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Stability in the Maghreb: an Imperative for Europe

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There is no desire more natural
than the desire for knowledge

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ABOUT THE AUTHOR

An Ecole Normale graduate and with an agrégation in geography, **Hakim El Karoui** taught at the Lyon II University before joining the cabinet of the Prime Minister in 2002 as speech writer. After serving within the Ministry of Finance, in 2006 he integrated the Rothschild bank, where he led the Africa Practice together with Lionel Zinsou. In 2011, he joined the strategy consulting firm Roland Berger, where he was joint head of the Africa and French Government advisory sectors. In 2016, he founded his own strategy consulting firm, Volentia. He was appointed in April 2021 as partner and Paris Office Head at Brunswick. He is also a writer and social entrepreneur. He created the *Club du XXIe siècle* and the Young Mediterranean Leaders. Hakim El Karoui is Senior Fellow at Institut Montaigne, and the author of several reports, including "A New Strategy for France in a New Arab World" published in August 2017.

EXECUTIVE SUMMARY

The important flow of people, ideas, goods and money between the north and south of the Mediterranean means that the destinies of France and Europe are closely tied to what happens in the Maghreb countries. Yet the importance of the Maghreb for Europe is still largely underestimated. Europeans have yet to include Morocco, Algeria and Tunisia into their overall strategic thinking. Europe should strive to support these countries' economies – guaranteeing social and therefore political stability – while also respecting their sovereignty.

While Europe and the Maghreb have both been hard hit by the Covid-19 crisis, they are facing different consequences. Europe is wealthy and united by a shared currency, whereas the Maghreb is a group of middle-income countries, they are not united and have limited monetary creation capacities due to their fragile economies. The European recovery plan, aimed at ensuring the stability of its members, does not attempt to benefit its "near-abroad" neighbors, including the Maghreb. However, given the ties between peoples and economies, instability in the Maghreb is a risk for Europe. Destabilization in one of these countries as a result of the crisis would lead to known and undesirable chain reactions (growing influence of powers hostile to Europe, risk of Islamist extremism, uncontrolled migration). It is therefore urgent for Europe to engage in reinforced economic and financial cooperation with these Maghreb countries.

Foreign powers are increasingly competing with Europe for influence in the Maghreb

The European Union's support for the Maghreb countries is mainly financial (with the exception of Algeria). The EU considers the region part of its traditional preserve and reckons no competing (or hostile) power can gain a deep and lasting foothold in the area. However, this is exactly what is happening: major regional and global players are vying for influence in these three Maghreb countries, and Europe's influence is gradually waning – France's even more so.

Less strategic than its neighbors in economic and commercial terms, Tunisia is attracting non-Western powers' attention particularly because of its political symbolism – the only democracy in the Arab world – and its commercial proximity to Europe. France remains a major partner but its share in Tunisian imports is eroding (14% in 2019, versus 21% in 2009), while China's share has almost doubled in ten years (from 5% in 2009 to 9% in 2019). Tunisia is particularly important for Turkey and Qatar: Turkish companies' increasing presence in the fields of public works and infrastructure could go hand in hand with Qatar funding Tunisia's much needed major investment plan.

Morocco is at the heart of regional and international interests, notably because it is a hub for trade towards both Europe and Africa. Southern European countries remain the main providers of FDI to Morocco, France in particular at 35% of total FDI in 2019. However, China's interest in Morocco continues to grow. The Chinese diaspora is relatively large on the Moroccan coast, China is looking closely at logistics facilities, particularly in Tangier, and it already exports many manufactured goods and equipment to Morocco. It also built a partnership with Morocco during the Covid-19 crisis (sending masks, advanced testing of vaccines, massive distribution of Chinese vaccines, etc.). China is well-positioned in terms of Moroccan imports, it represented 10% of the total in 2019, but is still behind Spain's 15% and France's 12%.

Algeria is a paradox: it is a sovereignist country, and yet very open to international trade, with a wide range of clients and suppliers compared to its neighbors. Europe and France's share of imports has declined (from 16% in 2009 to 12% in 2019). China and Russia in particular are important non-Western partners for Algeria. In 2019, 17% of Algerian imports came from China (against 12% in 2009), which has a well-established diaspora in the country (40,000 nationals). Ties between Russia and Algeria are almost exclusively focused on the defense sector, with the exception of the Russian vaccine recently rolled out in Algeria. Nevertheless, Algeria's financial situation – which is much less deteriorated than that of its neighbors, as its external public debt is still reasonable – leaves little room for massive investment from a country seeking to take on a major political role in exchange for offering economic support.

Maghreb countries' economies are marked by structural fragility, exacerbated by the crisis

The Tunisian economy was unable to reach its full potential even before the Covid-19 crisis. Since the revolution, the institutional system has been unable to secure stable parliamentary majorities, nor has it been able to implement any of the significant reforms that the Tunisian economy so badly needs – i.e., to stabilize price hikes, improve labor productivity, fight against protected rents, limit public employment,

and ultimately to achieve its full growth potential. While the Tunisian response to the Covid-19 pandemic is consistent from a health perspective, it remains limited from a financial stand point. Emergency measures were taken as early as March 2020, but with a total of only about 2 points of GDP, the recovery plan remains modest compared to the global average and to emerging countries. Tunisia received an emergency loan of about $753 million from the IMF in April 2020, which will not be enough to cover the country's entire public financing needs in 2021. An additional $1 billion could be provided, on the condition that Tunisia implements the structural reforms negotiated with its previous government.

Unlike Tunisia, Morocco's political stability has enabled it to refinance its debt on the markets and to contain inflation. But inequality and unemployment, especially among young people, remain high and are now exacerbated by the crisis. Following the first wave of the pandemic, Morocco quickly leveraged a large number of economic support tools and endeavored to support the purchasing power of those most vulnerable. Nevertheless, the rapid increase in the debt ratio and the current account's growing deficits – by two to three points of GDP according to the IMF – threaten the sustainability of the Kingdom's finances, whose sovereign rating could be downgraded.

Algeria's growth model is based on its resources, notably fossil fuels, with a relatively low level of tertiary activity, and an even stronger State presence than in the other two Maghreb countries. The fall in oil prices, which has lasted for several years, has had a significant impact on the Algerian economy and on the country's political and social stability – guaranteed since the 1990s by generous social transfers that make up for a very low employment rate. Algeria's response to the Covid-19 crisis has been twofold: health measures (not as drastic as elsewhere), and support for their economy (although less significant than in Morocco, for example). In the summer of 2020, the government announced a plan to diversify the Algerian economy, which includes strengthening food and pharmaceutical security, promoting a favorable business climate and encouraging high value-added sectors as well as international trade and FDI.

The health crisis has contributed to increased instability in these three Maghreb countries – whose social situation were already a source of concern. Unemployment is on the rise among young people, especially university graduates, and among women, whose participation rate was already low. Furthermore, unemployment has recently spread to men in their prime, especially those working in the tourism and transport sectors. This is a tenuous situation that could have worrying consequences for Europe (immigration, security issues, establishment of hostile powers).

A way out of the crisis?

Of the three Maghreb countries, Tunisia is the worst off in the short term. According to the most optimistic scenarios, Tunisia's funding needs would be in the 3 to 5 billion euros range (and between 5 and 9 billion euros in the pessimistic scenarios). The country is faced with government instability, various difficulties in implementing reforms, a sharp rise in public debt and trade deficits, greater reliance on support from international donors in addition to a sharp drop in investments since the onset of the health crisis. Thus, Tunisia needs massive, long-term support – without overly stringent trade-offs – in order to avoid a social and political shock that would threaten its fragile democratic structure.

Despite a high level of debt, Morocco has been able to leverage significant domestic resources to support its economy and has very recently been able to turn to money markets for further financing without difficulty. It must nevertheless finance a major medium-term development plan for which a high-level commission was set up shortly before the health crisis began. According to optimistic scenarios, Morocco's financing needs would be in the 3.5 billion to $6.5 billion range – versus between $6 billion and $11 billion according to pessimistic scenarios (i.e., if it does not receive assistance from international donors). Nevertheless, given Morocco's excellent relationship with international donors based on its political stability and its ability to implement large infrastructure projects, it is likely that donors will be willing to make a significant contribution to ramping up the country's investment efforts.

Algeria's budget deficit is the largest of the three countries, it is expected to reach 13.5% of GDP in 2021. It considers that it does not require multilateral support (notably from the IMF), as its relatively reasonable debt ratio (46.3% of GDP in 2019) and its fossil fuel resources allows Algeria easy access to financing on all markets. In addition, Algeria has set up a social system which allows it to absorb both endogenous and exogenous economic shocks (25% of GDP is devoted to social transfers).

One way to support the Maghreb countries' economies could be through a general allocation of IMF special drawing rights (SDRs). An SDR allocation would be a way to increase their economies' international reserves. A general SDR allocation of around $500 billion would provide $420 million for Tunisia, $690 million for Morocco, and $1,500 million for Algeria. This amount could even be higher if European countries were to make their SDR supplements available to the southern Mediterranean countries.

