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Weekly highlights by

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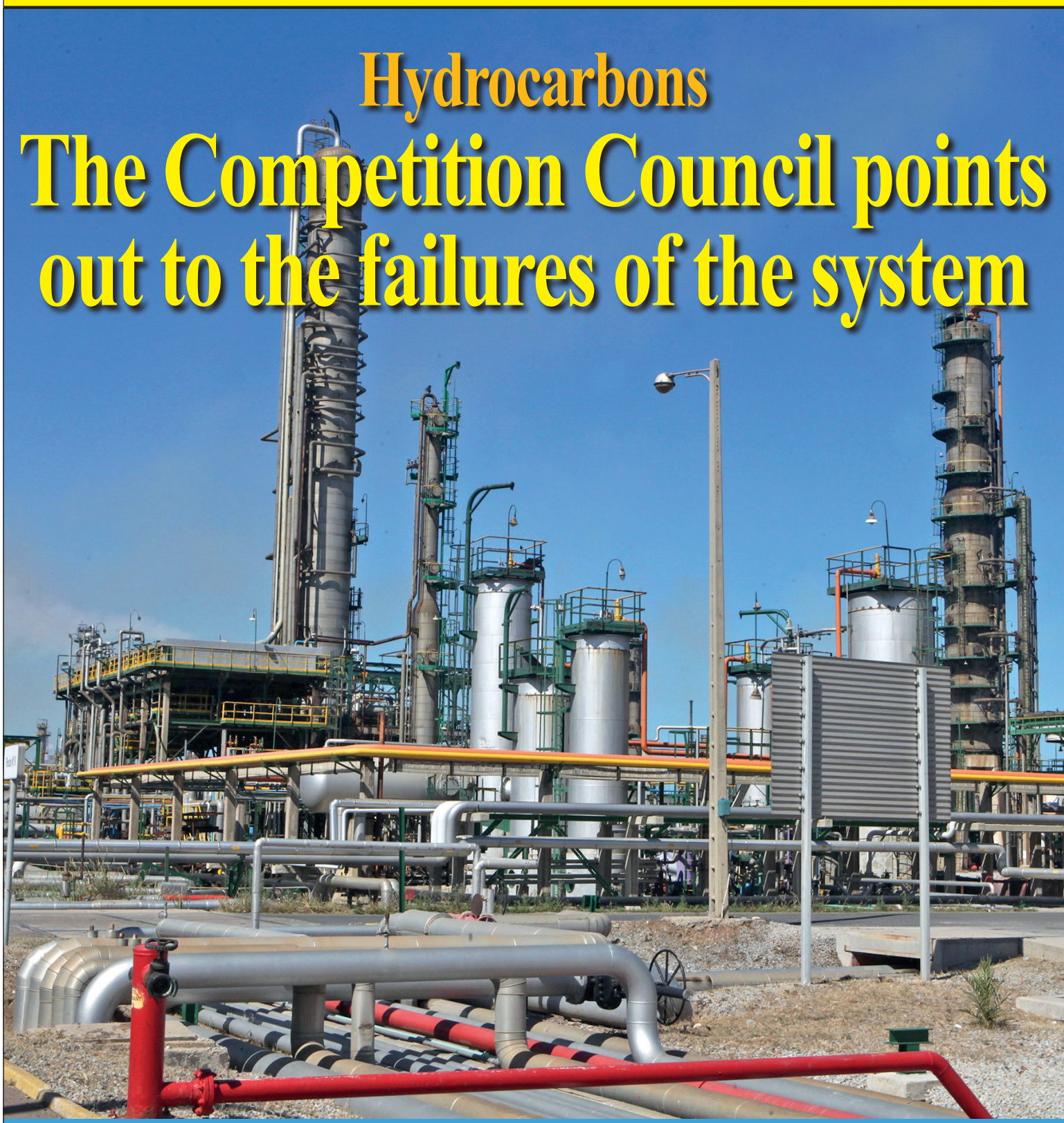

