Stabilisation or Modernisation? New Challenges for Economic Reform in the Maghreb

Gonzalo Escribano
Lecturer in Economic Policy-Applied Economics and Member of the International Economic Policy Research Group, UNED, Madrid

Ever since the crisis of the 1980s, economic reform in the Maghreb has focused on macroeconomic stabilisation, with the goal of providing a healthy economic base to favour growth. Unlike its achievements in the field of macroeconomic stabilisation, the Maghreb has proved incapable of progressing in the field of microeconomic, structural and administrative reforms at a comparable rate to liberalise its economic system and enter into a phase of sustained acceleration of growth based on the pressing need to increase the productivity of its economies.
This article highlights the fact that the window of opportunity for carrying out these reforms is limited and that there is an urgent need to speed them up. If this does not happen, the sustainability of key elements such as macroeconomic stabilisation, increased production, integration with the EU and the promising, but fragile, acceleration in economic growth of recent years could be very seriously affected. Outstanding reforms include privatisation, tax reforms, overhauling the administration and financial sector, as well as improving the institutional context. In combination, these reforms pave the wave for a move from a logic based on macroeconomic stabilisation to one based on macroeconomic and institutional modernisation.
Looking at the current outcome and future prospects for microeconomic reforms and macroeconomic balances shows a mixed situation. Although things have greatly improved in comparison with the 1980s, the 1990s saw rate of reforms stagnate. The current decade has witnessed the same firmness with regard to macroeconomic stability and greater dynamism in microeconomic reforms in Morocco and Tunisia, where liberalisation is advancing slowly and unevenly, depending upon the sector. In Algeria and Libya, there is a systematic failure to meet promises to introduce reforms. Increases in oil and gas prices have, paradoxically, proved a serious obstacle to opening up the economy, since they bolster the rentier sector and create resources for maintaining the state's "clientele" structure, weakening the short-term requirement for reforms.
On a microeconomic level, opening up the economy regionally (i.e. to the EU and, for Morocco, the USA) and multilaterally (for the World Trade Organisation, WTO) calls for a speeding up in reforms and broadening their scope so that Maghrebi businesses become capable of competing in their national and international markets. This pressure in favour of competition bolsters moves for reform, but internal resistance from protected industries, the public sector and part of the administration are delaying the adjustments and the implementation of policies to improve the investment environment and productivity. As already noted, the window of opportunity for reform is small, since it ends with the full industrial liberalisation with the EU from 2012, depending upon the different timetables stipulated in each Association Agreement. If reforms do not progress more quickly, the application of safeguards may be perceived as inevitable, damaging the credibility of the free trade area with the EU and, therefore, the urgency of the reforms. These will be decisive years, especially in Tunisia and Morocco, for the Association Agreements to have the desired effect of modernising Maghrebi economic structures and institutions. Algeria and Libya should also take advantage of favourable crude prices to initiate reforms to modernise and diversify their production structures.
Macroeconomic policy has improved, although large-scale macro balances still suffer from a certain degree of fragility. There are doubts about Algeria's

ability to manage income from gas and to apply fiscal and monetary policies to manage internal demand and current expenditure, but current crude prices create large budgetary surpluses, which in 2006 and 2007 reached 15% and 11% of GDP, respectively[1]. Libya, with a strong surplus in its public accounts, is in a similar position. In Morocco, fiscal consolidation has barely progressed, whilst current expenditure has increased and public investment stagnated, creating problems of sustainability in the short and medium term. The public deficit is moderate (2.4% of GDP in 2007 compared with an average of 4.6% between 2000 and 2005) and forecasts point to a gradual decrease if the economic growth of the last few years is maintained. Tunisia shows more positive results from the point of view of fiscal consolidation, with an equally moderate fiscal deficit (-2.9% of GDP in 2007), even though current expenditure is showing something of an upward trend to increase the economic legitimacy of the regime. Reductions in tariffs by Morocco and Tunisia represent a challenge to fiscal reform that cannot be put off any longer, something that is also true for the remainder of microeconomic reforms.

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Foreign balances have also improved, despite the high non-energy sector deficit. Only Tunisia shows a moderate (if persistent) current account deficit of around 2-3% of GDP, whilst Morocco alternates equally modest surpluses and deficits. Algeria and Libya record strong and increasing current account surpluses, due to the rise in crude prices, which has in the past led to serious difficulties in managing balances on a macroeconomic level and preventing them impacting the monetary market and, with it, inflation. Debt interest remains significant for Tunisia, at around 15% of exports, and although it has fallen substantially for Morocco (8.6% of exports in 2007 against 26.4% in 1995-2000), it continues to seriously affect economic growth. On the other hand, neither Libya nor Algeria have problems with debt, to the point that Algeria has paid its off in advance and keeps to a strict no-debt policy. Inflation remains under control, although price increases in basic products have been recorded, above all in food products, which has had a negative impact on the purchasing power of the poorest sectors of the population.

