

Euro zone crisis influence on Maghreb countries (Tunisia, Algeria, Morocco) economies

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Abstract:

Faced by two consecutive crises, the euro zone reduced growth and its influence extended to various countries around the world. The first was the global financial crisis in the United States touched, which affected dramatically Europe. As soon as the Euro zone began to recover, a deep sovereign debt crisis surprised it. Although the procedures taken by the euro countries and other international institutions, it still threaten the world economy.

Arab countries were also touched by the consequences of the sovereign debt crisis. It varied from one country to another depending on the degree of integration and the interdependence of its economy of the economy of the euro area. This study will focus on the impact of the euro zone crisis on the economies of the southern Mediterranean countries of Tunisia, Algeria and Morocco, through a set of economic indicators.

key words : The euro zone crisis , sovereign debt , countries of the Maghreb.

الملخص:

واجهت منطقة اليورو أزميتين متتاليتين أدت إلى تراجع النمو في المنطقة وامتد تأثيرها إلى مختلف دول العالم نظرا لترابط الأسواق، وأولهما كانت أزمة مالية عالمية بالولايات المتحدة الأمريكية مست آثارها دول أوروبا بشكل كبير وما إن بدأ التعافي حتى فوجئت منطقة اليورو بأزمة ديون سيادية عميقة، ورغم الإجراءات المتخذة من قبل دول منطقة اليورو ومختلف المؤسسات الدولية إلا أن آثارها مازالت تهدد اقتصاديات دول العالم.

الدول العربية هي الأخرى مستها تبعات أزمة الديون السيادية واختلفت الآثار من دولة إلى أخرى حسب درجة اندماج اقتصادها وترابطه باقتصاد منطقة اليورو، ومن هنا سنركز الدراسة على تأثير أزمة منطقة اليورو على اقتصاديات دول جنوب المتوسط تونس، الجزائر والمغرب من خلال مجموعة من المؤشرات الاقتصادية.

الكلمات المفتاحية: أزمة منطقة اليورو ، الديون السيادية، دول المغرب العربي.

Introduction.

Following the severe sovereign debt crisis, many non-Member States in the euro area were touched by its consequences. It has threatened the stability of the global economy. The Arab countries were also stroked by the crisis depending on the degree of integration and the interdependence of the economy of the euro zone. Since the southern Mediterranean countries economy, where the euro area is the primary economic partner, therefore there is a multi channel of the impact of the euro zone on their economies. What are the effects of the sovereign debt crisis on the euro zone and the economy of countries of the southern shore region; Tunisia, Algeria and Morocco? We will try to clarify these effects through the following elements:

First: the roots and causes of the euro zone crisis

Once again the world is facing a financial crisis that threatens the stability of the global economy. The increase of the entire governmental debt and the fear to repay it led to the sovereign debt crisis.

1- Sovereign debt definition:

Sovereign debt is when governments spend more than tax revenues during a certain period, which urge it to finance the deficit by debts. If the state generates more tax revenue than the spending, in this case it has a surplus to pay off existing debt (Fernando M. and Christopher J. Waller, 2012, p322), while in the opposite case, it is a formal bankruptcy.

2- Sovereign debt crisis in the euro zone:

Greece is the first to emerge the debt crisis in the euro area. Since its integration in the euro economy, Greece has grown rapidly and has resorted to make foreign debts to finance its projects without taking the necessary measures to ensure the adequacy of the structure of cash flows to payback the loans (World economic report, 2011, P. 17).

Chart (1): the general budget and the global debts of the euro zone (2008- 2009) (GPD%):

	Global budget			Global debt	
	(2000-2007)	2008	2009	2008	2009
Euro zone	2.3-	2-	6.3-	69.7	79
Ireland	1.0-	7.3-	-	43.9	64
Greece	6.1-	7.7-	-	99.2	115.1
Spain	1.3-	4.1-	-	39.7	53.2
Portugal	4.1-	3.7-	7.1-	66.3	76.8
Italy	3.1-	2.7-	5.3-	106.1	115.8

Source: Francesco Giovazzi and liages paventa: **why the current account may matter in a monetary union:** lessons from the financial crisis in euro area, Cambridge university press, 21 november 2011, p 200.

