The crisis in morocco effects of economic downturn economics essay

The agriculture sector employs nearly 40 percent of the Moroccan population, yet the manufacturing sector remains the major component of the Gross Domestic Product (GDP), along with the services sector and tourism. The real estate sector accounts for 10 percent of GDP. The economic system of the country is characterized by a large opening towards the outside world. Europe remains the primary trade partner of Morocco. Within Europe, France is the main trade partner followed by Spain, Britain, Italy and Germany. Over the last years Morocco signed many Free Trade Agreements that will lead to the total of all trade barriers within three years. Among the various free trade agreement that Morocco has approved with its main partners are the US-Morocco FTA (free trade agreement).

Morocco remained relatively protected from the global financial crisis throughout 2008. However, a significant slow down in the economic activity was reflected in recent indicators and the " emergency plan" put forth to face the consequences of the global crisis focused on selected segments of the manufacturing sector while failing to prevent a downward trend in the economic indicators,"

Morocco in economic crisis

The Moroccan stock market has actually been in decline since mid-March 2008, with the occurrence of the advance crisis in the United States. However, real decline began in September with the start of US banking problems and their effects on the global financial system.

Morocco will be more affected by reductions in trade and foreign investment than by financial decline because of the limited nature of the Moroccan stock market.

The global crisis will lead to a 1. 5 to 2% decline in short-term growth. The group also expects a related increase in inflation, to break 4. 5% for the first time in several years.

I don't think Morocco will face any trouble in strict financial terms. However, the annoyance of the global financial crisis, the speed of its spread and its move from finance to the economic circle will undoubtedly lead to shrinking world demand for Moroccan industrial products and services.

To be more protected and in terms of prevention, the Moroccan government has stated various strategies in order to be less affected and prevent any decline in the economic activity also put forth a very ambitious program of public investment for 2009, which is expected to pay compensation for any decrease in external demand.

Moroccan tourism expected to suffer from global financial crisis

In Morocco, tourism represents one of the sectors that are the pillars of our economic activity. Given that Morocco is a country that, although not so perfect, does enjoy very beautiful nature, tourists do not hesitate to come visit and explore it. They explore its charms and its marvels, and they satisfy their desire for discovery. The citizens of this country measure the statistics of the civilisation, and there are many problems with tourism. For example, the prices are rising in Marrakech and there is a lack of roadway organisation, a lack of drinking water, a lack of property and so on.

The global financial crisis is expected to delay Morocco’s tourism sector and affect plans to increase its revenues, Moroccan officials and tourism experts warned recently.

Even though previous year’s satisfying numbers for 2009, fewer tourists are expected in the coming years.

The year 2009 was certainly tough for the Moroccan tourism industry, due to the unfavourable international situation and sensitive competition.

The country’s tourism depends heavily on European visitors, and the financial difficulties swarming Europe are beginning to materialise in Morocco.

Tourist destinations in Marrakech, Tangier, Fez and Casablanca are already recording fewer reservations, compared to previous year.

We need to tighten our belts until the economic crisis subsides. Tourism experts warned that “ Vision 2010”, the government’s plan to attract 10 million tourists in the year 2010 including building new resorts and attractions, could be hindered. Nevertheless, the government remains optimistic.

Private sector operators plan to lobby the Ministry of Tourism to implement a plan to cope with the impact of the international crisis on national tourism.

Their action plan will involve a strategy of “ targeted diversification” and entry into new markets such as the Far East, Russia and the Middle East.

There is no hesitation that tourism in Morocco is sensitive and requires reconsideration of policies adopted by the government. The challenge levied by the government “ attracting 10 million tourists in 2010” is difficult. This is because the recent financial crisis has made the achievement of this goal difficult. But I am wondering, is this really the country which has all components of giant tourism? While we find that a small island really achieves this goal annually. It is sure that reality has other data. Prices of RAM are the highest. So will the tourist choose to spend a week in France at 300 euros or travel to Morocco at the same price? I don’t think there is someone who will choose Morocco except someone who would like to discover the cause of these high prices. Then he will be astonished for the cause. In the face of this reality, it seems that the government no longer makes a difference between its priorities. Now we hear unfortunately about Morocco as a destination for sex tourism. This causes disequilibrium in the components of the Moroccan society in accepting tourism.

