The Moroccan economy facing the global health crisis (Covid-19)

Azzedine GHOUFRANE\textsuperscript{a} and Sabrine DARBALI\textsuperscript{ab}\textsuperscript{*}

\textsuperscript{a}Faculty of Juridical, Economic and Social Sciences - Souissi, Mohammed V University, Rabat.

\textsuperscript{b}PhD Candidate in comparative law and integration process at the Jean Monnet Department of Political Science of the Luigi Vanvitelli University of Caserta/Italy.

\textsuperscript{*}Corresponding author: E-mail: Sabrina.darbali@gmail.com

SUMMARY

Like other countries in the world, Morocco has been affected by the Coronavirus. With more than 77,800 cases detected and a rising mortality rate, the situation quickly became critical for the Moroccan government given its limited resources. To contain the situation and control the spread of the virus, the government adopted a series of proactive measures, including declaring a state of public health emergency, confinement, and enhanced testing for potential cases.

However, the economic recession and rising unemployment will be the logical consequences of these measures taken to limit the spread of the virus, characterized by an almost total halt in the circulation of production factors. Thus, the impact of this pandemic in most emerging and developing economies is likely to be much worse, the damage caused by the virus is considerable and will undoubtedly have long-term implications that will cost the global economy dearly.

Consequently, as a consumption savings, trade, and tourism economy, whose structure is linked to external and domestic demand, to which the balance of payments and public finances are highly sensitive, Morocco could suffer significant losses in 2020. On the other hand, risks of reduced external supply and demand, particularly from the EU, could arise in the future in some sectors. The impact of the pandemic on the Moroccan economy is very difficult to assess because no one yet knows when it will end. The pandemic has not spared any sector and could delay economic recovery significantly. The shock of Covid-19 suddenly pushes the Moroccan economy into a severe recession. This raises the question: How deep will the recession be? In this context of uncertainty, we will therefore try in this article to assess the impact of the global health crisis on the economic activity and economic growth of the Kingdom of Morocco in 2020.
Introduction

In 2018, WHO published a report in which it discussed the unknown, implying a health crisis that it knew was going to happen, but not the precise form it would take.\(^\dagger\) The emergence of the new Coronavirus (Covid-19) caused a global pandemic for which there are no vaccines or medications. The epidemic raised major public health concerns around the world. At the same time, the economic consequences are of increasing concern, as households are forced to remain confined to their homes to contain the spread of the virus.

The current situation is unprecedented, having serious consequences and leading to a disruption of global economic activity. There has been a negative impact on the world stock markets and sectors such as tourism, manufacturing, construction, etc. The spread of the Coronavirus drastically reduced activities around the world: demand for oil collapsed and for the first time, on 20 April, the barrel of crude oil quoted in New York finished below zero dollars.\(^\ddagger\)

Compared to the looming economic disaster, the financial crisis of 2008 looks more and more like a joke. Already now, the collapse in world production that we are witnessing equals or even exceeds anything we have seen for more than a century. We are facing a tumult in the global economy. Since this collapse of the year 2020 is at the same time a demand shock,\(^3\) a financial shock,\(^2\) and a supply shock,\(^1\)

Covid-19 promises us a triple economic shock and to deliver all of the above in one package. The reminder of these shocks is interesting, since they allow us to rethink the consequences of unprecedented magnitude. But they say nothing, for all that, about the resilience of a society whose economy is globally integrated, and which had lost almost all memory of the risk of infection. The situation we are living in is different from any that previous generations may have experienced. Will we be witnessing "complete demon-globalization" on a national basis, as we sometimes have been told since the arrival of Covid-19?