Through this chart, it is clear that the budget deficit ratio doubled about four times in Ireland, Greece and Spain in 2009, and slightly rose in Portugal. The ratio of public debt has

Euro zone crisis influence on Maghreb countries (Tunisia, Algeria, Morocco) economies increased in 2009 compared to 2008 and exceeded the agreed ratio of 60% of GDP (GDP) in Greece, Italy and Portugal to 79%. Debt and deficit ratio continued to rise after the year 2010.

Chart (2) : Euro zone economy (2013-2016)

Years	2013	2014	2015	2016
GPD growth (Annual change%)	0,5-	0,8	1,1	1,7
Inflation %	1.4	0,5	0,8	1,5
Unemployment %	11,9	11,6	11,3	10,8
GPD deficit%	2,9-	2,6-	2,4-	2,1-
GPD % Globl debt	93,1	94,5	94,8	93,8
out of GPD % Current balance	2,4	2,5	2,6	2,5

Source: Euro zone economic expectations, 2014, European comissionary, November 4th 2014: from the electronic site:

http://ec.europa.eu/economy_finance/eu/forecasts/2014_autumn_forecast_en.htm#

Chart 1 illustrates the improvement of the euro zone economy in recent time and the coming year in accordance with the European Commission official website.

3 - Major reasons causing the euro zone sovereign debt crisis:

A. European Monetary Union, EM, made debts easier within the euro zone, which allowed individuals to increase consumption debts; this shows the risk of having a unified currency without coordination between banks (Andrew Glencross, 2013, p7 Andrew Glencross, 2013, p7).

B. Set aside the rules of Stability and Growth Pact, this is the corner base of the European Monetary Union.

C. solutions taken by European countries to avoid the risk of the global financial crisis.

As well as among the internal causes that led to the aggravation of the crisis is (Abdlatif Darwish, 2012).

European monetary system Lack of flexibility in and also has a weak supervision of the banking system.

- government's inability to implement austerity programs due to political reasons.

Nevertheless the European Union took a set of measures to save the countries affected by the sovereign debt crisis it caused reduction of growth and recession in the advanced economies as a whole. This has led to high unemployment and the decline of investments flow to countries outside the European Union and the withdrawal of international banks from funding some projects in developing countries and particularly Arab ones because of the decline of monetary resources.

Second, the consequences of the sovereign debt crisis on the Arab countries: can be summarized as (Hamdi Altabaa, 2012, PP 5- 10) :

A. When European Union resort to austerity it lowers spending on foreign travel and tourism, and this means that the tourism towards the Arab countries will shrink, which means less revenue and employment.

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B. Decline investment flows towards the Arab countries, but in contrast, Arab investments will be directed towards the Arab countries, which shake confidence in the European economy.

C. the euro zone crisis will lead to a major international banks withdrawal from financing some Arab projects due to the decline of resources; leading to further pressure on the Arab countries and local banks to self-finance the development of its programs.

D. The euro crisis has caused a decline of activity of Arab markets capital due to the decline of foreign transactions, and some local investors.

E. With the decline in the euro exchange rate against the dollar and some Arab currencies comes the fall of value of debt burdens in Euros on Arab governments and banks.

F. One of the most important consequences of the crisis is the weakness of Arab workers' remittances in the euro zone countries to their countries, which may cause of reverse migration movement of Arab workers to their homelands.

G. the decline of the euro exchange rate will reduce Arab foreign trade with Europe and reduce competition of Arab exports to its relatively high cost in euro.