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EDITORIAL

Firewall

Meriem OUDGHIRI

ALL eyes were set this week on the capital city where the central bank (BAM) Council was meeting last Tuesday: the central bank's decision on the key rate. Will it change, will it not change? A rise could curb inflation and promote savings. But it would result in slower growth. In the current state of the economic situation, can Morocco afford to make this decision? The verdict was therefore expected this week from BAM , one of the "most respected and credible central banks in the developing world ", to use the expression of international financial institutions, and indeed the central bank increased on Tuesday the key rate from 1.5% to 2%. Today, prices are setting consumers' shopping carts and their wallets on fire. Inflation is cruel for low-income earners. The war in Ukraine has held the economies of the world hostage. But first there was the pandemic, which kick-started the inflationary cycle and exposed our fragilities on many levels. The drought came to complete the picture and caught us lacking in planning and preparation. In the midst of climate change, everyone rushes to come up with emergency solutions, rescue plans, and the like, but things do not work like that. The lack of foresight and vision is flagrant. Short-term and unfinished strategies as well as the absence of anticipation have long been the prerogative of politicians. What firewall do we have now to mitigate all these shocks that come to us from everywhere? Crucial choices have to be made urgently to get through the next few months. The way out of the crisis will be difficult. It will also depend on all the lessons that must be learned by all. And, perhaps, it will be appropriate to get rid of the huge stones stuck in the shoe of the Government. ❑

Weekly highlights

Inflation: BAM tightens its monetary policy

IN an attempt to curb galloping inflation, the Board of Bank Al-Maghrib (BAM) increased the key rate by 50 basis points to 2%. The decision was made during the meeting held on Tuesday, September 27. Under these conditions, going into debt will become more expensive for all economic players. This should result in a decrease in demand for goods and services and subsequently in prices. This is the normal or ideal scenario, except that in Morocco, inflation is mainly imported, the country sourcing energy and food products, especially cereals, from abroad. With this increase, the central bank wants to *"prevent any de-anchoring of inflation expectations and ensure the conditions for a rapid return to levels in line with the objective of price stability"*. Bank Al-Maghrib intends to closely monitor the economic situation, at the national and international levels, and in particular the evolution of inflationary pressures. A few weeks before the presentation of the 2023 Appropriations Bill, the picture drawn of the economic situation is far from encouraging: *"the economy continues to suffer from this unfavorable external environment and of the repercussions of a particularly severe drought, with a sharp deceleration in growth and a sharp acceleration in inflation "*, the central bank said. Inflation reached 8% in August after 7.7% in July, being mainly driven by the rise in the price of food products and of fuels and lubricants. *"The available data do point to an increasingly wide dissemination of the price increase. Indeed, of the 116 sections of goods and services that make up the reference basket of the consumer price index, 60.3% experienced an increase of more than 2% in August versus 42.2% in January"*, explains BAM who forecasts the acceleration of inflation to 6.3% over the whole year versus 1.4% in 2021. The return to a *"more suitable"* rate is expected next year, namely 2.4%.

Abdellatif Jouahri, Wali of Bank Al-Maghrib. According to Bank Al-Maghrib's projections, the budget deficit is expected to decline from 5.9% of GDP in 2021 to 5.5% in 2022 before easing to 5% in 2023

Being pessimistic, the central bank has revised downwards its growth forecasts for this year: 0.8% versus 7.9% of GDP in 2021. This is a very low level which is explained by the 14.7% drop in agricultural value added and by a 3.4% deceleration in non-agricultural activities. In 2023, growth should accelerate to 3.6% under the effect of an 11.9%. increase in agricultural value added. On the other hand, the non-agricultural sector should not slow down, settling at 2.5%! The Board also expects a budget deficit of 5.5% versus 5.9% in 2021.❏

Khadija MASMOUDI

Fertilizer: Morocco, soon to be a market maker

FOOD insecurity: this is the new phobia of world leaders since the beginning of the Ukrainian crisis. In a joint statement issued after a ministerial meeting on the sidelines of the UN General Assembly in New York, the US, the EU, the African Union, Colombia, Nigeria, and Indonesia affirmed their *"commitment to act with urgency, at scale, and in concert to respond to the pressing global food crisis and avert extreme hunger for hundreds of millions of people around the world"*. To guarantee farmers' access to chemical fertilizers, which are particularly lacking for producers in West Africa, the United Nations has signed a memorandum of understanding with the Russian Federation to supply the world market with agribusiness products and Russian fertilizers. *"If the fertilizer market is not stabilized, we could experience a food crisis next year"*, said Secretary General António Guterres. In short, *"the world could run out of food"*.