The Outcomes of the Financial Crisis on Morocco:

The impact of the financial crisis on the Moroccan economy is reviewed over three stages. The first stage reflects the end of 2007 and the three first quarters of 2008. At the time there was no clear external shock although Morocco is very dependent on oil imports. The economic growth was high, and driven by domestic demand and public infrastructure. Domestically, and despite the deteriorating financial situation in the US and Europe, the banking credit in Morocco was still growing, the stock market was expanding and unemployment was declining. In addition to these positive indicators, Morocco was unaffected by the international crisis. The positive outlook was due to three pillars: a solid banking sector, a healthy stock market with mostly local investors and a restricted capital account. Moral: Morocco has made the right choices in the past years and it is reaping the benefits of its wise reforms instituted previously.

The second stage is marked by the fourth quarter of 2008; parallel to the recession in Europe, Morocco's main trade partner, the slow down symptoms were detectable in the stagnation of the real estate market, the downward trend in the stock market and the decline in the volume of the transfers. So far, the impact was not reflected in the local indicators and it was expected to be very limited since the Moroccan growth was mainly driven by domestic demand.

Therefore, the Moroccan government sought to prevent any deterioration in the economic activity and put forth a very ambitious program of public investment for 2009, which is expected to compensate for any decrease in external demand. In addition, a finance law was introduced in early 2009 to cut income taxes. The measure was expected to boost domestic consumption.

The last and final stage begins in early 2009, the repercussions of the international financial crisis started to be felt in the Moroccan economy: a significant decrease in exports of garment and leather products, some manufacturers started to close down because of the exchange rate effect of the BP that lost 40 percent of its value. Others have no visibility for the future and the real estate market, notably the luxury segment, is declining. Despite all these negative aspects, Morocco was still denying any externally borne crisis. The potential impact of the crisis is expected to be very limited, yet the government expressed its readiness to support the sectors that may be hit by the crisis and announced a very optimistic 5 percent growth rate for 2009, while maintaining its investment program. The main action was reflected in the establishment of the Strategic Intelligence Committee (SIC), a joint body between the public and the private sectors that was in charge of drafting an “ Emergency Plan” to fend off the negative external pressures and uphold the Moroccan economy.

The Emergency Plan:

The idea of an “ emergency plan” emerged and the first draft was put forward before the Cabinet in January 15th, 2009. The final version of the “ anti-crisis” plan was endorsed by the government on February 24, 2009, without any parliamentary ratification or involvement. The prompt action prevented any public debate. The rationale behind this action: the temporary international crisis was faced worldwide by quick actions of both the Governments and Central Banks to support the various economies. In Morocco, some sectors that have clear long term strategies were facing difficulties. Although the entire economic sectors were declining, the Emergency Plan covered only two sectors: the textile and leather industries (representing only 20 percent of manufacturing firms, 39 percent of the employment and 39 percent of exports) and the automobile industry (roughly 1 percent of manufacturing firms, 10 percent of employment and 17 percent of exports). The rest: 79 percent of manufacturing firms, 51 percent of employment and 17 percent of its exports, was left uncovered, with no mention of any reason for this exclusion. The implementation started on January 2009 for a period of six months renewable once.

The plan focused on three axes: social, financial and commercial measures.

The main objective of the social measures axe was to uphold employment and social coverage of employees at the 2008 level: it was translated in the settlement of 100 percent of the employer's social security contributions by the government. However, only a portion of the companies were eligible to benefit from this plan: those that enjoy a sound fiscal administration and social security coverage.

The objective of the financial measure covered by the plan was to ensure access to financing, in this framework; the state provided a guarantee of 65 percent of extended credit banks to companies. The measures were aimed at allowing the textile manufacturers and the leather and automobile industry to benefit from this plan.