Greater awareness in Europe is necessary

Our analysis clearly highlights that the Maghreb countries – especially Tunisia – require support throughout the health crisis. This crisis could be an opportunity for these countries to get back on their feet in the long term, if they can access the liquidity that would allow them to accelerate the transformation of their development models. After all, this is what Joe Biden is doing in the United States with his infrastructure investment plan. Given the human, political, economic and social interrelationships between southern Europe and northern Africa, this is a major challenge for the EU. How can the European plan of 750 billion euros not include its "near-abroad" neighbors, who are facing the same difficulties, but lack the means and the credibility afforded by the euro?

Of course, temptation to reduce external action funds will be great, as after any economic crisis, when the prospect of spending cuts inevitably comes up again. However, if one of these three Maghreb countries were to enter into a long-term social and therefore political crisis, Europe would suffer the consequences in terms of uncontrolled migration, consolidation of Turkish or Chinese influence at the gates of Europe, or even the rise to power of more aggressive Islamist groups than those currently active in the three countries.

This is an unprecedented situation for wealthy and poor countries alike: the former are responding by creating money, and the latter are being supported by the rich countries. Let us not forget the middle-income countries that cannot create money and are off the international budgetary aid's radar. For Europe, especially Italy, Spain and France, helping these three countries through the crisis is socially fair, morally necessary and politically useful. Let us act before it is too late.

INTRODUCTION

EUROPEAN RECOVERY SHOULD INCLUDE ITS "NEAR-ABROAD"

The Mediterranean Sea is no longer a firm border: the flow of people, ideas, goods and money have long since made it a junction more than a barrier. Six million French citizens are from the Maghreb, hence France's destiny is now necessarily tied to this region. Moreover, what is true for France is increasingly true for Spain with Morocco, and Italy with Tunisia and Libya. Southern Europe is tied to North Africa, for the better (cultural exchanges, services such as tourism, the care economy, industrial cooperation) but also for the worse (European radical Islamism is rooted in the Maghreb).

However, Europe largely underestimates the Maghreb's significance. When considering the Arab world, most will think first of the wars in the Middle East, and then of the wealth of the Gulf States. The Maghreb countries are the poor cousins of Western interests in the Arab world. Neither very rich nor very unstable, Morocco, Algeria and Tunisia are of little interest to most administrations (Libya is being left out of this assessment since the current situation is very particular, as is Mauritania, which, despite being part of the Arab Maghreb Union, is somewhat peripheral). Ties are so strong, mutual knowledge so ensconced, and closeness so longstanding – especially with France and its leaders – that these countries have paradoxically been ranked quite low as strategic priorities for both France and Europe.

Of course, when threats of political change are looming (the Algerian civil war of the 1990s or the *Hirak* movement) or become a reality (as when Ben Ali was ousted), Europeans start making plans, especially to limit massive migration movements. However, Europeans have never given the impression that they intend to integrate the Maghreb into their overall strategic thinking. Perhaps they should consider the Russian example? After the collapse of the Soviet Union, they invented the "near-abroad" concept, including all countries that gained independence after 1991. In Russian thinking, this concept has a double meaning: nostalgia for a power that no longer exists but could be reclaimed, and a belief that views these nations as a barrier protecting Russia from foreign threats. As a result, Russia is extremely sensitive to any issue relating to these countries and especially to what could be perceived as Western interference in their affairs. This sensitivity is excessive, all the more so since it limits these countries' sovereignty. But there is a strategic logic to it.

In the case of the Maghreb, the concept of "near-abroad" could serve different objectives: unconditionally upholding the sovereignty of the Maghreb states, and recognizing that Europe and the Maghreb share a common destiny. Their strategic importance, for Southern Europe in general and for France in particular, should also be taken into account. Western powers should observe the political developments in these countries very closely – and look beyond changes in government alone. Civil society plays an increasingly significant role, as seen in the 2011 revolution in Tunisia and the *Hirak* movement in Algeria. Thus, Europe should also strive to foster favorable economic trends in these countries, this would guarantee social and therefore political stability, while respecting sovereignty.

Thus, this paper aims to provide an economic and financial overview of the situation in Morocco, Algeria, and Tunisia in the context of the Covid-19 crisis. In addition to the health impact, the pandemic has put the region's economies and the countries' stability under a lot of pressure. However, one major difference persists: while European countries are rich and united by a single currency, the Maghreb is a group of middle-income countries, they are not united and have a limited capacity to create money due to the fragile state of their economies.

Moreover, while the EU welcomed its recovery plan and its ability to borrow jointly to ensure the stability of its members, it was never suggested that this borrowing capacity could also benefit Europe's "near-abroad" (e.g., the Maghreb in the South, or even Ukraine in the East). This would have contributed to ensuring stability in these geopolitical constellations, which is important for Europe precisely because these neighbors can destabilize it (consider the political impact of the war in Syria followed by a great emigration to Europe in 2015).

Given the close-knit ties between peoples and economies, difficulties in the Maghreb can spill over into Europe. If one of these three Maghreb countries were to be destabilized as a consequence of the crisis, the chain reactions are foreseeable: emigration, the risk of radical Islamism, competing powers taking over in the event of European non-intervention (notably Turkey and China). Europe must therefore pay close attention to the situation in countries near its borders and find solutions. More than just a financial fix, solutions should contribute to the stability of these countries. This stability depends on the well-being of populations, more so than on exclusive support to the regimes.

It is therefore urgent that Europe, and southern European countries in particular, seize the importance of strengthened economic and financial cooperation with the Maghreb countries – especially since North Africa is of increasing interest to Arab and Asian powers.

THE MAGHREB IS NO LONGER THE SOLE PRESERVE OF EUROPE

The Maghreb is supported by the European Union in general, and by the southern European countries and Germany in particular. This support is mainly financial for Morocco and even more so for Tunisia, but not for Algeria – which never wanted to be a part of the aid development mechanisms. However, European countries have not yet fully grasped the fact that the Maghreb countries are more than just Europe's backyard. Through migration from south to north and remittances from immigrants and their children, these countries are tied to the main European countries, and to France in particular. Moreover, Europe considers that the Maghreb is part of its traditional area of influence and that no competing (or hostile) power can gain a deep and lasting foothold there, that would allow it to compete with (or hinder) Europe.

Yet this is what is currently happening. The interest shown by the major regional and global players in these three Maghreb countries differs and depends on these different economies' strategic outlooks and interests in international trade and global value chains. Europe's influence is gradually fading, France's even more so.

1. Turkey and Qatar are both eyeing Tunisia

Tunisia is less strategic from an economic and commercial point of view than Morocco and Algeria. Its natural resources are less significant than those of its neighbors. Tunisia's size and demographics do not make it a major target. However, Tunisia is an important political symbol since it is the only democracy in the Arab World. Moreover, it is very strongly linked to Europe due to its trade structure.

The traditional aid development donors remain unchanged (e.g., European countries, European and multilateral institutions). Total public flows net of reimbursement between 2008 and 2017 exceeded $11 billion – more than two-thirds of which came from multilateral donors. Unsurprisingly, France was the largest bilateral donor over this period, with approximately $1.3 billion in net financial inflows over the analyzed

decade (12% of the total). Although Germany is a lesser contributor (7% of the total), it has been trending very strongly upward in recent years, particularly through big increases in official public flows. For example, in 2017, net flows from Germany exceeded those from France ($147 million versus France's $94 million). Multilateral donors mobilized net flows of $7.8 billion over the 2008-2017 period (71% of the total). European multilateral development assistance institutions accounted for about $3 billion (28% of total net flows). This breakdown of official flows shows Western donors' strong financial mobilization to support the Tunisian political transition and facilitate its economic stabilization.

Tunisia's economic trade and investments are the result of its geographic position and long-standing partnerships. Thus, in 2019, its imports came mainly from Italy (15%, a relatively stable figure since the 2000s), France (14%) and China (9% of total imports). While the amount of Chinese imports has almost doubled in ten years (representing 5% of Tunisian imports in 2009), France's share is eroding (it represented 21% of Tunisian imports in 2009, 16% in 2014, 14% in 2019). Turkey represents 4%, a relatively stable figure over a long period. Tunisian exports are also concentrated towards its European partners. In 2019, France represented 29% of its exports, Italy 16% and Germany 13%.

China is not particularly interested in establishing itself in the Tunisian economic fabric, but it could be interested in the ports and logistics infrastructures of northern Tunisia – the Chinese navy cruises the Mediterranean more and more regularly. China could also be interested in Tunisian phosphate resources. Russia's interests in Tunisia are few, mainly geopolitical, indirect and related to the Libyan issue. The United States is mainly interested in the political stability of Tunisia and security in the region. It contributes to financing Tunisian law enforcement, but has no particularly strategic commercial or economic interests.

The analysis of direct investment flows shows that some powers are making Tunisia a political matter. Investments from the Gulf are considerable (39% of FDI flows in 2019, compared with 50% of European FDI flows). In 2019, the total FDI flows from the United Arab Emirates accounted for 22% of the total, 11% from Qatar and 16% from France.