Being extremely dependent on phosphate fertilizers, Europe and Africa fear a food crisis in addition to the energy crisis due to the war in Ukraine

What about Morocco in all this? As one of the world's largest exporters of fertilizers, the kingdom finds itself with an unprecedented opportunity. US ratings agency Fitch Ratings last week announced an upward price revision for fertilizer prices upwards due to the continuing supply constraints and the expected recovery in demand.

In its latest report, Fitch argues that the increased phosphate rock forecasts for 2022 and 2023 are due to OCP's policy of limiting export to maintain a price premium. The OCP policy is especially effective as the group controls more than 70% of the world's phosphate rock reserves found in Morocco, Fitch's report added. As for the outlook of global demand for fertilizers, Fitch maintains that it would rise to above 2022-levels in 2023 before returning to pre-Ukraine war levels in the US and Europe, while prices would remain high up to 2026.

As a reminder, the Moroccan producer reported an exceptional increase in its revenues and its turnover compared to last year, in its last report on the results, detailing the performance of the phosphate giant until June 30, 2022. The rise in income was attributed in part to the global rise in fertilizer prices. With Russia and Ukraine being two of the largest fertilizer producers and exporters in the world, the war between them has disrupted traditional fertilizer markets and supply chains, while OCP has managed to increase production and exports while its international competitors have struggled to maintain production at pre-2022 levels. A reduction in exports from China has also pushed up prices, affecting affordability and allowing the Moroccan company to meet the growing demand. ❏

Abdessamad NAIMI

Weekly highlights

Hydrocarbons

The Competition Council points out to the failures of the system

LONG-awaited, the opinion of the Competition Council on the soaring prices of inputs and raw materials at the world level and its consequences on the operations functioning of national markets, provides a series of explanations concerning the level of fuel prices within gas stations. This document, produced following the decision of the Council of April 25, 2022 by which the Council acted on its own initiative concerning this case. In concrete terms, the goal of this opinion is to answer, initially, the question of whether or not these price increases on the national market are correlated with prices and quotations on the world market. Secondly, the idea is to analyze the impact of these increases on the competitive situation in the markets concerned. A series of conclusions were formulated at the end of the review of the inventory. First and foremost, the outdated nature of the regulations in force. This is a *"market that is highly governed by regulations that have become obsolete, despite the liberalization of the sale prices of diesel and gasoline on the national market "*. The legislation still in force consist of the *"dahir"* (royal decree) of February 1973 on the import, export, refining, storage, and distribution of hydrocarbons. This piece of legislation does not take into account the major changes experienced by this market. A new law, 67-15, was adopted in 2015. Seven years after its publication, it has still not entered into force due to the absence of its implementing texts.

■ **Reliance:** The Competition Council also points to the total reliance on imports from abroad, the volumes of which are constantly increasing. Since the cessation of the activity of the Samir refinery in 2015, Morocco has been forced to import all refined products, thus increasing its reliance on world markets. The opinion of the Competition Council nevertheless specifies that during the period of activity of the Samir, *" the market operated in fact, as if Morocco imported all of these refined products from abroad. Only the subsidies supported by the general budget of the Government made it possible to maintain the selling prices of diesel and gasoline, as set by the Government, at levels deemed acceptable"*.

■ **Concentration:** Another aspect pointed out is the high concentration in the import and storage markets, whose level is generally below the threshold provided for by the regulations. Currently, the installed storage capacity in 2021 is 1.2 million metric tons, 15% higher than in 2018. However, this capacity is only partially used (50%). *" This underutilization is explained, according to the operators, by the high storage costs and by the risks relating to the high volatility of the international prices of these materials"*. In the current state of affairs, *"the establishment of security stocks is behind schedule and is encountering difficulties in defining the terms and conditions for covering storage costs between operators and the public authorities"*, it is indicated. The Competition Council also points to a high concentration of operators on the import market, *"given that the four largest operators, namely Afriquia SMDC, TotalEnergies Marketing Maroc, Vivo Energy Maroc, and Petrom, alone achieve approximately 68% of imports in volume, and represent 61% of the installed storage capacity, despite the number of new operators which has increased from 11 in 2018 to 25 currently"*. This high concentration is also observed at the level of the distribution market. *"The distribution network is 53% owned by four operators: Afriquia SMDC, TotalEnergies Marketing Maroc, VivoEnergy Maroc, and Petrom"*. Despite the existence of a large number of active distribution companies (29 operators), the four leading companies alone generate around 65% of the total market turnover. ❏

Mohamed Ali MRABI

Weekly highlights

Public procurement reform

Big brainstorming

WHEN the Ministry of Finance posted the draft decree on public procurement on the website of the General Secretariat of the Government (SGG) to allow the public to comment on it, it certainly should not have expected a flood of comments which only reflects the concerns of the business community and their interest in public procurements which weigh almost 20% of GDP each year, representing a godsend for many companies in various sectors.