The third objective was to support Moroccan exports by launching a targeted communication campaign in Morocco's traditional markets. The government provided 80 percent of the marketing expenses to reinforce or diversify markets. Another measure was implemented: reducing the export insurance premium from 3 percent to 1 percent. The last measure was to increase the share of exports covered by risk insurance from 50 percent to 80 percent. Companies eligible to benefit from these commercial measures were those enjoying a fiscal administration and social security plan with a promotional program for six months. One must note that very limited information is available on the efficiency of the plan. Finally, the major actors involved in the emergency plan are: official authorities (Government and Central Bank), political parties, trade union, labour unions and the civil society.

The Moroccan government and private sector professional association signed an agreement providing direct aid to companies in the textile, leather, and automotive equipment sectors, which have suffered most from the world economic crisis.

The measures are primarily aimed at protecting jobs and production facilities, and can therefore be seen as a component of the effort being made by the government as a part of the social dialogue process; also the prime minister presides over the Moroccan automotive trade and industry association.

The agreement is comprised of other key emergency measures besides what I mentioned above.

The first deals with protecting jobs. The government promised to take on 20 percent of employer contributions, such as salaries and health insurance, and promised to protect 95 percent of jobs. The state would also assume financial responsibility for staff training throughout the crisis, and would assist people who have lost their jobs.

The state would also help companies improve liquidity by stepping up state guarantees to finance working capital requirements and placing a possible moratorium on the repayment of current long-term loans. Bank would help companies by spreading payments.

The Moroccan professional Banking Group will carry on without effort, as it continues its support both for export sectors and for trustworthy projects, to promote investment that is productive in terms of creating both wealth and jobs.

The last emergency measure concerns trading. The government would give special treatment to the textile, leather, and automotive sector upon export of their products, particularly with the export insurance. Financial support would also be provided to seek out external markets. The government would take on 80 percent of their canvassing costs.

The problem that even the government stated many measures to be protected from the global international financial crisis, it faced that the measures put in place are not enough, and have not been completely accepted by companies; also the measures are certainly not spectacular.

The agreement between the government and the professional association involved also established a monitoring committee comprised of representatives of relevant ministerial departments and of professional association. The committee would guarantee the implementation of the agreed-upon emergency measures.

Morocco showed new plan to help small farmers

The Moroccan government announced a new strategy to promote and modernise the agriculture sector while also increasing incomes for small farmers. The minister of agriculture and rural development presented the plan which anticipates mobilising investment worth 11 billion Dirhams per year, constructing 1, 500 new projects and generating thousands of new jobs across the kingdom.

The success of the plan however depends on the government’s ability to convince farmers to participate, according to president of the Moroccan Agricultural Federation.

Morocco has made significant progress on the level of individual and political freedoms, since the Moroccan government is no longer as it was before, when the state used to force the farmers to quit growing grains and replaces them with more productive crops, so concluding that instead, it has to convince them to do so through dialogue and persuasion.

The small farmers will replace grains with crops which produce higher yield and consume less water is one of the priorities of the new strategy. The small farmers will generate bigger incomes by ending their reliance on grains because grains occupy 5 million hectares, or 71 percent of Morocco’s total agricultural land. However, 3 million hectares cultivated with grains are not suitable for such a crop and therefore reap a very low harvest of no more than 8 kantars on average.

But getting small farmers to make the change requires money. The first step is bringing them together in unions, co-operatives and providing these entities with sufficient funding.

The small farmers who cannot obtain regular bank loans will be financed through a specialised financial company created for this purpose by the government. As for the big farmer they can access regular bank loans as well as the special funds.

Summary

In my opinion, the global crisis has negatively influenced Morocco’s economy, particularly the tourism sector. It is true that the heads of and decision-makers for hotel establishments remain optimistic, but that does not stand in the way of the fact that most hotels have had disastrous returns compared to last year. Measures have been taken to cut rates in the hopes of increasing activity a little bit, while minimising costs through better performance with a minimum of human and material resources.