Company subsidiaries are also geographically diversified, many companies are European but also Turkish (especially in construction and public works). An increase in Turkish companies in the public works and infrastructure sector could go hand in hand with financing Qatar's major investment plan in Tunisia. Qatar is a close ally of Turkey and regularly invests in Tunisia (FDI from Qatar accounted for 26% of total FDI inflows in 2018, compared with 10% in 2019).

If Tunisia's traditional allies fail, it cannot be ruled out that President Erdogan will call for Qatari investments in Tunisia. Thus, it would increase its market shares in Tunisia but would also gain political clout. Indeed, Turkey has a strong ally in Tunisia in the person of Rached Ghannouchi, leader of the Ennahda party.

2. China has a stake in Morocco

At the heart of regional and international interests, Morocco is a different matter because of its role as an important commercial and financial platform, as an economy open to trade, and its presence in the main economic and financial flows. Morocco also trades with both Europe and Africa.

Annual FDI flows accounted for 46.1 billion dirhams in 2018 ($5.17 billion) and 33.9 billion Moroccan dirhams in 2019 ($3.8 billion). Since 2012, annual FDI inflows to Morocco have consistently exceeded $3 billion. FDI flows reached $66 billion in 2019, 30% more than in 2010. Southern European countries remain the main providers of FDI to Morocco, particularly France (35% of total FDI in 2019).

In terms of development aid, European countries remain a dominant source of bilateral official flows. Of $24.7 billion in net inflows to Morocco between 2018 and 2017, $4.39 billion came from France (18% of total inflows) and $2 billion from Germany (8%). Among non-European countries providing public flows, the United Arab Emirates represents a dynamic and growing source of financial flows. Abu Dhabi is responsible for $1.5 billion in inflows over the period, including $439 million in 2017 alone (the UAE thus accounted for 17% of total official inflows in 2017 alone). Half of ODA also comes from multilateral donors ($12.8 billion over the period, or 52% of the total). EU institutions provided $4.2 billion over the last decade.

Morocco's trade and investment flows with its traditional European partners are shifting, but remain considerable. Moroccan exports go mainly to Spain (24% of the total in 2019), France (21% of exports in 2019), and to a lesser extent Italy (5% in 2019). Exports to the United States are small and relatively stable over time (4% in 2019, compared to 3% of the total in 2009). Exports to other countries (e.g., Russia, China, Turkey) are less notable, not exceeding 2% of total export flows.

Morocco's import inward-flows show a more balanced distribution between traditional partners and emerging powers. Moroccan imports come from Spain (15% of total imports in 2019) and from France (12% of total), but also from China (10% of

total), the United States (8% of total in 2019), Turkey (5% in 2019, compared with only 2% in 2009), and marginally from Russia (3%) and Saudi Arabia (2%).

Morocco has recently grown closer to the United States through the normalization of diplomatic relations between the Kingdom of Morocco and the State of Israel and the recognition by the United States of Moroccan sovereignty over Western Sahara. It could be that financial support was promised as part of this agreement, since Donald Trump's United States has used financial arguments to convince Arab countries to join the "Abraham Accords". This agreement, which has not been challenged by the Biden administration, further strengthens American support for Morocco.

France's longstanding sway is in decline, while China – to whom Morocco presents many opportunities – is gaining particular clout. The investment trend is telling. Casablanca's airport hub offers easy access to West Africa, there is also a regional banking and financial center, it is active in the southern Sahel and in West Africa, and the Chinese diaspora is relatively large on the Moroccan urban coast. China is also interested in logistics facilities, especially in Tangier's Tangier Med infrastructure. Overall, China exports many manufactured goods and equipment to Morocco. It is mainly focused on the consumer goods market, rather than on productive investments. China has also used "vaccine diplomacy" with Morocco, where clinical trials have been conducted. Sino-Moroccan cooperation has also been set up to manufacture vaccine doses (Chinese factory in northern Morocco). Moreover, China is vying for contracts and calls for tenders in Moroccan infrastructure, and showing an increasing and dynamic presence. Morocco's current and future investment needs are considerable. Calls for tenders have been made in the health, education and energy transition sectors, in addition to the infrastructure sector; China is working hard to position itself favorably.

Even though Morocco's situation is not critical in terms of access to financing, European or multilateral wavering could provide opportunities for China – who could finance a major investment plan in Morocco that would allow Chinese companies to establish themselves on a long-term basis in the Cherifian kingdom.

3. The Algerian paradox: a sovereign state open to international trade

Algeria is the West African country with the most diversified clients and suppliers. Since its independence, it has also been very careful in its choice of economic partners. Because Algeria is rich in fossil fuels, it has never entered the traditional development aid circuits. Net official financial flows to Algeria between 2008 and 2017 amounted to $568 million, compared with more than $24.7 billion for Morocco and $11 billion for Tunisia over the same period.

In terms of trade, Algeria only exports fossil fuels, while it is a major importer of capital and consumer goods (the manufacturing sector only accounts for 6% of GDP, down from 15% in 1990, and is not self-sufficient enough to cover national needs). 17% of Algerian imports ($7.8 billion) come from China – with a trend of increasing Chinese imports, which accounted for 12% in 2009 and 14% in 2014. China is focused on the energy sector (the Chinese oil and chemical group Sinopec is based in Zarzaitine, in the east of the country), and exports cars and consumer electronics to Algeria. The Chinese diaspora is well established there, with 40,000 nationals. The country also benefits from major infrastructure contracts, such as the large Draa Diss dam, the East-West freeway, and low-cost housing initiatives in coastal towns. In the context of the New Silk Roads project, the port of Cherchell includes around a hundred Chinese investment projects.

As for Russia, its relations with Algeria are strong but almost exclusively related to the defense sector. For example, it was announced in December 2019, that Algeria signed a $2 billion agreement with Russia to purchase 14 Su-57 stealth aircraft. More recently, this cooperation has grown to include the health sector, with the Algerian government turning to the Russian Sputnik V vaccine as of late January 2021 (the Algerian vaccination campaign is also using Chinese and Indian vaccines).

Imports from France are declining (from 16% in 2009 to 12% in 2019). Algerian exports are diversely distributed. Thus, Algeria's primary clients are Italy (18% of total Algerian exports in 2019), Spain (15%) and France (9%). The Netherlands, the United States, and Turkey each accounted for 8% of Algerian exports in 2019, while the United Kingdom accounted for 7% the same year. The United States has been an important client for Algeria because it is a significant outlet for Algerian fossil fuels. For instance, in 2009, the United States received 23% of Algeria's total exports.

The business climate, strict investment controls and the weight of the military in the economy explain the weakness of foreign investment. The 49/51 law on establishing and owning companies in Algeria has severely hampered the development of foreign subsidiaries. However, this law has just been amended and now allows takeovers by foreign investors (except in a few sectors such as pharmaceuticals). Nevertheless, Algeria's financial situation – which is much less deteriorated than that of its neighbors, as its external public debt is still reasonable – leaves little room for massive investment from a country seeking to take on a major political role in exchange for offering economic support.

The time when the Maghreb was a French – and possibly Italian or even Spanish – preserve is thus truly over. Germany is increasingly present in the region, as is the European Union as an institution. But more importantly, new powers are showing interest in this region rife with comparative advantages: its proximity to wealthy Europe, its inexpensive well-trained labor force, and its ability to project southward.

HETEROGENEOUS AND VULNERABLE GROWTH MODELS BEFORE THE COVID-19 CRISIS

Before examining these three countries' current situations in the context of the health and economic crisis created by Covid-19, it is necessary to take stock of their economic models and the economic and social challenges they faced before the pandemic.

1. Tunisia: Democracy is growing stronger but the economy is below the previous decade's performance levels

Previously identified as one of the most competitive countries in Africa, Tunisia's economic and financial situation has been significantly deteriorated during the 2010s.

Macroeconomic indicators of Tunisia[1]

Indicator (% GPD)	2010-16	2017	2018	2019	2020F	2021F
Real growth	2.1	1.9	2.7	1.0	-7.0	4.0
Inflation (CPI, average)	4.2	5.3	7.3	6.7	6.2	4.9
Public balance	-4.2	-5.9	-4.6	-3.9	-8.1	-5.1
Current account	-8.2	-10.3	-11.2	-8.5	-8.3	-8.7
Gross public debt	48.3	70.6	78.2	72.3	84.8	86.2
Unemployment rate	15.4	15.5	15.5	14.9	*n.a.*	*n.a.*

Source: International Monetary Fund, World Economic Outlook, October 2020.

1 As part of Article IV 2020 dedicated to Tunisia, the IMF published a specific forecast on January 5, 2021. In order to maintain comparability with Algeria and Morocco, and to use complete data in terms of aggregates, we used the October 2020 World Economic Outlook forecast. The latest IMF 2020 forecast for Tunisia is even more pessimistic, with GDP declining by 8.2% and the public balance deteriorating significantly (10.6% in 2020, 9.3% in 2021).

Having become a unique political entity in the Arab World, Tunisia has succeeded in its democratic transition, placing its transparency indexes on par with great emerging democracies, like India or Brazil. This was confirmed by the 2019 elections, and the appointment of a President of the Republic, Kaïs Saied, who mistrusts traditional parties, and the renewal of a Parliament divided among those parties – the local emanation of the Muslim Brotherhood (Ennahda) only has a relative majority.