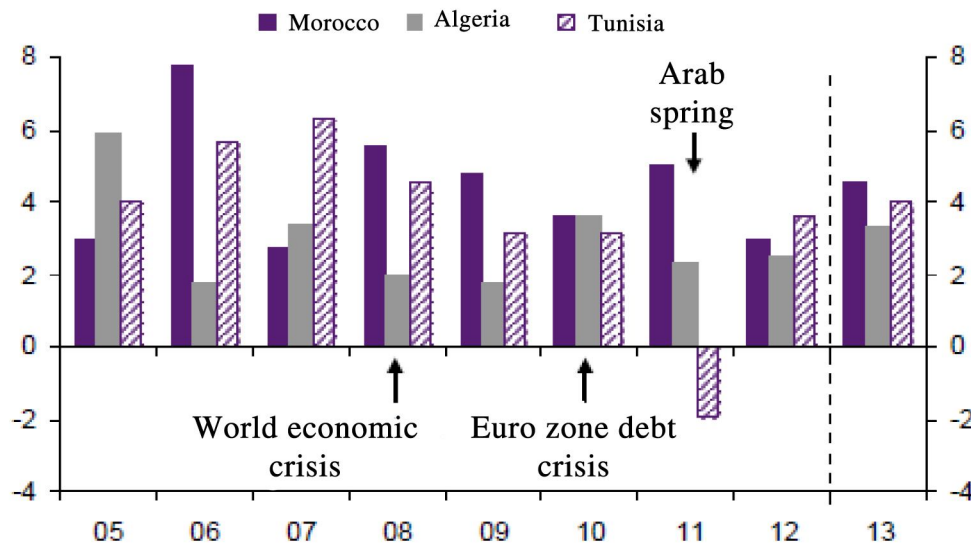
H. Reduce technical and financial aid provided by the European Union to the Arab work sector.

Third: the impact of the euro zone crisis on some economic variables in Tunisia, Algeria, Morocco:

Europe is the main economic partner of the Maghreb countries. The impact of the euro zone crisis would lead to a weakening of their foreign policy position.

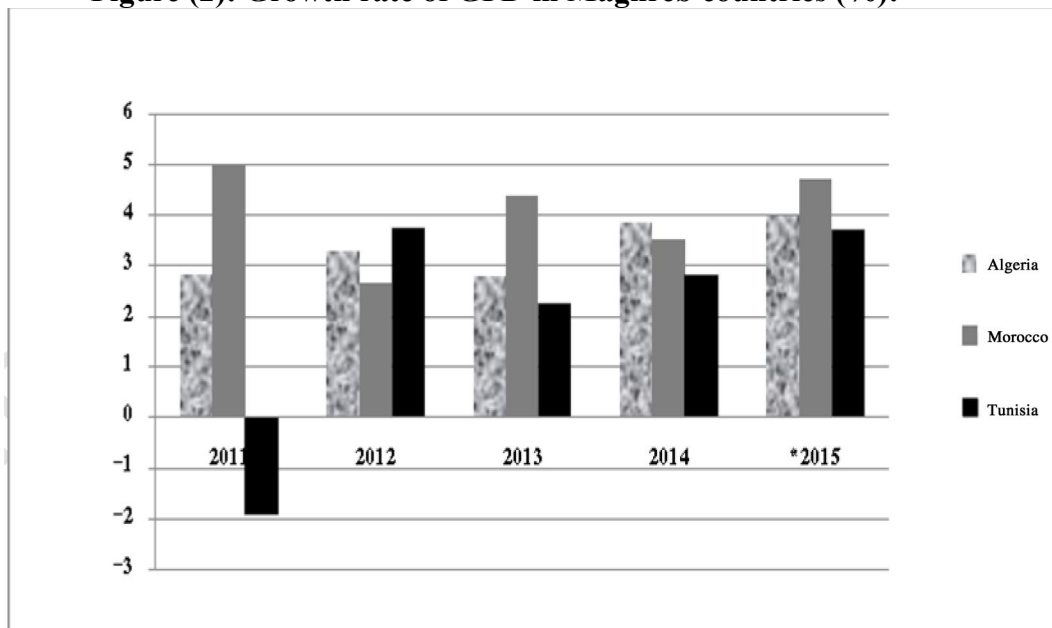
1- **Economic growth:** the impact of the sovereign debt crisis on the growth of the Maghreb countries will be clear if foreign demand declined, especially from Europe. (Figure 1) and (2) clarify the growth rates of the countries of the Maghreb during the period (2005-2015).

