

## AFRICA RISK CONSULTING

### Morocco Monthly Briefing June 2024

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#### Morocco Summary 19 June 2024

*Casablanca Stock Exchange plans to start derivatives trading this year as the country expands capital markets to help it finance a surge in infrastructure spending. Agriculture ministry says on 24 May that cereal production will drop by a staggering 43% this harvest season due to severe drought. The African Development Bank (AfDB) forecasts that Morocco's economic growth is expected to reach 3.5% in 2024 and 3.8% in 2025, driven by higher investment. The AfDB on 27 May also announces a strategic roadmap to support Morocco's ambitious developmental goals for the next five years (2024-2029) by seeking to bolster economic competitiveness, resilience, and social inclusion.*

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#### Casablanca Stock Exchange to start a derivatives market

The **Casablanca Stock Exchange** plans to start derivatives trading this year as the country expands capital markets to help it finance a surge in infrastructure spending and preparations to co-host the **2030 FIFA World Cup**.<sup>1</sup> **Moroccan Capital Market Authority** chair **Nezha Hayat** said on 3 June that the move is part of the deepest revamp of Morocco's financial regulations in more than three decades.<sup>2</sup>

Capital market reforms have been on the agenda since 2021 when King **Mohammed VI** (1999-present) unveiled a 15-year initiative named the **New Development Model (NDM)**. The NDM seeks to double the country's gross domestic product (GDP) and push it from a lower middle-income economy to an emerging one by also strengthening the country's structural transformation.<sup>3</sup> The NDM aims to promote manufacturing, infrastructure connectivity, trade integration and human capital development.<sup>4</sup> But presently, the government is facing added urgency to fund World Cup projects such as stadiums and high-speed rail links.

Hayat revealed that capital markets currently contribute approximately 10% of the total financing of Morocco's economy, mainly using money provided by institutional investors.<sup>5</sup> She added that the target for Morocco is to raise that percentage to at least 25%, which she believes can be achieved by enabling "*the market to play its full role*".<sup>6</sup> To allow this, legislation will be implemented later in the year to permit exchange-traded funds, foreign currency-denominated mutual funds and Sharia-compliant mutual funds.<sup>7</sup> Morocco will also allow mutual funds dedicated to professional investors and benefit from less restrictive investment regulations and constitutions.<sup>8</sup> Domestic mutual funds, which manage assets totalling almost half of Moroccan bank deposits, will be permitted to invest in derivatives.

Hayat also revealed that companies permitted to issue derivatives and other marketer participants will be licensed in about a month. The Capital Markets Authority also aims to encourage dual listings and to allow local capital markets to raise money for projects abroad.<sup>9</sup> Hayat said that the planned changes seek to make Morocco's \$60 billion mutual fund market:

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<sup>1</sup> Bloomberg, 3 Jun 2024; Morocco World News, 6 Jun 2024

<sup>2</sup> Bloomberg, 3 Jun 2024

<sup>3</sup> Bloomberg, 3 Jun 2024; Morocco World News, 6 Jun 2024

<sup>4</sup> Morocco World News, 27 May 2024

<sup>5</sup> Morocco World News, 6 Jun 2024; Bloomberg, 3 Jun 2024

<sup>6</sup> Bloomberg, 3 Jun 2024

<sup>7</sup> Bloomberg, 3 Jun 2024

<sup>8</sup> Morocco World News, 6 Jun 2024; Bloomberg, 3 Jun 2024

<sup>9</sup> Morocco World News, 6 Jun 2024; Bloomberg, 3 Jun 2024

*“More competitive, more capable of financial innovation and, thus, able to tap more investors, especially retail and foreign ones”.<sup>10</sup>*

Morocco’s decision to trade in derivatives to raise money is understandable, particularly given that prime minister **Aziz Akhannouch** (2021-present) told lawmakers in April that the country will need to spend 200 billion dirhams (\$20 billion) on strategic projects as it prepares for the 2030 World Cup.<sup>11</sup> While the country could benefit from a derivatives market, there is some concern among bankers and investors that it may not be deep enough to achieve rapid growth.<sup>12</sup> Additionally, investing in the market is still economically prohibitive for most Moroccan households, who are not able to save, and those that can usually prefer to invest their money into real estate. Hayat also stated that only a “*tiny fraction*” of about 20 million bank account holders in Morocco invest in stock.<sup>13</sup> The derivatives market is a good initiative, however, there are major doubts about whether it will be a success given the local context.