This situation began with the institutions and the electoral law chosen by Tunisian legislators after the 2011 revolution – deemed necessary in order to avoid returning to autocracy at all costs. The choice was made to separate power between the President of the Republic (the incumbent is elected by two rounds of direct universal suffrage, but has no executive power, except in matters of foreign policy and defense), the head of the government and the Assembly of People's Representatives. Because the electoral law – based on proportional representation according to the highest numbers of votes obtained – does not allow for the formation of stable majorities, the executive branch must then create more or less artificial majorities, often based solely on a desire to avoid resorting to election do-overs.

This institutional fragility has had obvious destabilizing effects, particularly as it has prevented the transformation of the Tunisian economy from reaching fruition – it is still too limited by rents, weak competition and a certain lack of productivity. The economic transition has not (yet) followed the political transition.

Following the first phase of the democratic transition, the World Bank produced a report in 2014, aptly titled: *Tunisia, an unfinished revolution*. In it, the Bretton Woods institution highlighted the paradox of the Tunisian growth model, championing both its democratic gains (freedom of expression, accountability of the executive branch) and the legacy of an authoritative and protectionist growth model, advocating major structural reform.

The paradox of an open country that might better integrate global value chains

The overall economy's growth potential is not sufficiently exploited, there is a lack of productivity and a certain economic stagnation. For example, the primary sector – which accounts for nearly 13% of employment and about 10% of value added – is involved in national food security and insufficiently concerned with international trade. However, it should be noted that the sectoral distribution of GDP, where services and industry account for more than 80%, brings the Tunisian economy closer to the standards of southern European countries than to those of sub-Saharan Africa.

Since Tunisia has no natural resources, its growth potential is largely based on (i) exports linked to services, mainly tourism, which are by definition volatile in times of terrorism and epidemics, and (ii) foreign investment flows (FDI), particularly in textiles and microelectronics, which are not increasing much. Despite real assets such as the low cost of labor combined with a relatively efficient training system, which form the basis for sustainable competitiveness, Tunisia is struggling to fully exploit its assets. Thus, the balance of services and FDI flows only returned to their pre-2010 levels in 2019. Beyond its good sectoral diversification, the Tunisian economy has continued to rely on a dual system. On the one hand, an open sector, focused on tourism, textiles, car parts or microelectronics, which benefits from large tax incentives – supposed to boost exports and attract more foreign capital. On the other hand, a sheltered sector, linked to infrastructure, real estate development and the financial sector, concentrated around the state and a few family conglomerates and regulated professions.

During the 2010s, blocked by a lack of reforms, this economic model proved vulnerable, with Tunisia's GDP per capita barely above its 2010 level at the end of 2019.[2] In terms of wealth creation, it could be considered a "lost decade". First of all, immediately after the revolution, there was a drop in investment, a particular decrease in foreign capital flows and massive bank deposit withdrawals, leading to an increase in public and commercial deficits.

Since the revolution, fiscal policy has been aimed at maintaining social peace

Tunisia currently has a high unemployment rate of about 15% of the active labor force, fueled by rapid population growth (at an annual rate of about 1%), and by the labor market's insufficient absorption capacity. The unemployment rates of 15-24 year olds and graduates (respectively about 35% and 30%, according to World Bank data) attest to this. In order to calm social anger and deal with the most pressing needs, the authorities have massively resorted to increasing public employment – in particular by giving tenure to people on fixed-term contracts and with massive civil service recruitment in the poorest areas. By the end of 2016, the IMF counted nearly 600,000 public jobs, up from just under 450,000 at the end of 2010. Moreover, the authorities have implemented several massive salary increases in the civil service. Today, these wages represent about half of Tunisian public spending, with public employment peaking at nearly 18% of the total – a world

2 See chart on page 20.

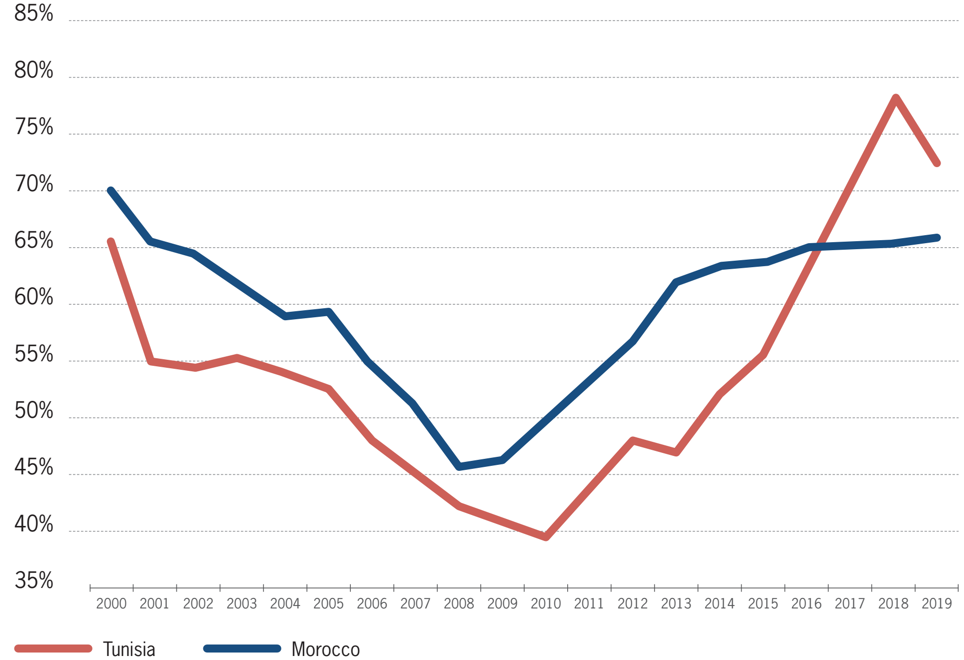
record. This inflationary trend is partly due to quasi-regulatory rigidity, the General Union of Tunisian Workers (UGTT) has been centralizing wage negotiations since 2011. However, with high inflation, wages are continuously rising.

Structural deficits and the fight against inflation cannot be contained by monetary policy alone and continue to weigh on Tunisia's growth potential

This results in "twin deficits", which are only sustainable if the currency is considered strong and the government has a clean record of debt repayment. The Central Bank of Tunisia, a strong institution, has thus had to pursue contradictory objectives: financing deficits and a banking sector weakened by non-performing loans on the one hand, and raising policy rates to limit inflation on the other. "Normalization", based on inflation targeting and the management of agents' expectations, only took place in 2017-2018, in close collaboration with the International Monetary Fund (IMF).

Public debt

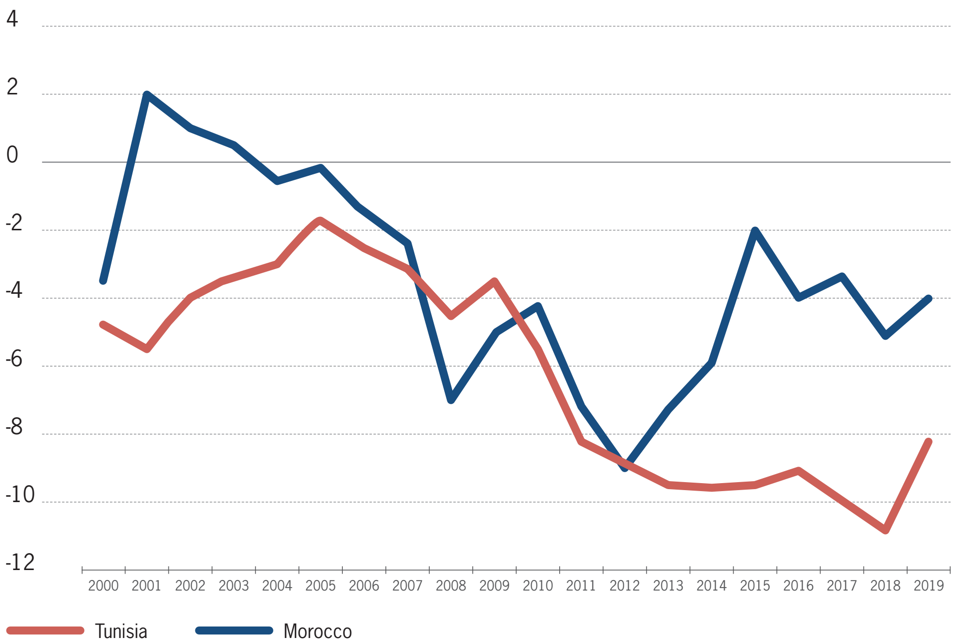
(% of GDP)



Source: International Monetary Fund, World Economic Outlook, October 2020.

Current account balance

(% of GDP)



Source: International Monetary Fund, World Economic Outlook, October 2020.

While government action accounts for about a third of Tunisia's GDP growth since 2000,[3] its financial scope has been largely reduced. This affects its ability to finance new infrastructure, and favors public employment, whose productivity declined between 2010 and 2016, according to the IMF.

