

AFRICA RISK CONSULTING**Morocco Monthly Briefing April 2019**

Morocco Summary 30 April 2019

Morocco retains its stability in a politically volatile neighbourhood. A two-month long teachers' strike ends with teachers failing to win any gains. The government and business will meet to review tax agenda and business conditions on 3 and 4 May. The government promises to translate the final communiqué into policy and legislation. The International Monetary Fund (IMF) completes its 2019 Article IV consultation and first review of its Precautionary and Liquidity Line (PLL) arrangement with Morocco. Its findings and report are largely positive, though it notes that youth unemployment remains high. Major foreign policy shifts are averted as Spain's elections return socialist prime minister Pedro Sanchez, but the increased risk of the United Kingdom (UK) leaving the European Union (EU) with no deal threatens Morocco-UK exports. China will support Morocco's \$1 billion Tech City initiative.

Jasmine spring has little or no effect on Morocco ...

Morocco remains a sea of stability in an increasingly volatile neighbourhood. As peaceful populist protests move into their 11th week in **Algeria**, **Sudanese** protests continue to challenge military rule, and **Libya** is again ripped apart by rival militias, Morocco's nearest thing to a popular protest has ended ignominiously. While in 2011 wave of pro-democracy popular protests were instrumental in forcing change on the monarchy and political establishment, this time there has been little reaction to events in neighbouring countries. A two-month long teachers' strike that saw contract teachers camping out in **Rabat** came to a quiet end with local sources reporting that the strike ended on 26 March without securing any significant result. The contract teachers had come out in their thousands to demand similar state benefits to full-time teachers and had hoped to turn their protest into a sit-in protest at parliament.

... as business and government rendezvous ...

Against a backdrop of political quiet, a major business and government meeting is scheduled to take place over the weekend of 3 - 4 May. In the typically *dirigiste* manner of business and government in Morocco, business and government will come together for a two-day discussion, the end results of which will become policy and law. The government has billed this as a public forum to review taxes and legislative reforms that business needs to thrive. Morocco's formal business sector for its part is looking to the government to take action on two particular issues, first the battle against the informal sector, and secondly, a review of the pressures that the state tax burdens place on them. The government has committed to translate the resolutions that emerge into the current policy and legislative programme.

... to deliver on the macro-economic reform agenda ...

Reforming conditions for private sector business as well as creating jobs is at the heart of the current government's formal economic programme, which has won support from the

International Monetary Fund (IMF). A report on a standard Article IV visit from March 19 to 3 April was very positive, noting among other things structural reforms, notably improved fiscal management, economic diversification, the workings of a new competition law and gradual liberalisation of the exchange rate.¹

The IMF report noted in particular that:

- a Competition Council has been established following the introduction of a completion law in December;
- the government has launched a new financial inclusion strategy to promote competition and support small and medium-sized enterprises;
- a law on access to information has been promulgated to improve governance; and
- the government has published a first report on the implementation of its anti-corruption strategy.²

However, IMF staff team leader **Nicolas Blancher** noted that unemployment, particularly youth unemployment, remains high and called on the government to improve the quality of education, the functioning of the labour market and to take steps to have greater inclusion of women in the work place.³ Morocco's unemployment rate decreased slightly to 9.8%, yet it masked a protracted decline of labour's participation in the economy.

Recent IMF and **World Bank** reports note that the economy grew at 3% in 2018, down from 4.1% in 2017. Growth in 2019 is expected to reach 4.5% and stabilise at this level over the medium term. Morocco's external reserves are comfortable and sufficient to buy five months worth of imports.⁴ Next to agriculture, mining – mostly driven by phosphates production and exports – contributed most to growth. The currency is pegged to a basket of the euro and the **United States (US)** dollar, currently keeping inflation rates below 2%.

... and keep up appearances of macroeconomic stability

Separately, the government published new data on the debt structure, which shows increases in both public external debt and overall government debt.⁵ The national debt has grown consistently in recent years, leading the government to sign an agreement with the World Bank in 2018 to help reduce the kingdom's overall public debt from 82% of GDP to 60% of GDP. The government has achieved some success. Central government debt as a percentage of GDP was 64.6% in 2018 as compared to 65.1% in 2017. But Morocco has continued to borrow, most recently accepting a \$400m loan from the **African Development Bank** to support domestic industrialisation projects.

Nevertheless, Morocco's progress was the subject of discussions between finance minister **Mohamed Benchaaboun**⁶ and IMF managing director **Christine Lagarde** during the annual spring meetings in **Washington** (US) in March, as were preparations for the 2021 IMF and World Bank annual meetings that will take place in **Marrakech** in 2021.

¹ IMF press release, 2 Apr 2019.

² IMF press release, 2 Apr 2019.

³ IMF press release, 2 Apr 2019.

⁴ Thai News Service, 3 Apr 2019

⁵ Morocco World News, 8 Apr 2019

⁶ Tenders Info, 18 Apr 2019

Relations secure as populists fail to gain ground in Spanish poll ...

Major foreign policy shifts were averted as Morocco's nearest northern neighbour, **Spain**, held elections that returned socialist prime minister **Pedro Sanchez** to office, which should see continuity in both countries' relationships. Fears that an extreme right anti-immigrant party, **Vox**, may gain government influence proved unfounded. Had the far right won greater influence, relations with Morocco – a major stepping-stone for **Africa's** migrants to **Europe** – may have soured. Previously Sanchez noted his country has called Morocco Spain's strategic, "*special ally*", notably on matters of migration, anti-terrorism, and economic cooperation.

