

## Market Insights & Strategy

### Global Markets

### Morocco – North Africa’s Star?

With most of the North African region continuing to face severe political and economic challenges, one country in the Maghreb has managed to overcome some of its own domestic issues and markedly outperform its neighbours over the past few years. But after a relatively lacklustre 2016 will Morocco be able to move forward again this year?

#### Reform Led Progress

Since the introduction of a range of political, economic and social reforms by the government in 2011, Moroccan society has become more open and dynamic and its civil institutions are stronger. A coalition government led by the moderately Islamist PJD (Party for Justice and Development), which was formed following elections that same year, has pursued an important economic development program in tandem with support from the IMF which approved a new US\$3.47 bio liquidity line for Morocco in August last year. Some of the economic reforms already enacted include; a liberalisation of the fuel price, the broadening of various social programs to protect the poorer sections of the population, the adoption of fresh budget and banking laws, and the provision of new powers to the Central Bank which enable it to become more independent and transparent. The consequent better economic growth and more prudent government policies over the past five years, has helped reduce both unemployment and the fiscal deficit, as well as promote the development of new industries. These past 12 months however have been much tougher, GDP growth is expected to have shrunk to just 1.20% last year compared to 4.4% in 2015 albeit due primarily to a serious drought which severely affected the country’s important agricultural sector, whilst an ongoing political spat between the PJD and a 3-party opposition grouping over the latter’s representation within government, has prevented Prime Minister Benkirane from forming a new cabinet for almost 3 months now.

#### Political Machinations

The political impasse mentioned above began soon after last October’s parliamentary elections when the country’s second largest party, PAM (Party of Authenticity and Modernity) which won 102 seats against the PJD’s 125, declined to enter into another coalition with its main rival. This situation worsened somewhat last week when the head of the Independence Party, Hamid Chabat, also announced that neither he nor his party would participate in the next government despite being invited to do so. Chabat also recently ignited a diplomatic fracas after suggesting that Mauritania “lies on Moroccan land.” Despite the current deadlock a major political crises is unlikely to develop and most regional analysts, including ourselves, believe that some sort of accommodation will be reached by all the major parties sooner rather than later. Its also worth bearing in mind that the King still maintains a strong influence over the direction of the country, especially when it comes to the security services and appointments to the ‘Council of Ministers’ a body which has the final say on any newly proposed legislation. However this current standoff will not be the only political hurdle for the next administration to overcome, as the Prime Minister has promised to continue to introduce necessary but sensitive reforms including the ongoing reduction of subsidies. Large portions of the population were angered by the earlier decision to cut fuel subsidies and reduce the size of the public sector, this anger was expressed via a sharp rise in the number of demonstrations and strike actions last year.

#### Technology & Climate Change

The economic outlook is slightly harder to discern, because on top of the sharp decline in agricultural production during 2016 (the cereal harvest alone was down by 70%), tourist arrivals fell by almost 6% and revenues from phosphate exports fell by over 25%. All of this has had a negative effect on recent GDP growth and employment figures, but there are some brighter spots on the horizon, the French car-makers Renault and Citroen are planning to significantly expand their presence in Morocco and Boeing is preparing to establish a new high-tech industrial zone near Tangier.

