

With strong foundations, Moroccan banks look to Africa

Perched on the north western tip of Africa, Morocco has often had an uneasy relationship with the rest of the Arab world. Viewed from the Gulf, Morocco is often barely recognised as being part of the Middle East. Quite apart from issues of proximity – from Dubai you can fly across Asia to Hong Kong in the same time it takes to fly from Dubai to Casablanca – Morocco has deep cultural and political traditions that are quite different from those seen in the Arab heartlands of the Levant, Mesopotamia and Arabia. And of course, Morocco is francophone.

Yet Morocco and its banking system should be of interest to Arab bankers, wherever they are based. The banking system is well regulated, reasonably large, profitable and expanding. The first Islamic banks are about to open their doors, and the large Moroccan banks are expanding rapidly in Africa.

Arab Banker's editor, [Andrew Cunningham](#), offers a profile of the Moroccan banking system and the key issues that are shaping it.



Morocco has a good story to tell about its banking system. Capitalisation is high, non-performing loans are low, and returns on equity and on assets are stable and robust.

Bank Al Maghrib is recognised as one of the best bank regulators in the Middle East, and its long-standing governor, Abdellatif Jouahri, is widely respected in the region and beyond. Legislation passed in late 2014 further strengthened Bank Al Maghrib's supervisory authority.

GDP growth has been running at 3–4% and the IMF is predicting that this will rise to 5% in the years ahead. Morocco's current account and the government's budget are stable and sustainable. Morocco has an investment grade rating from Fitch and Standard & Poors, while Moody's puts it one notch below investment grade.

Morocco's economy and its banking system are medium-sized when compared against others in the Middle East. Gross domestic product was around \$107 billion in 2014, about half the size of Algeria's and double that of Tunisia. Banking system assets were \$126 bn, compared to \$136 bn in Algeria and \$44 bn in Tunisia.

Morocco's banks dominate financial intermediation. Finance companies, which specialise in consumer credit, are about one-tenth of the size of the banking system, and they have not been expanding in recent years. The offshore banking centre is even smaller. The micro-finance sector was brought under the supervision of Bank Al Maghrib in 2007 after excessive growth led to asset quality problems. Now based on surer foundations, it remains small.

Three banks dominate the Moroccan banking scene: Attijariwafa Bank, Banque Centrale Populaire and BMCE. These three account for about two-thirds of loans and deposits in the system. The biggest eight banks account for the vast majority of banking activity in Morocco.

With equity of \$4.5 billion, the biggest bank, Attijariwafa, is about the same size of Mashreqbank or Arab Banking Corporation.

The big three banks are controlled by Moroccan interests: Attijariwafa is close to the Royal Court, Banque Centrale Populaire is a locally-owned co-operative network (similar to France's Banque Populaire network), and BMCE is associated with the Benjelloun family.

The three big French banks are also present: BNP Paribas in

BMCI, Société Générale in Société Générale Maroc and Crédit Agricole in Crédit du Maroc. (Crédit Agricole du Maroc is a Moroccan agricultural bank, not a French subsidiary.)

In recent years there has been a lot of talk about over-capacity in the banking system. Eight banks of significant size is a large number for an economy such as Morocco's. (Saudi Arabia has 12 banks for an economy that is seven times larger.) With the large banks controlled by particular groups, there is little serious talk of mergers.

Banking penetration is low – about 40% of Moroccan adults have bank accounts – but bringing un-banked citizens into the regulated financial system is unlikely to make much impression on banks' growth figures and profitability, however important such financial inclusion may be in social terms.

Bank Al Maghrib issues first Islamic banking license

One exciting new area for the banks is Islamic finance.

Morocco was slow to join the Islamic banking movement. Even today, Islamic banking is officially known as 'participative finance'.

It was not until 2007 that Bank Al Maghrib passed regulations allowing banks to offer a small range of Shari'a-compliant products: mudarabah, ijarah and musharaka. In 2010, it began licensing Shari'a-compliant finance companies (offering, for example, Shari'a-compliant car finance). Attijariwafa Bank was one of the first to take advantage, creating its own Shari'a-compliant finance subsidiary.

But it was in 2014 that Islamic finance really started moving. Bank Al Maghrib began discussing the creation of a Central Shari'a Board to oversee Shari'a business. In November, a law was passed to allow the creation of Islamic banks and the issuance of sukuk. In February 2015, a Royal Decree created a "Shari'ah Committee for Participative Finance".

In March, Governor Jouahri said that the bank had received 18 requests for Islamic banking licenses, 15 from foreign groups and three from local groups. Three months later, Al Baraka Group (one of the biggest Islamic banking networks in the world, and owned by Saudi investors) announced that it had created a 50–50 joint venture with BMCE Bank and had received a license to operate. The new bank is expected to begin operations in early 2016, and will open 20 branches within five years.