### **This season’s cereal harvest will drop by 43% due to drought...**

The agriculture ministry published an update on 24 May projecting that production of key cereals, including durum wheat, soft wheat and barley, is estimated at 31.2 million quintals this season, representing a staggering 43% annual decline.<sup>14</sup> Severe drought, late rainfall and unevenly distributed rainfall were to blame for the meagre harvest this season.<sup>15</sup> The figure is close to that issued in **United States (US)** department of agriculture’s **Foreign Agricultural Service (FAS)** report last month which predicted a 45% annualised drop in cereal production.<sup>16</sup>

The ministry also revealed that the area sown has also dropped by 33%, currently covering 2.47 million hectares, compared with 3.67 million hectares last season.<sup>17</sup> This season’s production harvests include 17.5 million quintals of soft wheat, 7.1 million quintals of durum wheat, and 6.6 million quintals of barley.<sup>18</sup> The **Rabat-Sale-Kenitra, Fez-Meknes** and **Tanger-Tetouan-Al Hoceima** regions are the major contributors, accounting for 84% of Morocco’s total production.<sup>19</sup>

The drop in rainfall remains a major concern and the current agricultural season has faced significant adverse climatic conditions, impacting the sowing of autumn crops.<sup>20</sup> The ministry revealed that cumulative rainfall this season stood at 237 millimetres, 31% lower than the annual average. Agricultural dams are filled to only 31% capacity.<sup>21</sup>

Despite this, there are some positive signs for vegetable and arboriculture crops due to improved weather conditions since February, with vegetable production reaching 5.6 million tonnes.<sup>22</sup> The agricultural sector also continues to supply a steady supply of food to the domestic market, supported by the efforts of the agricultural ministry, such as diversifying procurement strategies. However, this has also resulted in a significant increase in imports and the FAS is also projecting a major spike in Morocco’s imports for the 2024/2025 agricultural season.<sup>23</sup> In its report, FAS predicts that Morocco will import 52% of its wheat for the next season, and while high, it is a significant improvement from last year when 82% of the country’s wheat imports came from **European** countries.

<sup>10</sup> Bloomberg, 3 Jun 2024

<sup>11</sup> Bloomberg, 3 Jun 2024; MSN, 3 Jun 2024

<sup>12</sup> Bloomberg, 3 Jun 2024

<sup>13</sup> Bloomberg, 3 Jun 2024

<sup>14</sup> Ministry of Agriculture, 24 May 2024

<sup>15</sup> North Africa Post, 27 May 2024

<sup>16</sup> Morocco World News, 25 May 2024

<sup>17</sup> Ministry of Agriculture, 24 May 2024; North Africa Post, 27 May 2024

<sup>18</sup> North Africa Post, 27 May 2024; Morocco World News, 25 May 2024

<sup>19</sup> Ministry of Agriculture, 24 May 2024; Morocco World News, 25 May 2024

<sup>20</sup> Morocco World News, 25 May 2024

<sup>21</sup> North Africa Post, 27 May 2024; Ministry of Agriculture, 24 May 2024

<sup>22</sup> Morocco World News, 25 May 2024

<sup>23</sup> Morocco World News, 25 May 2024

In the medium to long term, Morocco will remain a major wheat importer but remains dependent on its agricultural sector, which contributes approximately 12% to the country's gross domestic product (GDP). The series of harsh droughts in recent years have also negatively impacted local supplies and led to job losses that increased the country's unemployment rate to 13% in 2023 (*see ARC Briefing Morocco Feb 2024*). Morocco's situation is made worse by the fact that while the amount of water provided by rainfall and snow each year has declined significantly in recent years, the population has almost doubled.<sup>24</sup> With dams in the country close to empty, authorities have restricted the irrigation of farms, pushed up desalination plans, and ordered that thousands of public baths be closed three days a week, promoting protests.