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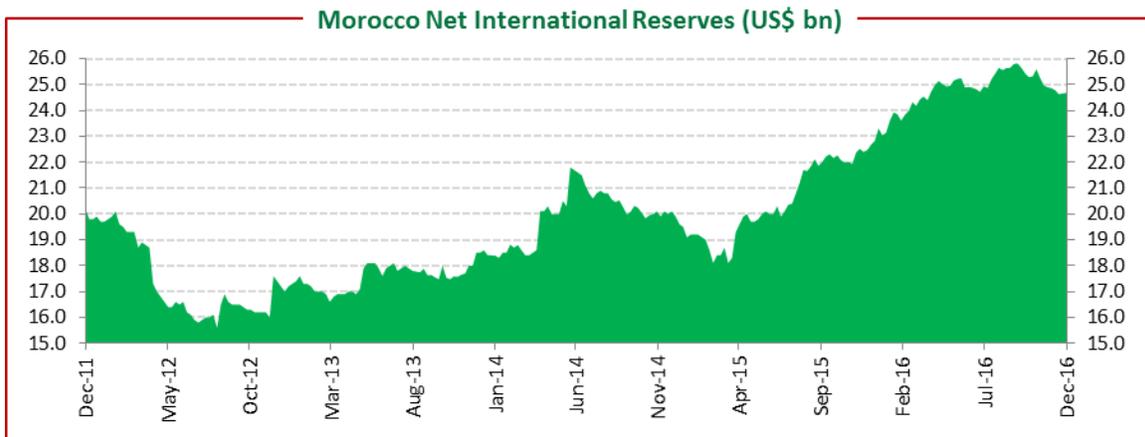
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Meanwhile a sharp improvement in seasonal rainfall levels and the implementation of new technologies should give the farming sector a boost this year with the Agricultural Ministry already anticipating a jump in the overall production of citrus fruits (+16%) and cereals (+12%). However with climate change already a clear and present threat to this region of the world in particular, further diversification of Morocco's economy is necessary over the medium to long term in order to create more jobs and reduce the effects of surprise shocks such as last year's drought.

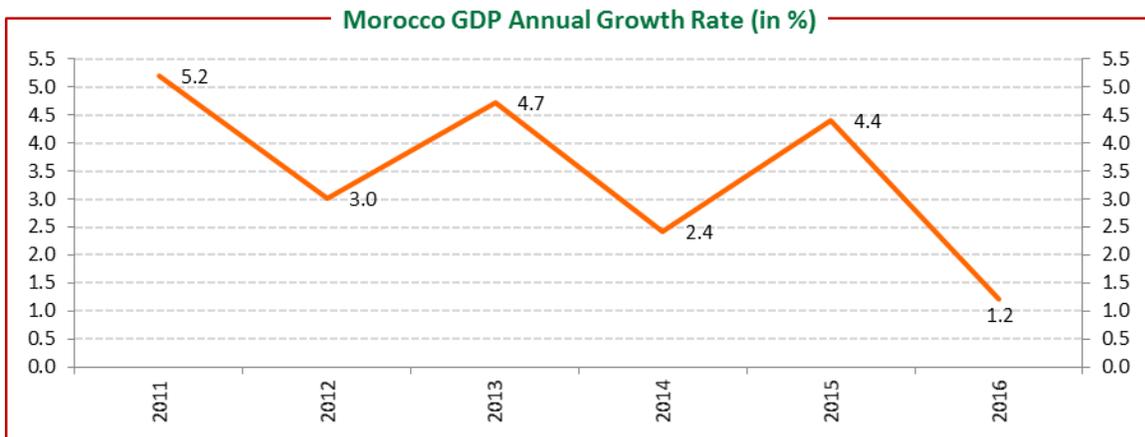
Green energy is one area in which Morocco is leading the pack with solar power playing a key part in its effort to become much less reliant on the import of fossil fuels. The first phase of the US\$2.7 bio Noor solar facility was completed in February last year and this complex now contributes up to 160MW of electricity to the national grid. The second and third phases are expected to be operational by 2018 and will be able to generate 350MW. On top of this a series of wind farms are also under construction across the country and are targeted to achieve a total power capacity of 850MW by 2020.

On the monetary front the Central Bank currently maintains a basket regime and allows the Dirham to float within a 0.60% band around a central rate. This has provided stability and flexibility during periods of regional and global upheaval, and a further liberalization of Bank al Maghrib's foreign exchange policies is expected this year as the authorities gradually move towards an eventual full-float of the local currency. Inflation remained subdued at an average rate of 1.60% last year and the central bank expects this to shrink further to 1.00% in 2017. Meanwhile the country's foreign exchange reserves currently stand at US\$24.69 bio which is enough to cover just over 6 months of imports.

In conclusion Morocco faces economic and political headwinds in 2017, but we believe it has the tools to overcome these challenges and continue to maintain its place as North Africa's leading performer.



Source: Bloomberg/NBAD



Source: IMF /NBAD

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