Figure (1): The growth rate of the Maghreb countries (annual% change)



Source: Jésus CASTILLO, Yasmine OSMAN, la crise en zone euro et son impact sur les pays du Maghreb, NATIXIS, banque de grande clientèle, N° 574, August, 12 2013, p2.

Figure (2): Growth rate of GDP in Maghreb countries (%):

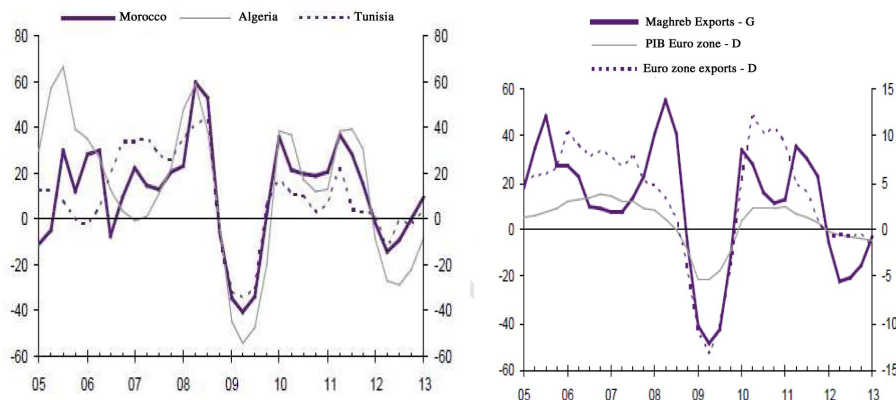


Source: edited by both reaserchers relying on: IMF report, October2014

Algeria's GDP recorded positive growth, where it reached 20112.8% to 3.8% in 2014. In Tunisia after recording gross product growth of 3% in 2010 this percentage dropped to -1.9% in 2011, and this is due to political events and social instability (Morocco's trade ministry statistics) , to reach 2.8% in 2014. Morocco has slowed its growth in 2012 compared to 2011 to reach a growth rate to 3.5% in 2014.

2 - Foreign Trade of Tunisia, Algeria and Morocco: The euro zone is the source of more than 50% of Algeria's imports in 2014. exports of Maghreb countries are mainly directed to europe, which forme an average of 75% of the total Tunisian exports to the euro zone compared with 60% and 50% each from Morocco and Algeria in a row in the year 2012 (Jésus CASTILLO, Yasmine OSMAN, 2013, p4), and therefore affected by changes in the euro zone.

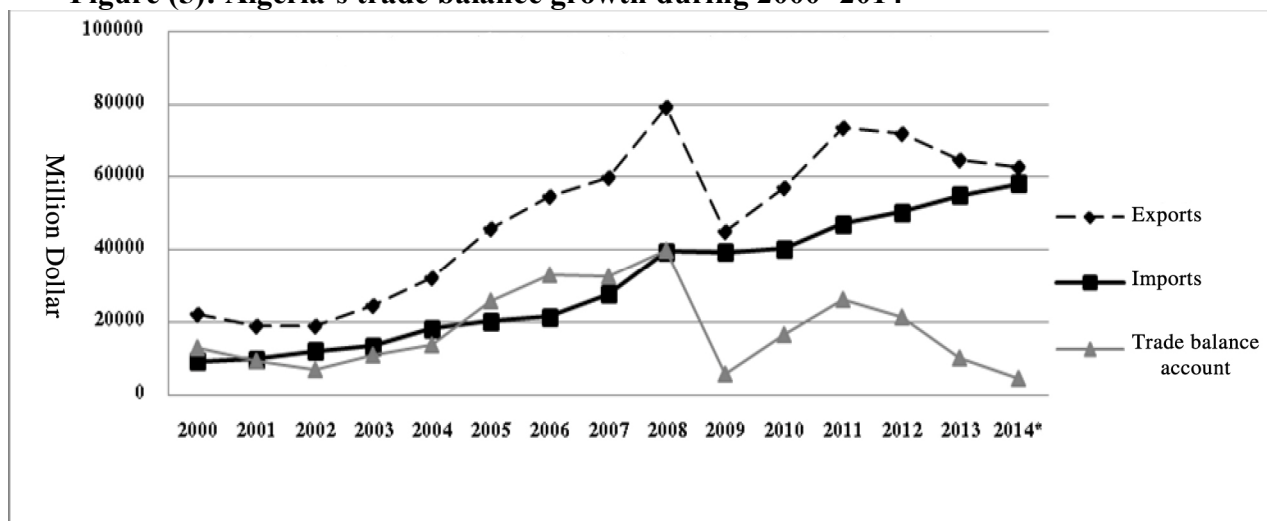
Figure(3) : foreign trade(%) Figure(4) : Maghreb countries exports(%):