Morocco's import bill will be stretched as it spends more on wheat imports, particularly when its finances are already strained by increased spending on earthquake recovery, FIFA World Cup constructions and wage protests by public servants. However, Morocco will be helped by relatively low global wheat prices.

### **AfDB expects Morocco's growth to reach 3.5% in 2024 and approves new strategy to boost socio-economic progress...**

The **African Development Bank (AfDB)** projected in its **African Economic Outlook 2024** report, released on 30 May, that Morocco's economy will grow by 3.5% in 2024 and 3.8% in 2025, driven by higher investment.<sup>25</sup> Inflation is also projected to drop slightly to 4.1% in 2024 and 3.8% in 2025, as global food prices decline.<sup>26</sup> However, AfDB experts warned that Morocco's growth prospects could be impacted by poor rainfall, slower economic growth in the **European Union (EU)**, and rising tensions from **Russia's** conflict in **Ukraine** which could trigger another shock in food prices.<sup>27</sup>

The continental lender also said in its forecasts that Morocco's budget deficit could gradually fall to 4.4% of GDP in 2024 and 4.2% in 2025, benefitting from economic recovery and lower subsidies on butane gas prices.<sup>28</sup> Morocco's current account is also forecast to register a small deficit of 0.4% of GDP in 2024, before increasing slightly to 0.9% of GDP in 2025 due to higher agricultural and energy imports (see above).<sup>29</sup>

The AfDB's projections are not too far off from those made by the **International Monetary Fund (IMF)** in its latest **World Economic Outlook** published on 16 April. The IMF forecast that Morocco's economic growth will reach 3.1% in 2024 and 3.3% in 2025 and inflation will stabilise at 2.2% this year in Morocco, after averaging 6.1% in 2023, and then rise marginally to 2.5% next year, in line with **Bank al-Mahgrib (BAM)** (central bank) forecasts.<sup>30</sup> In general, the AfDB has forecast that most African countries, including Morocco, will experience stronger growth rates in 2024 than they did in 2023, affirming that the region will retain its 2023 global ranking as the second fastest-growing continent in 2024 and 2025.<sup>31</sup>

Morocco's forecasted growth aligns with the broader continental and global trends of resilience, major challenges persist regionally and domestically such as the conflicts in **Gaza** and **Ukraine**, and the growing disparities between the developed and developing countries.<sup>32</sup> Decisive measures are needed to deal with these issues, particularly addressing inflation, high unemployment and growing inequality. This remains imperative for sustainable economic development.

The AfDB on 27 May also announced a strategic roadmap to support Morocco's ambitious developmental goals for the next five years (2024-2029) by seeking to bolster economic

<sup>24</sup> Bloomberg, 4 Mar 2024

<sup>25</sup> African Development Bank, 30 May 2024

<sup>26</sup> African Development Bank, 30 May 2024

<sup>27</sup> North Africa Post, 3 Jun 2024

<sup>28</sup> African Development Bank, 30 May 2024

<sup>29</sup> North Africa Post, 3 Jun 2024

<sup>30</sup> North Africa Post, 18 Apr 2024; IMF, 16 Apr 2024

<sup>31</sup> African Development Bank, 30 May 2024

<sup>32</sup> IMF, 16 Apr 2024; Morocco World News, 16 Apr 2024

competitiveness, resilience, and social inclusion.<sup>33</sup> Approved by its board of directors, the AfDB's **Country Strategy Paper (CSP)** which aligns with Morocco's NDM and builds upon the successes of the previous CSP (2017-2023), will prioritise two key areas:

- Fostering inclusive growth through enhanced skills development, employability and entrepreneurship;
- Strengthening the economy's resilience to external shocks by investing in sustainable infrastructure.<sup>34</sup>

The AfDB's financial commitments to Morocco extend beyond the CSP and as a founding member of the organisation, the **North African** country has benefited from over \$12.89 billion in investments across nearly 190 projects since 1978.<sup>35</sup> Morocco's current active portfolio with the AfDB comprises 40 ongoing operations amounting to \$3.76 billion across sectors such as energy, finance, transport, agriculture, water and health.<sup>36</sup> This new CSP 2024-2029 collaboration between the AfDB and Morocco marks a significant step forward in the long-standing partnership.

## Planner

2026 **(Morocco)** General election

## Chronology

17 Jun 2024 **Rabat (Morocco)** *Morocco World News*. King **Mohammed** leads the Eid Al-Adha prayer at the **Hassan II Mosque** in **Tetouan** in northern Morocco;

15 Jun 2024 **Rabat (Morocco)** *Morocco World News*. Member countries of the **Gulf Cooperation Council (GCC)** reaffirm their commitment to partnership with Morocco, emphasising the strategic importance of the country;

12 Jun 2024 **Rabat (Morocco)** *North Africa Post*. Tourism minister **Fatima Ezzahra Ammour** says Morocco's tourism sector is poised to outperform last year's record with the arrival of six million tourists in the first five months of this year, 770,000 higher compared to the same period last year;

8 Jun 2024 **Rabat (Morocco)** *Morocco World News*. **Brazil's** foreign minister **Mauro Vieira** lauds Morocco's development efforts, describing the country as an "*important model*" for progress across the continent;

7 Jun 2024 **Rabat (Morocco)** *North Africa Post*. The **Haut Commissariat au Plan (HCP)** says that Morocco's 2023 gross domestic product grew to \$146 billion, after posting a higher-than-expected growth rate at 3.4%, despite the impact of drought and inflation;

6 Jun 2024 **Rabat (Morocco)** *Reuters*. Government announces that **China's Gotion High Tech** will build an EV battery gigafactory, Morocco's first, for \$1.3 billion;

5 Jun 2024 **Rabat (Morocco)** *North Africa Post*. **Fouzi Lekjaa**, the minister delegate in charge of the budget says that government needs to increase its 2024 budget by 14 billion dirhams (\$1.4 billion) to meet expenditures linked to subsidising electricity prices and wage hikes;

4 Jun 2024 **Rabat (Morocco)** *Middle East Monitor*. Local activist groups urge the government to block a **Japanese**-owned cargo ship **Vertom Odette**, suspected of transporting weapons to **Israel**, from passing through Morocco's territorial waters;

1 Jun 2024 **Rabat (Morocco)** *Morocco World News*. **Japan** expresses strong support for Morocco's autonomy initiative aimed at resolving the **Western Sahara** dispute;

<sup>33</sup> Morocco World News, 27 May 2024

<sup>34</sup> Morocco World News, 27 May 2024

<sup>35</sup> Morocco World News, 27 May 2024

<sup>36</sup> Morocco World News, 27 May 2024

27 May 2024 **Rabat (Morocco)** *Le360*. Hotels in **Rabat** have lifted the controversial ban that prevented Moroccan women without marriage certificates from staying in their establishments by themselves;

25 May 2024 **Rabat (Morocco)** *Morocco World News*. There is reportedly mounting domestic pressure on the **United Kingdom** to support Morocco's proposed solution to the longstanding dispute on the **Western Sahara**;

22 May 2024 **Rabat (Morocco)** *Bloomberg*. Morocco is considering issuing an international bond in 2024 for the first time in more than a year, seeking to recover its investment grade as it makes headway in reducing the budget deficit;

22 May 2024 **Rabat (Morocco)** *APA News*. Morocco and **United States** sign a military cooperation roadmap during the 13<sup>th</sup> session of the **Moroccan-American Defence Consultative Committee (DCC)**;

### About Africa Risk Consulting:

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Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

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