billion (\$3.51 billion). The 2018 **Ernst & Young Africa Attractiveness Survey** showed Morocco and **South Africa** as the top FDI destinations in Africa. France is the country's largest investor, followed by **United Arab Emirates**, Spain and the **United States**. Manufacturing has the highest share of FDI stocks, followed by real estate, telecommunications, tourism and energy.

Tourism industry recovering after backpacker killed in December

Tourist arrivals rose 6% in the first quarter of 2019 compared to the last quarter of 2018, indicating that the tourism industry is recovering after last year's attack on two female **Scandinavian** tourists in **Imlil** by four members of the **Islamic State of Iraq and Sham (ISIS)** terrorist organisation.¹⁰ On 30 May, one of the accused admitted to a Rabat court beheading one of the Scandinavian backpackers.¹¹ Morocco registered a "tourism surplus" of MAD 54.3 billion (\$5.70 billion) in 2018, slightly down from MAD54.8 billion (\$5.74 billion) a year earlier. The tourism surplus means that foreign tourists spent more money in Morocco than Moroccan tourists did in foreign countries.

Although Morocco has been considered a relatively peaceful tourist destination since the last terrorist attack in 2011, the Imlil attack significantly damaged the tourism sector. Tourism represents a significant share of Moroccan revenues, reaching MAD70 billion (\$7.3 billion) in 2017¹² and representing 6.8% of the Moroccan GDP in 2017.¹³ A slow-down in tourism could deal a blow to Morocco's economic growth, estimated at 2.9% for 2019 by the **World Bank**, compared to 3.2% growth in 2018, depending on "entrepreneurial reforms and improvements in the tourism sector".¹⁴

In the wake of the Imlil incident, foreign affairs departments of countries that record a significant number of tourists to Morocco updated their websites with security warnings to their citizens. However, the general risk assessment for Morocco after the attacks remained unchanged.¹⁵ The French **Quai d'Orsay** (foreign affairs department) continues to present Morocco as the only country in **Northern Africa**¹⁶ where tourists should be "watchful when travelling, especially when going to remote places".¹⁷

⁹ Morocco World News, 25 Jun 2019

¹⁰ Morocco World News, 10 Jun 2019

¹¹ Sky News, 31 May 2019

¹² Morocco World News, 12 Feb 2018

¹³ Infomédiaire, 18 Oct 2018

¹⁴ Medias 24, 9 Jan 2019

¹⁵ Sputnik news, 26 Dec 2018

¹⁶ Sputnik news, 28 Dec 2018

¹⁷ www.diplomatie.gouv.fr

Planner

2019: Scheduled election of the president of the **Chambre des Représentants** (house of representatives, lower house of parliament);

October 2019: National congress of **Parti Authenticité et Modernité (PAM)**;

2019: Energy and mining minister will introduce a roadmap for the energy sector;

2021: **Marrakech (Morocco) International Monetary Fund** and **World Bank** annual meetings to take place in Morocco;

2021: Scheduled legislative, regional and local elections

Chronology

25 Jun 2019 **Rabat (Morocco)** *Morocco World News*. Government signs an MoU with the **Organisation for Economic Co-Operation and Development (OECD)** to renew the **Country Programme** for three years;

25 Jun 2019 **Rabat (Morocco)** *Morocco World News*. The **Bureau central d'investigation judiciaire (BCIJ)** (central bureau of judicial investigation) dismantles a four-member terrorist cell in **Al Haouz**, in a province in the **Marrakech-Safi** region;

25 Jun 2019 **Rabat (Morocco)** *Morocco World News*. **Italian** construction company **Impresa Pizzarotti & CSpA** sues state-run **Bouregreg Valley Development Agency** for €50m (\$56.81) over the construction of a tunnel in **Rabat**;

24 Jun 2019 **Rabat (Morocco)** *Morocco World News*. The **African Union's Peace and Security Council** meets in **Skhirat**, northern **Morocco**;

22 Jun 2019 **Rabat (Morocco)** *Business Recorder*. Thousands protest in **Rabat** against a **United States**-led conference in **Bahrain** to discuss peace between **Israel** and **Palestine**;

20 Jun 2019 **Rabat (Morocco)** *Morocco World News*. Prime minister **Saad Dine El Othmani** announces plans to launch a new national strategy to fight terrorism financing and money laundering;

20 Jun 2019 **Rabat (Morocco)** *Reuters*. **France**-based car maker **Groupe PSA** opens a \$630m factory near **Rabat**;

20 Jun 2019 **Rabat (Morocco)** *Middle East Monitor*. The government signs agreements with the **Arab Fund for Economic and Social Development (AFESD)** to obtain a \$237m loan to fund two investment projects;

20 Jun 2019 **Washington (United States)** *The World Bank*. The **World Bank** announces a \$500m programme to support Morocco's **2015-2030 Education Sector Vision**;

19 Jun 2019 **Rabat (Morocco)** *Business Recorder*. **Switzerland**-based **TE Connectivity** opens its second factory at **Tangier Automotive City**;

19 Jun 2019 **Rabat (Morocco)** *Reuters*. **United Kingdom**-based development finance agency **CDC Group** acquires nearly 5% stake in Morocco-based **BMCE Bank of Africa** after a \$200m capital injection;

18 Jun 2019 **Rabat (Morocco)** *Morocco World News*. Secretary of state for sustainable development **Nezha El Ouafi** says air pollution costs Morocco 1.62% of GDP;

18 Jun 2019 **Rio de Janeiro (Brazil)** *North Africa Post*. Foreign minister **Nasser Bourita** signs a military technology sharing deal with **Brazil**;

18 Jun 2019 **Rabat (Morocco)** *Reuters*. The **Bank al-Maghrib** (central bank) leaves the

benchmark interest rate at 2.25%;

18 Jun 2019 **Rabat (Morocco)** *Reuters*. State-owned mining firm **Managem** increases its stake in the **Tri-K** gold project in eastern **Guinea** to 85% after acquiring a 30% stake held by its partner **Avocet Mining** for \$21m;

14 Jun 2019 **Rabat (Morocco)** *Morocco World News*. The government signs an agreement with the **European Union** over a fisheries deal;

12 Jun 2019 **Rabat (Morocco)** *North Africa Post*. The government says that of the 8% it plans to sell of partially state-owned **Maroc Telecom**, 6% will be sold exclusively to local institutional investors;

10 Jun 2019 **Rabat (Morocco)** *Morocco World News*. Tourist arrivals rise 6% in the first quarter of 2019 compared to the last quarter of 2018;