

Morocco and the global financial and economic crisis Public policy stakes and orientations

SUMMARY

The broad scope and brutality of the current crisis have taken governments worldwide by surprise. Despite the economic stimulus plans adopted and the massive capital injections designed to bail out financial systems, economic players' confidence is still running low and uncertainty pervades the global economic climate. Crisis exit prospects thus remain quite uncertain.

This crisis also stands out given the share of overarching questions it raises about what the world will be like after the crisis. This crisis may have led to concerted action at the international level (essentially, the G20), in an attempt to review financial system regulations, however, this consultation process has not prevented countries from adopting new global negotiation and repositioning strategies, which will have substantial implications in terms of redrawing the world economic and industrial map as well as in terms of International relations.

The high stakes of this crisis call for strategic thinking about the socio-economic prospects for Morocco, and for a reflection that stems from a twofold imperative: on the one hand, to enable the Kingdom to pursue thoroughly its reform process while steadfastly facing the crisis, and on the other, to seize opportunities and avail itself of the major insights emerging with regards to the post-crisis world, and that will have substantial strategic implications on our country.

In an effort to contribute to this process, the Royal Institute for Strategic Studies (IRES) started, as early as November 2008, reflecting on and monitoring the global crisis and its impact on Morocco. Some of its first analytical findings are detailed below.

After being initially spared from the financial crisis thanks to its robust banking system and its low level of exposure to international financial markets, Morocco has been suffering from the repercussions of the global economic crisis since the second quarter of 2008, affecting its export sectors, tourism, the remittances of Moroccan Citizens living Abroad as well as foreign investment flows.

Beyond the direct impact on certain sectors, the current crisis has highlighted structural deficiencies that predate the crisis and which have taken an inevitable toll on Morocco's economy. These deficiencies include limited budgetary sustainability, lack of competitiveness of the economy, a widening trade deficit, a small domestic market in addition to intermittent, yet major, shortcomings in the management of strategic and governance programs.

The government has set up a strategic public-private Watch Committee in charge of anticipating the potential effects of the crisis and of developing contingency plans, that are ready for deployment depending on developments. Initial crisis control measures taken -social, financial and trade related- targeted the sectors hard hit by the crisis (textile, leather, automotive sub contractors, tourism and, recently, electronics).

In 2009, the impact of the crisis will be mitigated by good agricultural output and sustained domestic demand. Nonetheless, the non-agricultural growth rate is set to drop significantly (estimated at 3% as compared to an average of 5% during the period spanning 2004-2008) and the current account balance will slacken. Pessimistic prospects faced by our main economic partners should lead to even more severe developments which might reduce the country's room for maneuver and jeopardize the social and economic gains registered over the past few years.

Within this context, Morocco should resolve the structural issues whose critical nature has been exacerbated by the current crisis as well as actively prepare for after the crisis.

Four major guidelines which may constitute the foundation of a national road map are:

- **First, consolidate the social link through an overhaul of social policies**

The first social imperative is to maintain trust and ensure a peaceful social climate, by expanding human development programs (INDH, education, health), bolstering social dialog and prompting social media fora, specifically **the Economic and Social Council** which deserves to be established swiftly.

In parallel, a profound overhaul of social policies is also in order. It would consist, specifically, of a tree-and-branch reorganization of the landscape made up of national social development players so as to promote more empowerment, convergence and effectiveness while tapping into some of the INDH's accomplishments; the implementation of a progressive reform of the compensation system so as to enhance social equity and economic efficiency and examining the possibility of setting up a mechanism designed to protect jobs and wage-earners, through an assessment of such a mechanism's cost and its economic and social impact.

- **Second, enhance public policy governance for greater coherence, effectiveness and pro-activeness**

Indeed, at the institutional level, the idea is to **lay out an adequate framework for public policy coordination** (inter-ministerial committee, dedicated entity, institutionalization of the "Strategic Watch Committee"). The primary mission of such a framework would be, on the one hand, to lead a **cross analysis of the objectives and coherence of broad sectorial strategies** (Green Morocco, Water, the Azur Plan, Emergence, Education-Training...) in order to harmonize their timeframe and accelerate their implementation and, on the other hand, to carry out an **audit of Morocco's bilateral and multilateral trade agreements**, in light of the new global order and national interests.

The coordination effort should not, however, be limited to the strategic sphere alone. It is paramount to **lay down necessary processes for its operational implementation**, within least concentrated parts of the government, in order to ensure the integration and proper implementation of public and sectorial policies at the local level.

Enhancing public policy governance will also require **mobilizing efficient means of monitoring and assessing the effectiveness of public action**, by **reconfiguring national strategic planning instruments and upgrading the national information system**.

Moreover, public policy implementation and the performance of the administrations in charge of it must also be systematically subjected to regular evaluations.

- **Third, at the economic level, face the challenge of competitiveness and demonstrate accrued vigilance regarding the preservation of some macroeconomic balances**

The most pressing economic effort consists in **finding a permanent solution to the erosion of the national economy's competitiveness**, mainly by promoting greater business productivity and human capital quality. Likewise, **Morocco would gain tremendously from jumping on the bandwagon of technological innovation and change**, by revitalizing higher education and research and developing a **national roadmap for green growth**. Furthermore, the current crisis clearly emphasizes the need to develop a dynamic domestic market, driven by a broad middle class and a fabric of competitive national businesses.

Also, in order to benefit from post-crisis trends, **accrued attention will have to be paid to the preservation of some key macroeconomic balances**

On the one hand, Morocco should harness all the possible means to ensure that its **foreign currency reserves** remain above the **strategic threshold of 6-7 months of imports**. More specifically, major infrastructure and equipment projects should be re-examined in light of their impact on the balance of payments. In addition, it is advisable to bolster outreach and incentive policies dedicated toward Moroccan citizens abroad.

On the other hand, **the management of public finances** should remain **cautious**, through strict surveillance of tax revenue and **special attention paid to the more rigid public expenditure items**, most notably, Government payroll, other operating costs and compensation expenditures. It goes without saying that the sustainability of State finances constitutes the object of accrued vigilance during these times of crisis as well as a field of ongoing reform.

- **Fourth, deepen the kingdom's regional ties:**

The current crisis **emphasizes how decisive it is to be part of robust, integrated regional groups** and calls upon Morocco to **swiftly move forward on the advanced status project with the European Union, to bolster its partnerships with it's African neighbors** as well as to **systematically seize all opportunities to consolidate ties with any country of the Maghreb interested in doing so.**

By hence promoting innovative regional cooperation approaches, Morocco will contribute to the emergence of an area that can serve both as a buffer zone during times of crisis but also as a space to build shared responses and solutions.

Moreover, it will be necessary to **enhance security and migration related surveillance at the regional level**, at a time when greater vulnerability of some Sub-Saharan African countries could lead to accrued trafficking (arms, drugs, smuggling of goods...) as well as to a spike in irregular migratory flows.

Beyond managing the current crisis, Morocco will have to **be especially vigilant about warding off ongoing and long-term threats related to climate and healthcare**, by integrating the environmental dimension in its public policies and adopting adequate prevention and response mechanisms to natural disasters and risks of pandemics.

Morocco will also have to **prepare to contend with water and energy shortages**, which are likely to worsen in the absence of a profound change of production and consumption modes at the global level and spark recurrent, systemic energy and food crises.

Lastly, it will also be of paramount importance for our country to **adopt an ongoing active approach to communication** that is likely to sustain the trust of citizens and foreign partners alike.