Architects represent the corporation which formulated the greatest number of criticisms of the draft piece of legislation. The criticisms cover various aspects such as the evaluation of the bids, the downward revision of the fees, the *"alarming"* return of over-the-counter agreements, the rating of technical proposals, and other elements.

In any case, each comment from Internet users received a response from the Ministry of Finance. At the end of the comment period, the matrix spans no less than 135 pages. Among the questions that often come up during submissions to calls

for tenders is the notion of grouping (article 150), which is the form in which certain candidates tender together to reach the critical size and meet the requirements of the specifications. For legislators, capacities are not cumulative. *"Each member must therefore individually present certificates of performance of similar services"*.

In the preliminary draft, there was talk of asking for explanations from bidders whose prices were either abnormally low or excessive.

A net surfer suggested dismissing these candidates to *"avoid the subjectivity of tender commissions or sub-commissions responsible for this issue"*. In the end, *"the mechanism linked to abnormally low and/or excessive unit prices has been deleted from the draft legislation"*. The option adopted relates to the establishment of a system based on the reference price of the bids made up of the arithmetic mean of the project owner's estimate and of the average of the financial bids of the selected competitors. This measure joins the proposal of the National Builders Federation. Still on the subject of the price issue, an Internet user proposed banning the practice of reducing the estimate by 20% each year compared to the price awarded the previous year because it results in a floor price which cannot no longer be offered. An observation to which the Ministry of Finance replied that *"the practice of price reduction mentioned may not be grasped at the level of the draft decree on public procurement, whose Article 6 only provides the bases that should govern the establishment of the estimate of the cost of the services by the contracting authority"*. Some members of the business community, in particular the National Building and Public Works Federation (FNBTP), propose to increase to 30 million MAD instead of 10 million *"the threshold for the use of national calls for tenders"*. An observation that will not be taken into account in the final version of the draft decree *"because of the commitments made by our country within the framework of the association and free trade agreements"*. ❏

Hassan EL ARIF

The imperative decarbonization of the economy

THE European Commission will find it difficult to apply the new carbon adjustment mechanism at Europe's borders scheduled for June 2023. And for good reason, the consequences of the Russia-Ukraine war are likely to upset the entire Green Deal agenda of the European Union. The postponement could indeed be explained by the need for several European countries to buy coal massively. Moreover, concerning decarbonization, the World Bank made proposals in the latest draft of its report submitted to the government during the visit of its vice-president, in charge of the MENA region. To gradually decarbonize its economy, Morocco could aim for carbon neutrality by the 2050s by taking full advantage of its abundant and competitive renewable energy resources and by implementing its ambitious reforestation program, according to

the document. It is the electricity sector that is targeted since it is the main emitter of greenhouse gases. It makes it possible to support the decarbonization of sectors that are also major emitters, such as road transport and industry. Although Morocco represents only 0.2% of global greenhouse gas emissions, the carbon intensity of its electricity sector is considered high.

The decarbonization of this sector would require the gradual closure of coal-fired power plants, thanks to the deployment of renewable energies and storage technologies. This will be complemented by the use of natural gas as a transition fuel, the report points out. According to this financial institution, to move from reliance on large thermal power plants to more dispersed solar and wind structures, it is necessary to make significant investments in the electricity transport and transmission network. In the medium and long term, Morocco could develop the large-scale production of green hydrogen and its derivatives, which could be used on the national territory for the production of green fertilizers, the transport and production of electricity, and replace natural gas, the document says. As the fifth-largest fertilizer exporter, Morocco has already taken decisive steps to reduce the footprint of its energy- and water-intensive phosphate industry. Investment in renewable energy and energy efficiency, in line with government targets for 2030, could create around 28,000 net jobs per year. ❏

M.C.