Monetary policy, balanced on a razor's edge, cannot support deficits and contain inflation

In this context – which led to an increase in the need to finance the Tunisian economy in general and banks in particular – the Tunisian Central Bank (BCT) initially pursued two objectives: on the one hand, defend the value of the dinar against the euro

3 According to the European Bank for Reconstruction and Development (EBRD), in its November 2018 *Diagnosis Paper*.

and the dollar (in order to maintain the capacity to finance imports), and on the other hand, support a distressed banking sector's liquidity, as reflected by the ratio of deposits relative to loans that is among the lowest for comparable countries. Recognizing the difficulties in pursuing this policy, Tunisian authorities have changed their strategy. They are now focusing on fighting inflation through increases in policy rates and a policy of fiscal discipline, combined with increased recourse to bilateral and multilateral financing – especially under the impetus of a multi-year IMF financing program. This economic policy shift's key measures include the notable increase in the retirement age from 60 to 62, a measured decrease in energy subsidies, as well as the gradual adjustability of the exchange rate.

The growth model needed adjusting in a political context not entirely stable, even before the crisis

Thus, before the outbreak of the Covid-19 pandemic and the "Great Lockdown" crisis, Tunisia's economic characteristics showed great potential. However, its growth has been modest since the Revolution. Its economic model outlined in the 1970s, when international industrial competition was virtually non-existent, must evolve more rapidly in order to move towards more added value and take advantage of its major assets – such as its range of health care services for European, Maghreb and African markets.

After the 2011 revolution, in order to calm the social situation, the various governments resorted to massive public service hirings, while supporting consumption through money creation – at the risk of weakening the productive fabric and seeing inflation increase along with trade and budget deficits. Thus, the social anger which sparked the events of 2011, has not been eradicated. Moreover, even if it is now channeled by democratic institutions that accept the expression of popular resentment, the institutional system that was designed to limit the abuses of executive power fails to give Tunisia a stable parliamentary majority and to allow for the deep reforms it needs, first to stabilize the monetary situation, and eventually to fully unleash its growth potential.

2. Morocco: an extroverted growth model struggling to become inclusive

Morocco's macroeconomic indicators[4]

Indicator (% or % GDP)	2010-16	2017	2018	2019	2020F	2021F
Real growth	3.6	4.2	3.0	2.2	-7.0	4.9
Inflation (CPI, average)	1.2	0.7	1.6	0.2	0.2	0.8
Public balance	-4.8	-3.5	-3.7	-4.1	-7.8	-6.0
Current account	-5.8	-3.4	-5.3	-4.2	-7.3	-5.2
Gross public debt	57.2	65.1	65.3	65.8	76.9	76.6
Unemployment	9.3	10.2	9.8	9.2	12.5	10.5

Source: International Monetary Fund, World Economic Outlook, October 2020.

Morocco shares some development characteristics with Tunisia. Its "open" growth model, with a pre-crisis openness rate near 90%, is driven by tourism exports and consumption, and financed in part by foreign capital. It is also prone to climate fluctuations tied to the weight of the primary sector, which accounts for 12.5% of GDP and a third of the active population. Moreover, public administrations play a driving role in the investment dynamic (gross fixed capital), experiencing 8% nominal growth on average between 2008 and 2018, compared with 4% for non-financial companies and 2% for households.

A lack of basic education

The growth of the 2010s was not job-rich, as the unemployment rate remained stable at around 9%. This means GDP growth was much faster than the active labor force growth. Like Tunisia, Morocco suffers from high youth unemployment, as well as a low female participation rate – probably due to their greater presence in the informal sectors, whose relative weight the authorities estimate at 36.3% of agricultural employment and 11.5% of GDP in 2014 (latest available data).

4 As part of its Article IV 2020 on Morocco, the IMF published a specific forecast on January 5, 2021. To maintain comparability with Algeria and Tunisia, we used the October 2020 World Economic Outlook forecast. The main difference is the nearly one-point improvement in the 2020 current account.

Labor market (HCP, 2020)	Morocco
Unemployment rate (% of labor force)	**11.9**
Women	16.2
15-24 year olds	31.2
Employment rate (% of population)	**44.8**
Women	19.9
15-24 year olds	23.5

Thus, like Tunisia, women's participation in the labor market (19.9% in 2020) is almost twice as low as the average for developing countries (45%). Their literacy level is about 20 points lower than men's (41.9% for women versus 22.1% for men) according to the HCP – a rate 7 points higher in Tunisia. As a result, there are more Moroccan women than elsewhere in the informal sector. The trend is not improving, as the female labor force participation rate has declined by nearly 5 points since the early 2010s.

Youth unemployment rates are also very high (over 30% for 15-24 year olds in 2020 according to the HCP), but the causes of mass unemployment are not the same as Tunisia's. In Tunisia, access to higher education has been universalized without any real strategy, and without considering the needs of the labor market. In Morocco, the problem starts with access to secondary education which is not universal (unlike primary education, which is now close to 100%). According to the published 2020 edition of Morocco's social indicators by the HCP, nearly 41% of the population aged 25 and over had no schooling in 2019. According to the 2014 census, the illiteracy rate for those aged 10 and over is 32.2%. 1.2 million Moroccans are now benefiting from literacy programs.

Structural rigidities are persisting and holding back productivity. According to a 2017 study by the think tank Policy Center for the New South, it took a 6.4% increase in capital stock during 2008-2014 to achieve economic growth of 4.2% per year (compared with 5.9% for 5.1% between 2001 and 2007). Several factors can explain this deteriorating trend. First, the low quality of accumulated capital leads to low productivity gains. This is due to the low level of the range of exportable production and its technological content. A second element is the inefficient allocation of capital, with service activities dominating (the tertiary sector accounting for almost 57% of value added), whereas the manufacturing sector has a higher potential for job creation. There is also a mismatch between accumulated capital and an insufficiently skilled workforce, resulting in a suboptimal use of this capital. Finally, the Moroccan economy suffers from price, wage, and labor market rigidities.

These imperfections explain the weakness of Moroccan growth (see figure on page 26).

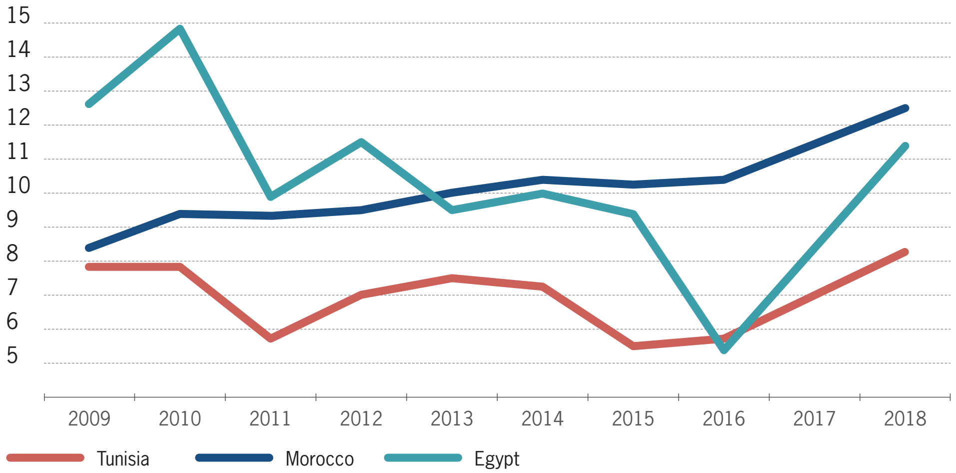
Significant progress

However, the outcomes of the Arab Spring and the resurgence of regional instability have largely benefited Morocco, which is about 20 places ahead of Tunisia in both *Doing Business* and the *Global Competitive Index*. According to most institutional criteria, Morocco has closed the gap with Tunisia, with the exception of democracy and transparency related criteria (see before).

This Moroccan advantage comes up in the analysis of tourist flows for example, with Morocco recording significantly higher growth than Tunisia or even Egypt – where arrivals collapsed during the 2011 protests and the waves of attacks in 2015 and 2016.[5]

Foreign tourist arrivals

(millions)



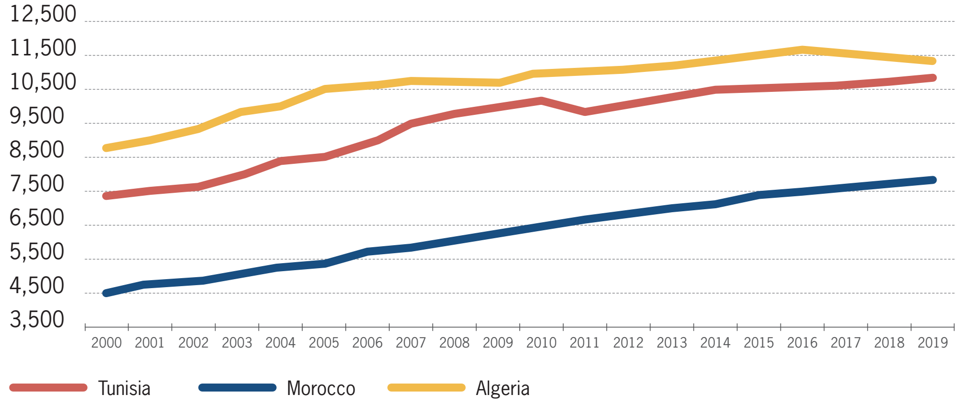
Source: African Development Bank, North African Outlook, July 2020.