We have gone from a localised shock, threatening a few supply chains, starting with China, to a generalised (symmetrical) shock that alters simultaneously the demand and supply globally. This type of synchronous shock has a much stronger impact in terms of multiplier effects than a localised shock. The impact is no longer counted in a few tenths of growth points, but in growth points, as in 2008.\(^2\)

1. Methods

Struck by the same health crisis, governments are reacting remarkably closely to the resulting economic difficulties. On another unusual scale, public measures seek to protect business and employees, to enable a rapid exit from the crisis. But the damage will inevitably be great. The impact

---

\(^\ddagger\) See McCauley, R. and Schenk, C.R., Swap innovation, then and now.
of Covid-19 on the economies of developing countries, like the Kingdom of Morocco, has barely begun to be revealed. There is a good reason to believe that these countries will be heavily impacted by the pandemic than advanced economies. After all, the most dynamic among them are basing their growth on exports, which will inevitably collapse as the global economy contracts. Unsurprisingly, global investment flows are plummeting, as are commodity prices, indicating big problems ahead for most of these countries.

2. Results

The economic impact of Covid-19 is likely to be felt in Morocco because of the significant opening of the Moroccan economy and the high degree of Morocco's dependence on the outside world. On the one hand, direct trade in goods and services between China and Morocco is under pressure. On the other hand, there is an indirect impact due to the strong integration in global value chains: when economic activity slows down somewhere in the world, repercussions are also noted in our country, due to the interconnections with many intermediaries. Moreover, if the virus begins to affect Morocco on a large scale as well, Moroccan companies will face staffing problems. Economic activity is already declining and will hardly pick up again until the pandemic is brought under control and fear ceases.

We are facing an exogenous shock. The various lock-in measures in response to the Coronavirus have halted economic activity in some sectors and severely disrupted others. Services are particularly affected and consumption is expected to fall to a record low. The resulting job losses and bankruptcies are likely to create significant economic tensions for a large part of the population.

The Moroccan economy is facing an unprecedented turmoil. It is a recession caused by a triple shock: a demand shock, a supply shock, and a financial shock. Coronavirus promises to deliver them all in one package. The demand shock is clear and obvious, as the global population is quarantined, inflicting a severe blow to all consumer services. Estimates of the impact vary widely, still a significant drop is expected (the International Monetary Fund (IMF) forecasts a 3.7% drop in Morocco's GDP in 2020, and unemployment at 12.5% after 9.5% in 2019). Tourism and travel are on the front line. Already the share prices of airline companies have fallen by 50%. Beyond that, the real differences in forecasts surround the speed of recovery in the following quarters and this, of course, depends on national policy.

Similarly, the supply shock is widespread. While we know that supply chains are long and complex, the real threat is that we do not know the potential choke points as the mapping of supply chains is obscure. Finally, on the financial and monetary side, Morocco was able to respond early to these needs, which suggest that there are already signs of a liquidity crisis. The crisis has led to a collapse in tourist arrivals, foreign direct investors and transfers from Moroccans living abroad, that are the three main providers of foreign currency for Morocco. On 7 April, the kingdom drew on the Precautionary and Liquidity Line (LPL), made available to it by the IMF, for an amount equivalent to nearly 3 billion USD, repayable over a period of five years, with a grace period of three years.

† † † The same source predicts that the economy should subsequently recover by 4.8% in 2021.

years. Thus, small and medium-sized enterprises will not be able to follow the squeeze on cash flows too long before defaulting or having to reschedule bank loans (one solution among others proposed by the Moroccan Central Bank, Bank-Al-Maghreb (BAM)).

The purpose of specifying this triple shock is that Morocco must act on all three fronts simultaneously to have a significant impact.

3. Discussion

In this global technocracy, almost everyone has access to a personal digital device. So the limiting factor for successful digitization is industry rather than the public. The industries that survive the Covid-19 crisis are those that do not need to digitize or can digitize completely. From kindergartens to universities; every educational institution has online courses. Some are even pre-recorded. Homework is at the click of a button. This new system has led to savings, and one wonders why this was not more common before. Although several other sectors are suffering because they cannot partially or totally digitize.

The Moroccan economy reached its lowest level in 20 years and the main cause was the drought and the spread of Covid-19. The Moroccan Center for Economic Studies (Centre Marocain de Conjoncture (CMC)) has revised its economic growth forecasts for 2020. After a forecast of 0.9% a few weeks ago, the CMC is now much less optimistic, expecting a substantial decline of -3.2% in GDP.