It is hard to predict how the licensing of Islamic banks will

Moroccan Banks: aggregate financial profile

Billion dirhams unless otherwise stated	End 2014	End 2013	End 2012	End 2011	End 2010
Loans to the economy	763	747	719	696	633
Securities issued by the government	116	116	94	90	69
Assets	1,138	1,099	1,062	1,047	959
Assets (\$ billion)*	126	133	126	122	113
Customers deposits (excludes from government)	833	781	758	793	742
Equity	54	53	50	42	36
Ratios (%)					
Loans % assets	67.0	68.0	67.7	66.5	66.0
Loans % deposits	86.4	95.6	94.9	87.8	85.3
Growth in loans	2.1	3.9	3.3	10.0	5.9
Equity % assets	4.7	4.8	4.7	4.0	3.8

* Figures calculated using exchange rate for the end of the respective year.

Source for data: Bank Al-Maghrib Quarterly Bulletins

affect the banking system as a whole. If the system is already overcrowded, then won't the licensing of more banks depress earnings and encourage banks to increase their risk profiles in search of higher yields? Much depends on whether the Islamic banks will conduct new business (for example, extending financing facilities to those who have hitherto eschewed interest-based commercial loans) or simply capture existing business from the conventional banks.

More broadly, the licensing of Islamic banks is expected to attract Gulf capital into Morocco's finance sector, and for a country that relies heavily on foreign direct investment, that is important. There is already significant Gulf investment in Morocco, though it is concentrated in real estate and tourism projects.

Significant investments in Africa

The other exciting area for the larger Moroccan banks is Sub-Saharan Africa. Over the last ten years the three big banks have made significant investments in the region. Over the same period, the banks have made little effort to expand their operations in Western Europe or in the Middle East beyond North Africa.

The banks' southward expansion finds favour politically, in view of the Moroccan government's interests in West Africa. In 2010, the government created the Casablanca Finance Centre specifically to attract financial institutions looking to expand into Africa.

Attijariwafa Bank began its expansion programme in 2005 with the acquisition of Banque du Sud, a small Tunisian bank, but in 2008 it turned its attention to Sub-Saharan Africa with the purchase of Crédit Agricole's retail banking network in five west African countries.

BMCE began building a stake in Bank of Africa, a Mali-based multi-national bank, and in 2012 it took control of the bank. Groupe Banque Populaire began its journey later, taking a stake in the Banque Atlantique, a multi-national bank based in Côte d'Ivoire, in 2012. Since then, it has taken control of Banque Atlantique.

The IMF has estimated that at the end of 2013 Sub-Saharan assets accounted for 20% of Attijariwafa's consolidated assets, 24% of BMCE's consolidated assets, and 9% of Groupe Banque Populaire's.

All three banks cited significant growth in their African operations when announcing their financial results for 2014. In his letter to shareholders, the head of Attijariwafa, Mohammed El Kettani, said that Africa was at the heart of the bank's strategic networks.

Bank Al Maghrib is known to be very focussed on the safety of Moroccan banks' African operations. An 'African Committee' has been created as a forum in which the three banks meet with Bank Al Maghrib to share experiences and information.

The expansion into Africa is an indication of where Moroccan banks' priorities lie – within their own Francophone environment and, to some extent further south, and not in the wider Middle East. But for the banks in the wider Middle East, the strategy of Moroccan banks is an opportunity.

The big Moroccan banks have knowledge, expertise and experience of operating in African countries that are difficult but, when handled correctly, can offer big profits. Very few Middle Eastern banks understand Africa.

Perched on the north west tip of Africa, Moroccan banks have a lot to offer the rest of the Middle East. ■

Large Moroccan banks: financial profile, end-2014 (millions of Moroccan Dirhams, unless stated)

	Equity	Assets	Loans	Customers' deposits	Assets expressed in US\$m
Attijariwafa Bank	40,402	401,884	255,056	257,881	44,378
Banque Centrale Populaire	27,445	309,630	206,082	229,821	34,191
BMCE	20,803	247,243	155,153	161,269	27,302
BMCI	8,074	66,275	51,209	43,291	7,318
Société Générale Maroc	7,560	76,079	55,876	55,125	8,401
Crédit du Maroc	5,930	49,061	35,042	36,976	5,418
Crédit Agricole du Maroc	5,531	84,479	61,558	61,180	9,770
Crédit Immobilier et Hotelier (CIH)	4,303	43,139	32,606	22,429	4,764

Source for data: Bank annual reports