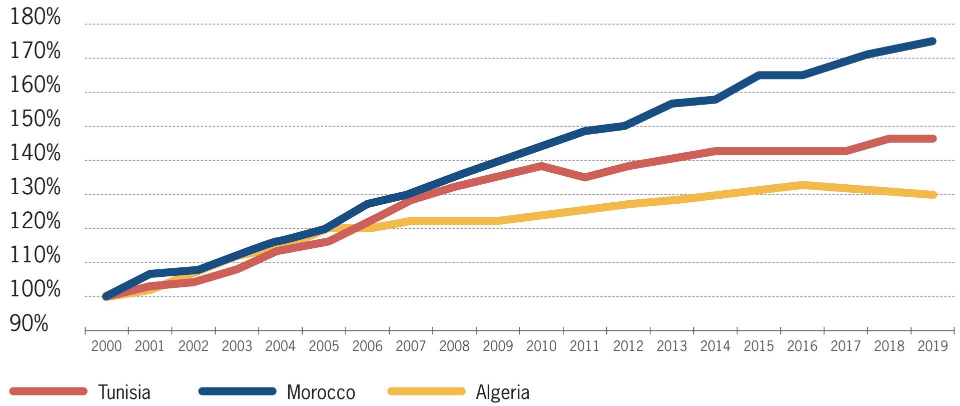
5 See figure above.

Thus, Morocco's growth remains one of the most stable in the region (at nearly 3% annualized over 20 years), with significant seasonality related to the share of agriculture and tourism in GDP. However, the pace of per capita growth slowed during the decade of 2010, with an annual rate of just over 2%, compared with nearly 3.5% during the 2000s. This slowdown is significantly less than what Algeria experienced (about 0.5% compared to 2%), and Tunisia (0.5% compared to nearly 3%). Even so, per capita income remains significantly lower than in Tunisia and Algeria (on a PPP basis).[6]

GDP per capita

(constant dollars 2017, level and base 100)





6 See Charts above.

Inequalities are still a concern

The main social indicators are lower than in the rest of the Maghreb countries. The sharp decline in poverty, from 20% in the mid-1980s to about 5% in 2012, has not led to a significant change in income distribution, as measured by the Gini coefficient.[7] The latest World Bank measures put it at 38.8% in urban areas and 31.7% in rural areas in 2014, versus 32.8% in Tunisia (2015). The adult literacy rate in 2018 was 3 percentage points lower than the average for Morocco – a lower middle-income country, according to the World Bank ranking. Moreover, Morocco does not allocate significant funds to the health sector: according to the 2021 financial law, the budget devoted to health represents 6.5% of the overall budget. However, the authorities are showing a real willingness in this area, as evidenced by the gradual roll out of basic coverage, based on compulsory health insurance and a compensation mechanism for the most disadvantaged ("RAMED"). According to the OECD, in spite of the government's focus on health since 2011, the share of the government budget allocated to health is almost twice as low as the WHO "standard" of 12%, with Tunisia and Algeria closer to this threshold.

Despite the intrinsic weaknesses of its growth model, Morocco has been able to attract foreign capital and build a financial system that is more robust than that of its neighbors – making it possible to finance public investments and current deficits. The "Tanger Med" project and the significant investments of European automobile and aeronautics companies (Renault, Airbus) are symbols of this attractiveness. Thus, the passenger car has become Morocco's leading export product.

The central bank (Bank Al-Maghrib, BAM has a good capacity to control inflation, with the consumer price index never exceeding 2% in the 2010s. This allows the exchange rate to stabilize, much more so than in Tunisia (see Figure on previous page), and fosters confidence among foreign investors. The speed of currency circulation fell sharply in the early 2000s, from a ratio of 1.23 to 0.88 between 2001 and 2010, before stabilizing at 0.84 in recent years.[8]

7 The Gini coefficient measures the distribution of income, if it is equal to 1, the inequality is absolute (one household has all the wealth, if it is equal to 0, the wealth is distributed in strictly equal parts between households.
8 Ratio of GDP to the monetary aggregate M3 (broad money supply).

Exchange rate relative to the dollar

(base 100)

Source: Standard & Poor's (SNL), data as of November 2, 2020.

Morocco has access to capital markets, with a "BBB-" *(investment grade)* sovereign rating from Standard & Poor's. This has proven useful recently:
- in September 2020 with the emission of two sets of 500 million euros with maturities of 5 and 10 years, at 1.375% and 2% respectively;
- on December 8, 2020, through the issue of 3 billion euros with maturities of 7, 12 and 30 years, at 2.375%, 3% and 4% respectively.

Public investment, largely implemented through SOEs, is financed by the Moroccan financial system, which allows for a relatively low level of external debt. This represents around 34.9% of GDP in 2020, versus 29.5% in 2018 and 2019, of which almost half is contracted by the government, mainly with multilateral donors. These donors hold more than half of the foreign debt owed to the Moroccan Treasury. As a result, Moody's observes that Morocco's public debt ratio is in line with the median of a sample with a "Ba1" (i.e., *investment grade*) rating.

Moroccan banks have much higher margins than their Tunisian counterparts, as evidenced by their expansion in sub-Saharan Africa, their much lower bad debt ratios (around 7% of outstanding loans pre-crisis), as well as their efforts to align accounting and resolution standards with the highest international standards. The relative strength of the Moroccan banking sector is reflected in the domestic private sector loans to GDP ratio, which was 25 points higher than the average for emerging countries in 2017 (IMF). This results in a high level of Moroccan households with a bank account. However, exposure to sub-Saharan Africa is attracting increased attention from rating agencies and international financial institutions.

Before the crisis, Morocco's macro-financial situation was therefore better than Tunisia's. Its political stability allowed it to refinance its debt on the markets and contain inflation, allowing for more vigorous social reforms, though inequalities remain high and are exacerbated by the current economic and health crisis. This is the purpose of the reflection process initiated by the King of Morocco and organized under the leadership of Chakib Benmoussa, Chairman of the Special Commission on Morocco's Development Model.

3. Algeria: a growth model with significant resources but fragile fundamentals, exacerbated by a double macroeconomic shock

Algeria's single-producer and single-exporter growth model has suffered from the decline in fossil fuel prices since 2014.

Unlike its neighbors, Algeria is fortunate enough to be rich in raw materials, particularly in fossil fuels. Its growth model is based on the exploitation of these resources, with a relatively low level of growth of the tertiary sector (especially in tourism and personal services) and a stronger state presence in the economy than in its two neighbors.

Algeria's macroeconomic indicators

Indicator (% or % GDP)	2010-16	2017	2018	2019	2020F	2021F
Real growth	3.1	1.3	1.4	0.8	-5.5	3.2
Inflation (CPI, average)	5.1	5.6	4.3	2.0	3.5	3.8
Public balance	-5.8	-6.6	-4.5	-5.6	-11.5	-11.4
Current account	-1.7	-13.2	-9.6	-10.1	-10.8	-16.6
Gross public debt	10.4	27.3	38.2	46.3	57.2	66.6
Foreign exchange reserves (USD Bn)	*n.a.*	96	79	62	45	*n.a.*

Source: International Monetary Fund, World Economic Outlook, October 2020.

Since 2014, the oil income trend is weakening

The drop in oil prices has had a considerable impact on the Algerian economy, which is largely dependent on the price of fossil fuels. This sector represents between 20% and 25% of GDP, more than 90% of exports, and about 45% of government fiscal revenue. This system is the basis for a redistribution policy of oil and gas income by a large public sector, which was already considered non-sustainable in the early 2010s.[9] The oil price collapse of 2014 prompted the authorities to take measures to increase Algeria's economic diversification and reduce its budgetary dependence on oil – results are still pending.

Against this backdrop, GDP growth was weak in real terms. The decrease in OPEC quotas and the contraction of external (mainly European) demand for gas resulted in a decline in production (-3% in 2017).

The decline in oil revenues has led to a growing budget deficit over the past five years. In 2015, it reached -16% of GDP. Between 2015 and 2017, the government implemented fiscal adjustment measures, allowing the public deficit to shrink to -6.6% in 2017. Nevertheless, domestic public debt continued to rise, from 27.4% of GDP in 2017 to 46.3% of GDP in 2019 (see Figure above).

Algeria's external position is also deteriorating. Their reliance on outgoing fossil fuel flows (95% of exports) and dependence on world prices is a source of fragility,

9 Known oil and gas reserves are expected to last only one to two generations. The diagnosis of shale gas reserves is still very uncertain.

especially since incoming capital flows (direct investment, tourism) are structurally weak. Algeria's business climate is at the bottom of the World Bank's *Doing Business ranking*, and has strict foreign exchange controls which largely explains this low level of inflows, as does historical political opposition to any form of external debt. As a result, Algeria's current account has been in deficit since 2014, reaching -16% of GDP in 2015 and 2016. Import restriction measures (quotas, customs duties) implemented in 2018 and 2019 have made it possible to reduce this deficit by 6 points of GDP (the Algerian current account deficit was -10% in 2018 and 2019).