... and the news from Beijing is all positive ...

Morocco, like several of Africa's major economies, had a strong presence at **China's Belt and Road Initiative (BRI) Forum** on 26 April in **Beijing** (China), showing strengthening cooperation between Morocco and China. The Moroccan delegation and Chinese public and private sector partners signed an MOU to support the \$1 billion tech city initiative, **Tangier Tech City**, launched by **King Mohammed VI** in 2017 to be built over 10 years.⁷ The city will host 200 Chinese companies upon completion. China's **Haite** group will help finance the \$1 billion project.

The MOU was signed between **Tangier Tech Development Company (SATT)** with **China Communication Construction Company Ltd. (CCCC)** and **China Road and Bridge Corporation (CRBC)**.

... but Brexit poses an increased threat

Meanwhile, a **United Nations Conference on Trade and Development (UNCTAD)** report has warned that total export losses estimated from 20 African countries from Brexit may be as much as \$420m. The report highlighted the growing risk that **Britain** would leave the **European Union (EU)** with "*no deal*" and highlighted that a number of African countries including Morocco would be severely affected. With the future of a Brexit deal as unsure as it was 12 months ago, the report highlighted there is a chance the UK will crash out of the EU without bilateral deals, and smaller economies like Morocco's will be the biggest losers.

The UNCTAD report urges Morocco to ensure it has a bilateral agreement with the UK if Morocco is to avoid big export losses. At present, due to the EU's unilateral preferential schemes, Morocco enjoys favourable market access across the UK. In order to keep this, the two countries must reach an agreement before October – the rescheduled date for Britain to leave the EU.

Should the UK leave the EU without a deal, imports to the UK could end up being on "*most favoured nation*" terms, a **World Trade Organization (WTO)** trading principle that means the same tariffs must be applied to all partners unless there is an exception written in an agreement. At the moment, UK and Moroccan businesses can trade with each other at low tariffs. In a no-deal scenario, they will be forced to trade at significantly higher tariffs set by the WTO, meaning a dramatic increase in costs for businesses in both countries.

The British government has been working on rolling over all trade deals they currently have, through the EU, with other countries. This applies to economies of all ranges, from the large economies of **Canada** and **Japan** to the smaller economics of the **Faroe Islands** and small African states. The process has faltered with Morocco, however, with the UNCTAD

⁷ Morocco World News, 28 Apr 2019

report stressing that if countries like Morocco want to keep the market access they have now, they must act quickly. According to **Pamela Coke-Hamilton**, the director of the division on international trade and commodities at UNCTAD,

"In many cases United Kingdom-third countries agreements, or continuity agreements, have not been signed, and there is substantial uncertainty as to whether many of these agreements will be concluded any time soon."

Planner

3 - 4 May 2019 **Marrakech** Government and business meeting;

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

26 Apr 2019 **Beijing (China)** *Morocco World News* Memorandum of Understanding is agreed between Chinese and **Moroccan** companies to support the \$1 billion **Tangier Tech City**;

26 Apr 2019 **Rabat (Morocco)** *Jeune Afrique*. Government signs an agreement with workers' unions to provide a 10% minimum wage increase that will take effect in July;

25 Apr 2019 **Rabat (Morocco)** *Jeune Afrique*. Morocco-based job search website **Rekrute** study reveals that 72% of salaried Moroccan workers lack motivation at work;

18 Apr 2019 **Washington DC (US)** *Maroc.ma* Finance minister **Mohamed Benchaaboun** and **International Monetary Fund (IMF)** managing director **Christine Lagarde** meet during the annual spring meetings to discuss preparations for the 2021 IMF and **World Bank** annual meetings that will take place in **Marrakech** in 2021;

18 Apr 2019 **London (United Kingdom)** *Financial Times*. **France**-based **Danone**'s first quarter sales are hit by continuing boycott of its products in Morocco;

18 Apr 2019 **Rabat (Morocco)** *Jeune Afrique*. Government proposes 10% public service salary increase to unions which will necessitate an additional \$829.8m to the public payroll;

17 Apr 2019 **Rabat (Morocco)** *Mining Weekly*. Mining firm **Managem** considers raising \$200m through nonconvertible bonds to fund development plans;

16 Apr 2019 **Casablanca (Morocco)** *Agence Ecofin*. An industrial zone which will cost \$11m is set to be established in the **Casablanca-Settat** region for companies in the leather industry;

11 Apr 2019 **Rabat (Morocco)** *Arab Weekly*. **Morocco** aims to attract \$ 30 billion of investment in its energy sector by 2030 to develop 10 GW of renewable energy and liquefied gas plants to meet its growing electrical demand;

8 Apr 2019 **Rabat (Morocco)** *Agence Ecofin*. Morocco's economic growth slowed in the first quarter of 2019 to 2.3% from 2.9% in the previous quarter;

4 Apr 2019 **Rabat (Morocco)** *Agence Ecofin*. The Moroccan government grants **United Kingdom**-based **Chariot Oil & Gas** an exploration licence for the **Rabat Deep Offshore I-VI** gas field;

2 Apr 2019 **Rabat (Morocco)** *Agence Ecofin*. **Morocco**-based **BMCE Bank of Africa** registers \$190m profit in 2018, a 10% drop from 2017;

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