Results in terms of growth and development vary from country to country and, although clear improvements have been made, there is agreement amongst economists that potential growth rates are not being met: the problem being not so much the rates themselves but rather their volatility. Morocco's economy grew 8% in 2006, close to its potential rate, but only 2.5% in 2007, below the 6% considered necessary to absorb the new workforce joining the labour market every year. Algeria grew close to 5% in 2007 and 2.5% in 2006. Tunisia, on the other hand, keeps to a more sustained growth trend of around 4-6%. From 2004 to 2006 Libya grew at rate close to 6%, but 2003 saw it with negative growth of -3%. Despite these ups and downs, per capita income has increased substantially. According to figures for 2007, PPP (purchasing power parity) per capita income reached $7,778 (current) in Algeria (against $3,874 in 1995), $5,345 in Morocco ($3,005 in 1995) and $9,239 in Tunisia ($4,484 in 1995). In Libya, the figure stood at more than $11,500 in 2006.

Despite all this, the social situation remains highly complex. Poverty, unemployment and the inability of public services to absorb demographic growth lead to greater uncertainty with regard to the economic (and political) future of the Maghreb. Unemployment remains at high rates, and although it has fallen significantly in both Algeria (14% in 2007 compared with 30% in 2000) and Morocco (from 22% to 10% between 2000 and 2007), and stays at 14% in Tunisia, these figures conceal a lot of underemployment and high rates of youth unemployment. Although poverty is not seen with the same intensity as in other developing countries, living conditions in the countryside and the outlying parts of large cities are highly unsatisfactory, especially in Morocco, where poverty affects

[1] All data is taken from FEMISE (2008), except that for Libya (World Bank 2007)

14% of the population (8% of the urban population and 22% of the rural one). Fiscal difficulties, the inefficiency of the public authorities and the volatility of economic growth have proved an obstacle in the past to continued improvement in the quality of life, except in Tunisia. Although the demographic transition will slow down demographic growth, it will not begin to alleviate pressure on the labour market and public services for a number of years, and thus migratory movements and socio-political problems will not disappear, even if they will not worsen at the rate they have done in past decades.

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Lastly, the chief uncertainty currently affecting the economies of the Maghreb is not economic in origin, but rather socio-political. Doubts exist as to the political will of governments to progress with reforms and to create a stable framework for investment, in the light of situations of internal political instability. In the short term, governments may feel tempted to postpone microeconomic and institutional reforms and slow down their macroeconomic stabilisation efforts so as not to exacerbate social discontent and retain their economic, if not political, legitimacy. Any delay in these reforms could increase the cost of carrying them out in the future, thereby entering a spiral like that which led to the economic crises of the 1980s.
To sum up, microeconomic reforms and the strengthening of institutions, which are keys to modernising the output of an economy and boosting productivity, have not progressed at the same rate as that of macroeconomic stabilisation. This uneven result of economic policy is due to technical and economic policy reasons. Technically speaking, macroeconomic reforms are simpler to carry out. They generally have fewer institutional requirements, since the number of decisions and affected players is relatively small, unlike the case with microeconomic reforms, which involve a larger number of transactions and players. From an economic policy point of view, even though macroeconomic stabilisation also involves the appearance of winners and losers, structural reforms allow for a more accurate and visible redistribution of income, thereby creating greater political difficulties. This difficulty is clear in purely rentier economies, such as those of Algeria and Libya, but also in Tunisia and Morocco, where the collection of rents remains a central element of the political scene and one of the focuses of business life.
In recent years a change (albeit modest and gradual) has been seen in Tunisia and Morocco, in favour of accelerating reforms and modernising economic institutions. One can begin to glimpse a transition in economic policy towards a greater emphasis on microeconomic matters related to increasing productivity and modernising their production apparatus, infrastructures and the institutional environment. This economic modernisation must begin with the public sector evolving towards the logic of a service state, and focusing on providing its citizens with services, including key infrastructures. This transition towards modernisation appears to be bearing fruit in terms of economic growth, particularly in Morocco, but this should by no means be regarded as irreversible. Stress should be placed on the fact that there is a small window of opportunity for microeconomic and institutional reforms, and that there is an urgent need to speed them up if doubts are not to be raised as to their credibility, the sustainability of macroeconomic stabilisation, the benefits of the Association Agreements with the EU and the incipient speeding up of economic growth of recent years.

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