The double macroeconomic shock of 2020

The combination of oil and health shocks of the first half of 2020 is likely to lead to a contraction in the hydrocarbon sector (oil and gas production companies) of -17.7% in 2020 compared to -6% in 2019. This decline is the result of the fall in prices observed at the beginning of 2020 following the fall in demand observed over the same time, all in a context of reduced OPEC production quotas (-0.2 mbd in May, June and July). Non-hydrocarbon growth is expected to be -2.3% in 2020, according to IMF figures, due to the slump in consumption and investment – a consequence of the political crisis in 2019 combined with the effects of the Covid-19 pandemic on activity.

The political crisis of 2019 has had a significant impact on Algeria's real economy, notably through a freeze on bank credits, a postponement of infrastructure projects, and an extension of payment deadlines. In addition, many business leaders and company directors have been indicted on corruption charges, which may in the medium term allow the Algerian economy to breathe – as some sectors, such as construction and public works, for example, had fallen under the control of unscrupulous businessmen. Finally, the Covid-19 pandemic has proven to be a shock on demand addressed both internally (contraction of consumption due to the lockdown and halted activities) and internationally (lower demand for Algeria product).

Social and political stability secured through generous social transfers

One of the historical vectors of Algeria's social and political stability has been its social spending since the late 1990s. In the 1990s, Algeria faced large-scale terrorism and significant economic difficulties, which required IMF intervention (1994-1997). In the late 1990s and early 2000s, Algeria's social context remained very tense. Per capita GDP collapsed between 1990 and 1999, from $3,524 in 1990 to $1,550 in 1999, due to population growth (about 1.6% per year) which was much higher than GDP

growth (0.5% on average over the past 10 years). More than 190,000 households, or about 1.6 million people (5.7% of the population), were living below the food poverty line (183 euros per year). Concurrent with the implementation of structural adjustment measures, unemployment increased from 1.7 million in 1994 to 2.1 million in 1999 (or 27.8% of the labour force). The Algerian social security system did not seem able to contain the latent social crisis, and in 2001 the authorities decided to increase the national guaranteed minimum wage by 33% (to 8,000 dinars per month, or about 50 euros) and civil service wages rose by 15%.

The decade of the 2000s saw a trend towards higher fossil fuel prices, which allowed the Algerian government to benefit from a significant financial windfall. Strong attention was paid to job creation. Support for business creation and the introduction of community service projects created 1.7 million new jobs between 2000 and 2005. Between 2000 and 2010, the unemployment rate fell from 28.9% to 10%. Wages were increased at the end of the 2000s: between 2007 and 2011, the minimum wage was increased by 50%, and civil servants' pay was doubled.

At the same time, the state embarked on structural social projects. During the 2000s, nearly two million homes were built, generally by Chinese or Turkish companies. An ambitious policy of securing water supplies has been implemented by rehabilitating dams and investing $14 billion in the construction of 13 seawater desalination plants. The aim is to combat drinking water shortages for the population, which is increasingly urban and concentrated on the coast.

This method continued until the aftermath of the Arab Spring in 2011. Social protests were then contained by a strong budgetary mobilization and social transfers, through the establishment of allowances for unemployed youth, and the almost full subsidization of basic necessities (e.g., oil, bread, sugar).

In 2014, these social policy channels suffered from the significant drop in fossil fuel prices, weighing on the Algerian budget and reducing its financial leeway. The collapse of oil prices at the beginning of 2020 has thus jeopardized the system of social transfers that is essential to the country's political stability, and this is in a context of increased economic difficulties.

Direct social transfers in Algeria represent about 8% of GDP per year (just under DA1,800 billion budgeted for 2020, or about $12 billion, which is almost 8% of Algerian GDP). These amounts are higher than in other countries in the region, with transfer spending averaging 6% of GDP for MENA countries, and 8% for oil-exporting countries in the region (IMF figures, 2018). This spending is coupled with a very high public employment rate: 37% of total employment, compared to less than 10% for developing countries and 25% for oil-exporting countries in the region.

Social spending in the broadest sense represents about 25% of GDP, and covers direct transfers, benefits, social assistance and subsidies, redistribution and education spending for all aspects of daily life (according to the General Directorate of the Treasury, 2020). This amount is considerable: in 2018, public social spending was just over 20% of GDP on average in the OECD (i.e., among the most economically advanced and developed countries). In France, public social spending represented 31% of GDP in 2019. By way of comparison with another oil and gas exporting country in the region, spending on social transfers, health and education in Saudi Arabia amounts to nearly $100 billion, or 12% of GDP.

The sustainability of this system of massive redistribution via social transfers in Algeria – the main factor of social stability – depends on a high price per barrel of oil. Thus, along with Iran, the theoretical price of a barrel of oil that would allow Algeria's budget to be balanced is the highest in the MENA region ($140 in 2020, while the average price is $40). The price of a barrel that would balance the budget is less than $80 for Saudi Arabia, less than $70 for the United Arab Emirates and close to $40 for Qatar.

This redistribution policy is part of a pattern of state control (the public sector accounts for more than 30% of the country's total value added). Currently, social transfers allow all Algerians, regardless of income, to benefit from free education and health care, access to housing, and subsidies for basic products and services (including energy). This policy of social transfers makes up for a very low employment rate, with one of the lowest participation rates in the world (42% on average, 67% for men and 16% for women). It even makes it possible to cushion unemployment, which is on the rise (estimated at 11% according to official sources, but this conceals numerous disparities (20% unemployment among women, very high youth unemployment, over 30%, and 20% unemployment among university graduates).

This social spending policy, which has been a pillar of Algeria's political and social stability since the 1990s, needs to find other sources of financing if it is to continue, as the low price of fossil fuels is no longer enough to keep it afloat.

Thus, even before the Covid-19 crisis, the Maghreb countries were the bearers of economic and social fragility, the first indicator of which is the uninterrupted flow of emigration that pulls several tens of thousands of young Maghrebis to Europe each year. Today, 32% of legal migrants in France come from the Maghreb.

III

THE 2020 CRISIS EMPHASIZES THE STRUCTURAL FRAGILITY OF THE MAGHREB ECONOMIES

1. The Tunisian response is coherent in terms of health but financially limited

Rigorous management of the health crisis

The first case of Covid-19 in Tunisia was detected on March 2, 2020. The authorities managed to contain the epidemic in a timeframe comparable to that observed in European countries.

- March: declaration of a health emergency, with containment measures;
- May 4: work resumes for employees in essential sectors;
- May 24: reopening of supermarkets and cafes;
- June 4: easing of complete lockdown begins;
- June 27: borders reopen;
- August 21: mandatory wearing of masks in public places.

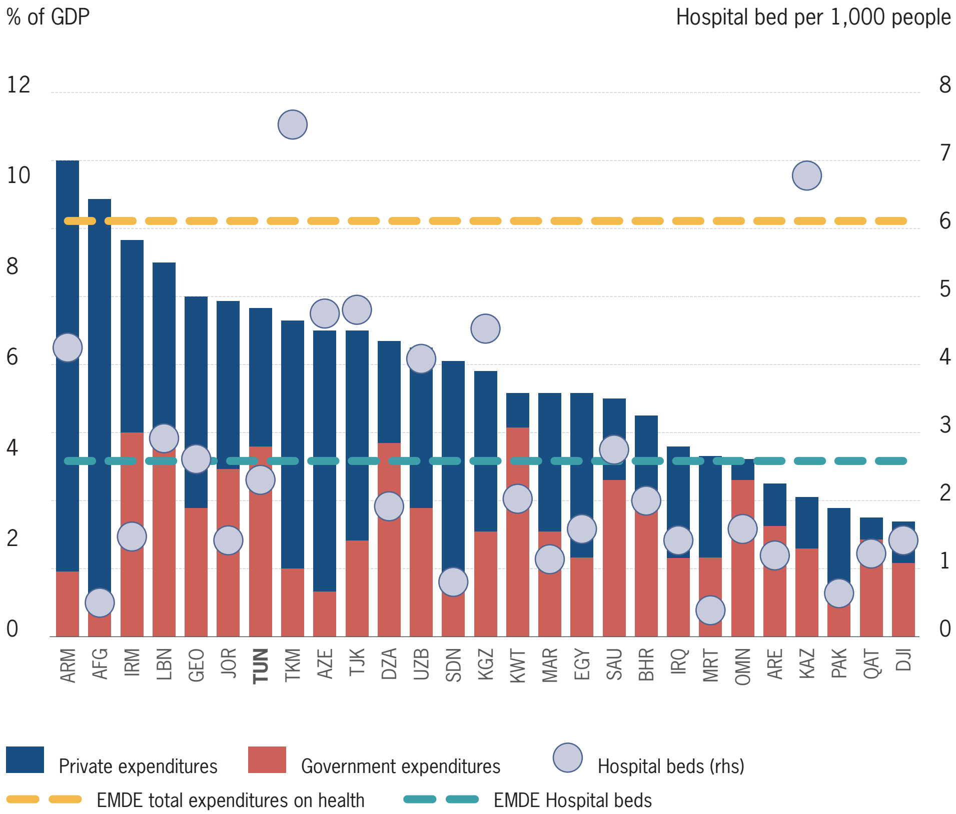
According to the World Bank October Report, Tunisia in particular, had one of the lowest prevalence rates in the MENA region (565 cases per million population). The authorities were able to rely on a health system that was more robust than average for the region, as well as greater transparency of information, facilitating the implementation of the state of emergency – a clear comparative advantage for Tunisia over many countries in its income bracket. The government continued to implement public health measures, as evidenced by the widespread use of masks in August. Since the fall and the second wave, which was much more deadly with over 5,000 deaths recorded, the authorities were forced to tighten social distancing measures and to urgently invest in the health system:

- limiting gatherings, especially cultural and sporting events;

• reinforcing the mask-wearing obligation;
• implementing flexible working hours to smooth out work site in-person attendance;
• enforcing local lockdown and curfew arrangements;
• increasing the number of intensive care beds – 1,200 by the end of October.