Source: Jésus CASTILLO, Yasmine OSMAN, OP CIT, pp2, 3.

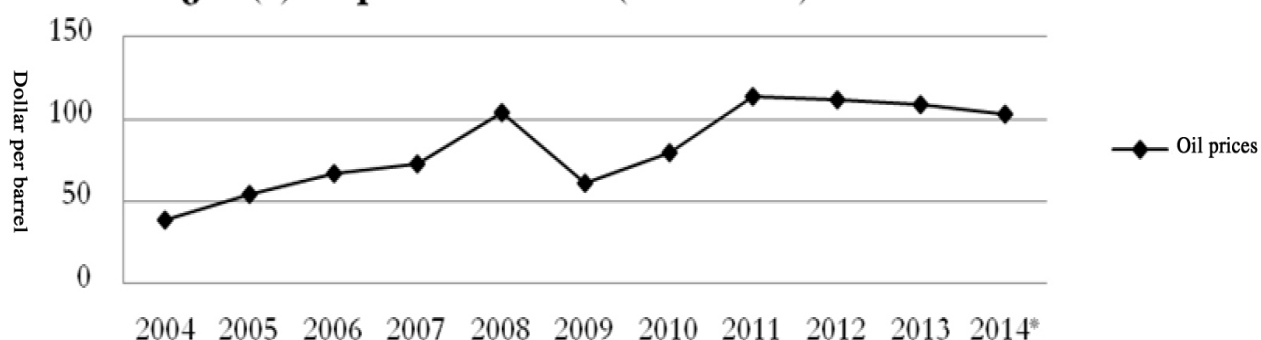
It is seen through Figs. (3 and 4) that the Maghreb countries' exports were affected by the economic conditions and the slow growth in the euro zone. The reduction of European imports has necessarily led to a decline of the Maghreb countries' exports especially in 2009 and 2010 as well as during 2011, 2012, 2013 sovereign debt crisis. This shows the euro zone countries control on the Maghreb countries export. Algeria exports still suffers from dependence on the hydrocarbon sector. It makes up more than 97% of Algeria's exports. It is vulnerable to the fluctuations of oil prices in global markets and also the decline in global demand, particularly from the countries of the euro zone.