1. Impacts on Tourism

The Covid-19 crisis has heavily impacted certain sectors, forcing companies to stop their activity permanently or temporarily. According to the High Commission for Planning (HCP), the sectors most affected by this crisis are accommodation and catering, with 89% of companies recording a complete work disruption.

Another study carried out by the National Confederation of Tourism (NCT) has evaluated the impact of this health crisis at 34.1% billion DH of loss in terms of tourist turnover in 2020 and 14 billion DH of loss in turnover for the hotel industry, with an overall nearly 6 million tourists, which will cause a total loss of 11.6 million overnight stays. And no less than 500,000 jobs and 8,500 businesses would be threatened. The impact on the sector's foreign currency turnover is likely to be heavy.

Admittedly, it is difficult to digitize international travel. Moreover, now that the world is more digitalized than ever, we don't need to travel as much as we used to. So it will be curious to see what will be left of the airline industry when these blockages are over.

On what concerns the preparation for recovery after several months of confinement, the Moroccan National Tourist Office (ONMT) has set itself the goal of stimulating national tourist demand and invite national citizens to travel in their country as soon as the state of health available at:

https://cmconjoncture.com/cmc/publications/detail/maroc-conjoncture-n-323


emergency was lifted (remember that the Moroccan borders remained closed even after the confinement, only Moroccans resident abroad or foreigners resident in Morocco had the opportunity to access the Moroccan territory).

And according to a survey conducted by the Office during the confinement, Moroccan citizens expressed a strong desire to travel within their country after the closure. But first of all, he wishes to be reassured about health safety measures and standards, and also to have access to promotional offers adapted to all regions of the Kingdom.

In response to these expectations, this office has launched in collaboration with the Regional Councils of Tourism (CRT) several communication and marketing campaigns to promote the advantages of the regions and their promotional offers adapted to the Moroccan clientele.

Even with all its measures to try to save the tourism sector, Morocco expects tourism revenues to fall by 70% this year due to the impact of measures taken to curb the spread of the virus within the country.

2. Impacts on Foreign Trade

Traditionally, Morocco’s foreign trade has focused primarily on trade with EU countries (58.6% of Morocco’s trade at the end of the previous year). This trade is mainly driven by Morocco’s trade with its two main trading partners, Spain and France (respectively 18.7% and 15.5% of Morocco's trade, i.e. 141.1 billion MAD and 116.9 billion MAD).

The United States is the third largest trading partner, with Morocco having traded with them the equivalent of 6.8% of its trade. It should be noted that trade with the United States has strongly increased (+29.9%) and this since 2018, after a tripling of imports of aeronautical equipment. The Chinese economy, for its part, has a less pronounced impact on the Moroccan economy: China occupies the fourth position, its trade transactions with the Kingdom amounting to 49.8 billion MAD (or 6.6 of Morocco's trade). Compared to Moroccan exports, which fell by 14.7%, imports from China have increased sharply in one year (+19.5%).

These statistics show the fragility of Morocco’s open economy dictated by its great interdependence in the global value chain. When the economic impact of the virus is felt among Morocco’s main trading partners (due to the stagnation of production or trade with China or another infected country), the Moroccan economy will also quickly suffer the negative consequences.

The virus will also exert an influence in the rest of the world, firstly because it is spreading all over the world, but also because China has become a major global economic player. Indeed, in recent decades its economy has experienced double-digit growth rates and has become the world’s second largest economy (with a 15.8% share of world GDP and a 12.8% market share of world merchandise exports).

In addition, Morocco’s trade balance was already suffering from the strong spread of the virus among our main partners, particularly the European Union. This spread has caused a drop in foreign demand, disruption of supply chains, to which has been added in Morocco, the halt of several sectors exporting or consuming imported goods.

Indeed, at the end of March (first quarter of the year 2020), according to statistics from the Office of Foreign Exchange, imports fell by 5.1 or 6.3 billion DH to 117.3 billion DH (excluding cereals, which recorded an increase

### Footnotes

1. A survey conducted on social networks.
of 13.6% or 1.7 billion DH, whose purchases are increasing because of the drought).