Figure (5): Algeria's trade balance growth during 2000- 2014



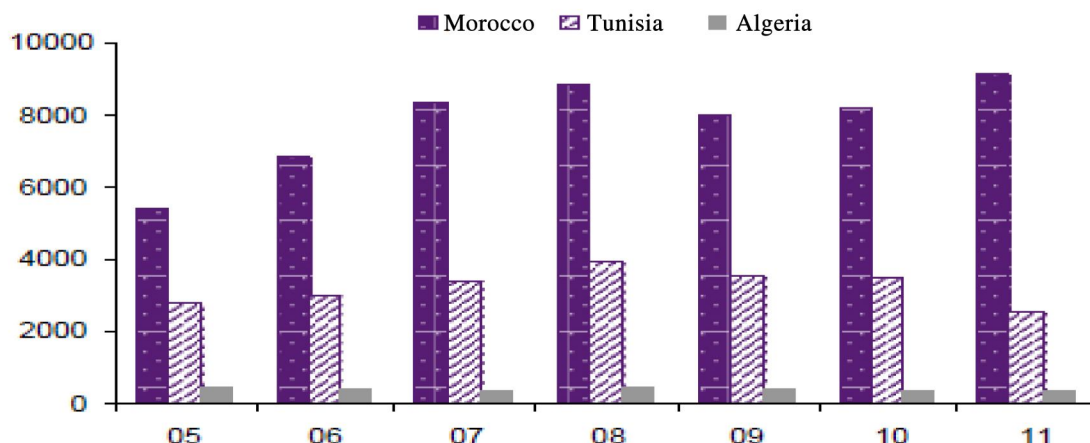
Source: edited by both researchers relying on: Algeria's customs general department statistics www.douane.gov.dz.

Figure(6): oil prices ocillation (2004- 2014)



Source: edited by both researchers relying on: OPEC annual reports: http://www.opec.org/opec_web/en/publications/338.htm

The global economy slow rate is one of the major reasons of the 2014- 2015 oil prices drop. The average price of oil barrel reached 55\$. This highly affected Algeria's imports. The Algerian government was urged to implement austerity measures. Morocco and Tunisia on the other side have a variety of exports but their dependence on tourism highly affected them.

Figure(7): Maghreb tourism revenue (million dollar):

Source: Jésus CASTILLO, Yasmine OSMAN, OP CIT, p5.

Tourism occupies an important place in Morocco's financial structure and economy. It is the second largest contributor to the national GDP with nearly 5% of jobs in the entire economy. The number of tourists in Morocco has reached 10.3 million with an increase of 2.4% in 2014 compared to 2013 (Morocco's tourism ministry statistics). In Tunisia tourism revenue dropped in 2011. This decline has negative results on various related tourism services sector (hotels and restaurants) also on the employment and low growth levels.

Chart(3) Tunisia tourism revenue and number of tourism (2010- 2014)

Data	2010	2011	2012	2013	2014
Tourism revenue (MD)	3.522,5	2.432,6	3.175,3	3.299,4	3.575.6
Number of tourists	6.902.749	4.785.119	5.590.464	6.268.582	6.068.593

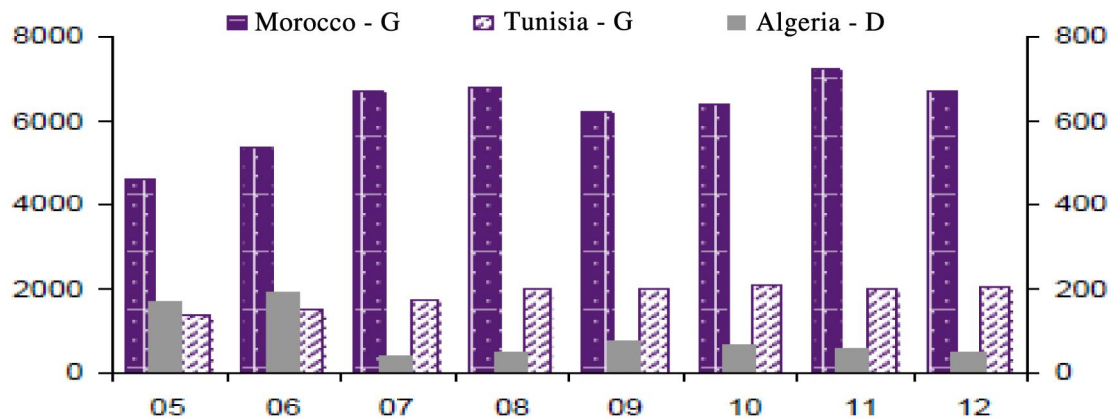
Source: edited by both researchers relying on: Tunisian Ministry of Tourism and Handicrafts statistics.

<http://www.tourisme.gov.tn/ar/ryoalisations-et-perspectives/tourisme-en-chiffres.html>

It is noted from the chart that the 2011 events in Tunisia, which coincided with the euro zone crisis has contributed to the decline of tourism revenues and the number of arrivals of foreign tourists. Tourism revenue improved after that with the relative political stability in Tunisia.

4- Remittances of foreign workers: as a result of austerity measures and policies taken by the euro zone countries, remittances of workers especially Moroccans living in the euro area declined as illustrated in Figure (8).

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Figure (8): remittances (million dollars)

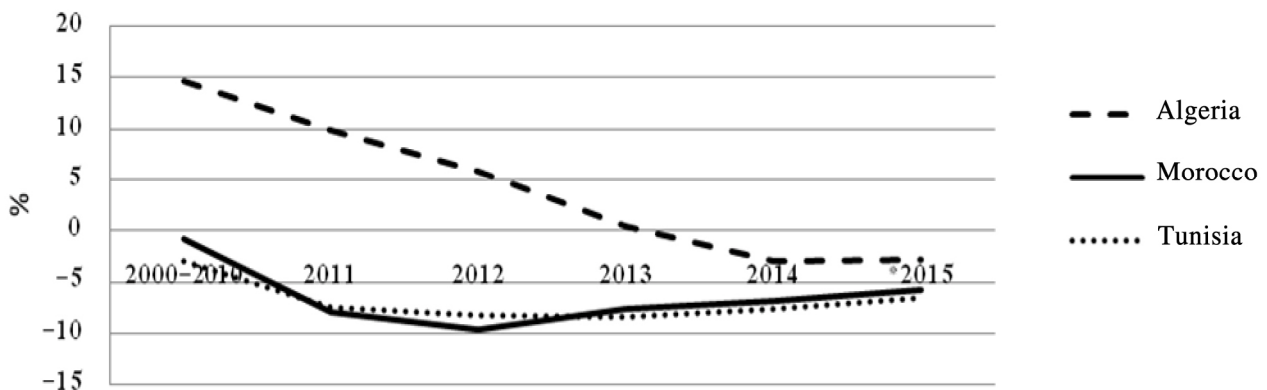


Source: ibid, p6.

This chart shows that Moroccan workers' remittances living in Europe declined by 7% in 2012. These remittances represent 8% of the GDP of Morocco. As Europe suffers from slowing growth, this has a direct impact on remittances (Jésus CASTILLO, Yasmine OSMAN, 2013, P5). Transfers to Tunisia dropped also but less than Morocco. In Algeria the value of remittances is lower compared to its neighbors Tunisia and Morocco.

5- The euro zone crisis affected the account of the Maghreb countries through different trade situation such as (goods and services), tourism, remittances during crisis and beyond.

Figure (9): the current account (as a percentage of the GDP)



Source: edited by both researchers relying on: IMF report, October 2014

Through the chart, it is clear that balance in Morocco has reached the range of -8% in 2011 and has improved to nearly -6.8% in 2014. Tunisia's deficit also has doubled of about 3% (average 2000-2010) to about 7% in 2014. Algeria, has recorded a surplus despite its decreasing from the hydrocarbon exports, but also recorded a deficit of 3% in 2014 with expectations of continuing deficit in the year 2015.

Conclusion:

Despite of recording an acceptable growth rate, the three Maghreb countries are not in safe haven from the euro zone crisis. Reduced European demand is firmly linked to the reduction of the Maghreb countries exports, which decline the trade balance. Tunisia is the most dependent on the euro zone in its exports and tourism services than Morocco and Algeria. Alongside with commerce, there is also tourism and remittance, the Moroccan economy is still heavily affected by the crisis.

The situation of Algeria is different from its neighbors Tunisia and Morocco; the Algerian economy is less vulnerable to economic shifts in the euro zone, for a number of factors. First, tourism is not among important sectors on which the Algerian economy depends on. Second Algeria's economy depends only on a small percentage remittance. Third, Algeria's oil exports, which make a surplus in the balance, but the greatest threat to the Algerian economy is the collapse of oil prices and the decline in global demand in recent times and the future.

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