On the other hand, a drop of 10.6% or – 8.112 billion DH of exports which amounted to 68.2 billion against 76.329 billion DH a year earlier. These underperformances have erased the meager achievements of the first two months of the year, so no export sector is spared. This decline follows the decrease in sales of the majority of sectors:‡‡‡‡‡

- Automotive: 15,418MDH against 20,641 MDH, or -25.3% or -5,223MDH;
- Aerospace: 3,409MDH against 4,218 MDH, i.e. -19.2% or -809MDH;
- Textile and Leather: 8,739MDH against 9,396 MDH, i.e. -7% or -657MDH (The turbulence experienced by major international groups would impact Moroccan companies in the sector. According to operators, the sector is experiencing a series of disruptions in orders and even cancellations. This would have an inevitable impact on turnover and consequently on orders);
- Hydrocarbons: As a result of the economic downturn, containment measures and the ensuing sharp contraction in demand, crude oil prices on the international market fell dramatically. The price per barrel collapsed to $11 per barrel around the third week of April 2020, returning to its mid-1980s level. In Morocco, prices at the pump have fallen to 20-25%.
- Phosphates and derivatives: 11,017MDH versus 11,585MDH, i.e. -4.9% or -568 MDH (Considered as one of the jewels of the Moroccan economy and one of the main providers of funds, the OCP group (Cherifian Phosphate Office) has not been spared by Covid-19, insofar as exports of phosphates and its derivatives will decline by 40.1% in value according to forecasts);
- Agriculture and Food: 19,900MDH against 20,413MDH, i.e. -2.5% or -513 MDH;
- Electronics: 1,816MDH against 2,255 MDH, i.e. -19.5% or -439 MDH;
- Other mining extraction: 787MDH against 1,072MDH, i.e. -26.6% or -285MDH;
- Pharmaceutical industry: 272MDH against 325MDH, i.e. -16.3% or -53MDH.

Needless to say that the situation of foreign trade will further deteriorate following the consequences lockdown in Morocco, the halt of several sectors, the closure of boundaries that caused a decrease in tourism activity…, several factors will lead to a shock already predicted by analysts and economists, a shock that will probably be mitigated by a more pronounced decline in imports because of the freeze on investments and the decline in energy bills.

### 4. Conclusion

In our interconnected world, whenever a global crisis occurs, governments must decide whether discrimination against foreign suppliers is part of the solution - or foreign resources and know-how can be exploited for mutual benefit. Decisions to sacrifice open borders on the altar of another objective are usually influenced by the actions - real or perceived - of other governments. At such times, written and unwritten international rules are tested, with consequences that may last long after the crisis has

dominated the headlines. The Covid-19 pandemic is no exception.

This pandemic is undeniably a turning point for public health and the global economy. Its political implications, both short and long term, are less understood; its impact on the economy cannot be measured. To date, it remains very difficult to interpret these data. Undoubtedly, it will cause enormous damage to all service sectors and commodity production chains that have been disrupted at the national and international levels. The trading system, which is the spirit of the economy, has come to a halt. We are still at the beginning of the crisis, and we do not know where it will go. Even for China, which has begun to see light at the end of the tunnel in recent days, there may be setbacks, nothing is certain.

No one expected that European countries with strong health facilities would face a situation threatening to paralyse their health systems. As far as the situation in Morocco is concerned, what we want is to benefit from the hard experiences of other countries and not repeat their mistakes of procrastination in a global response to this global epidemic.

It should also be recognized that the backdrop for all is characterized by the uncertainty of this virus. The economic effects of the current pandemic remain unclear as to their severity and sustainability. Markets might have reacted more positively without it. Only time will tell.

Conflict of Interest

No conflict of interest

References

- McCauley, R. and Schenk, C.R., Swap innovation, then and now.
- McCauley, R. and Schenk, C.R., Swap innovation, then and now.

• Research paper by Policy Center for the New South, «Has Morocco Benefited from the Free Trade Agreement with the European Union?», February 2020.

• Data available on the website of the Office of The United States Trade Representative, Executive Office of the President, https://ustr.gov/countries-regions/europe-middle-east/middle-east/north-africa/morocco