It would seem that launching a vaccination campaign depends on international solidarity – for example, the Algerian Minister of Foreign Affairs has reportedly expressed to his Tunisian counterpart a willingness to share his doses with Tunisia (the Russian vaccine, if necessary).

Health Expenditure and Infrastructure



Source: World Health Organization; and IMF staff calculations. Country abbreviations are International Organization for Standardization (ISO) country codes.

An economic and financial response which is consistent in its principles but limited in scope

Emergency economic measures mainly focused on:

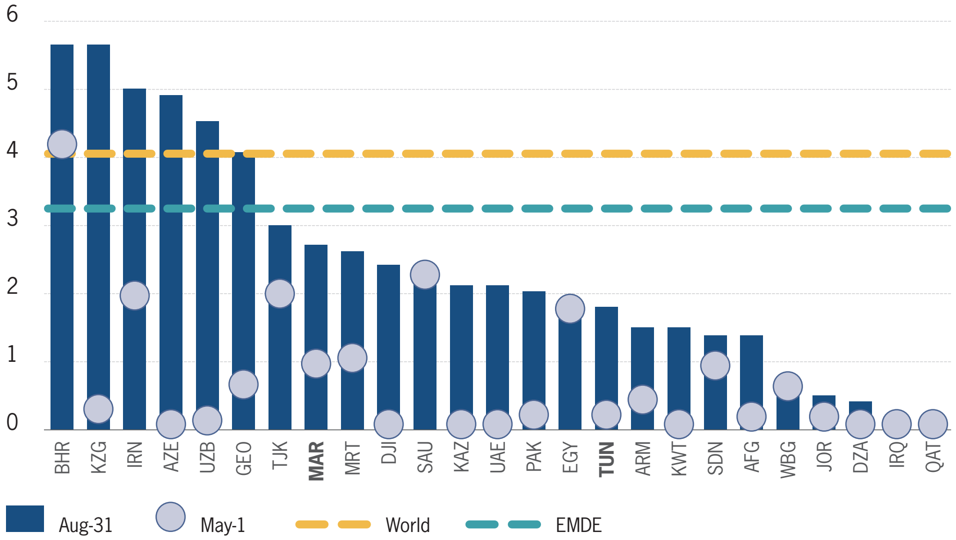
• support for consumption, with an increase in social transfers to the lowest income groups (0.8 points of GDP) and the creation of strategic food reserves (0.2 points of GDP);
• support for corporate cash flow and bank access to liquidity: a first decrease of 100 basis points in Tunisia's Central Bank policy rates in March 2020, then a further 50 points in October, exemption from and deferral of corporate taxes and social security contributions (0.5 point of GDP);
• operating and capital expenditure in the hospital sector, including the acquisition of medical equipment (0.3 GDP points).

In Tunisia, the poorest families received 140 euros in 2020 (70 in the spring and 70 in the fall), which is about two-thirds of a minimum wage. A large part of the population is not entitled to unemployment benefits, and workers in the informal sector remain partly outside the social protection systems. Emergency social measures were thus taken in March 2020, with public funding (to the tune of 300 million Tunisian dinars) to support employees and workers facing unemployment and a specific fund of 150 million dinars for the most vulnerable. Bank loan payment deadlines have been postponed for low-income employees, and the option to cut off electricity, water, gas and telephone services for unpaid bills has been suspended. In addition, a significant share of the population is not entitled to unemployment benefits, and informal workers remain partly outside the social protection systems.

However, with a total of about 2 points of GDP, the emergency stimulus package remains modest compared to the world average and to emerging countries (nearly 3½ and 3 points of GDP respectively, according to data published by the IMF in July 2020). As for Tunisia's Central Bank policy rate cut, it is in the middle range, especially since it is required to inject liquidity into the banking system (see previous section), comparatively more so than in other developing countries.

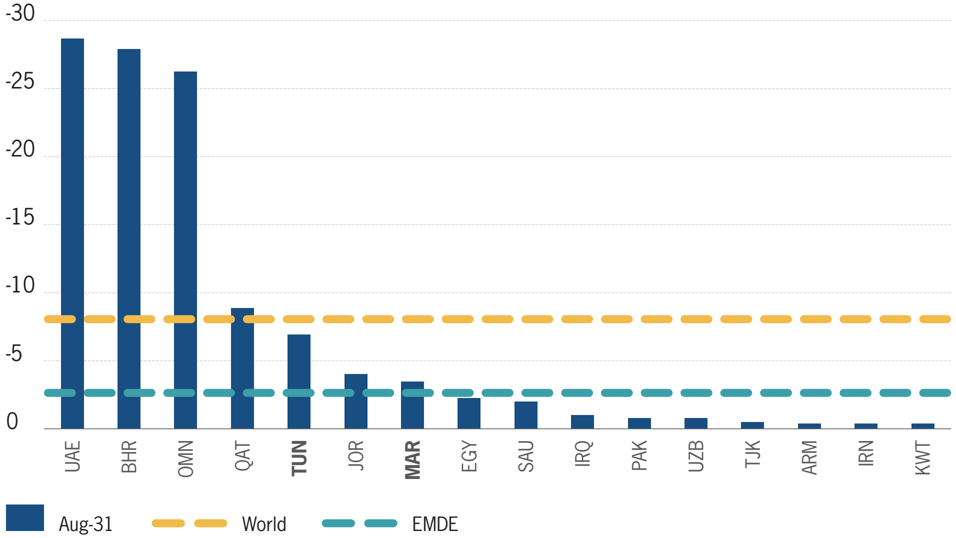
Policy Response to Covid-19 /
Cost of Fiscal Measures in Response to Covid-19

(Percent of GPD – includes off-budget measures)



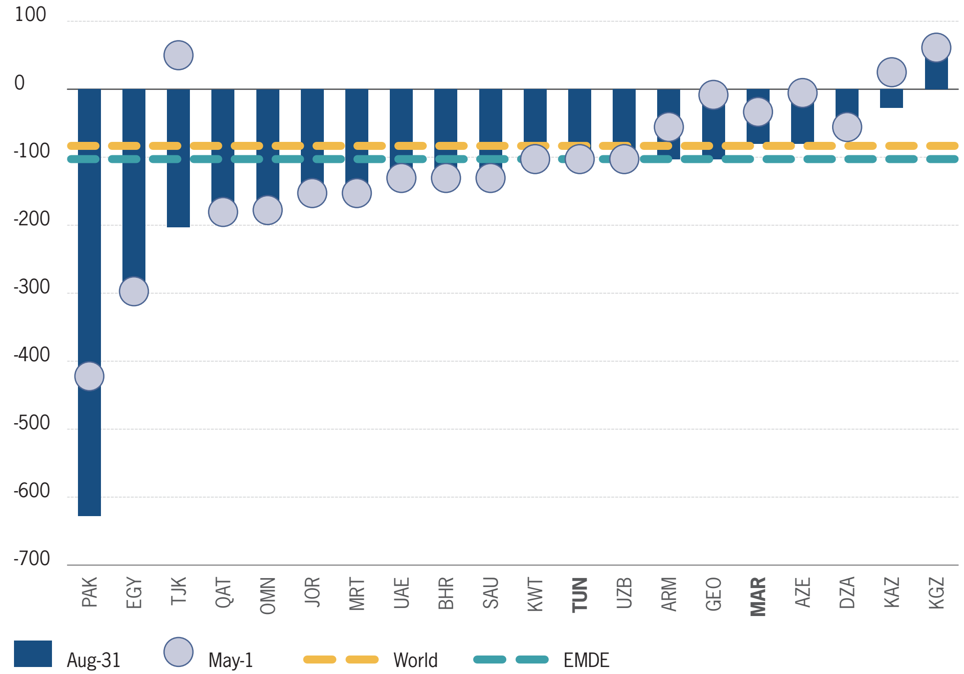
Policy Response to Covid-19 / Macro Financial Support Package

(Percent of GPD)



Policy Response to Covid-19 /
Monetary Policy Rate Adjustment

(change in BPS since end-2019)



Source: International Monetary Fund, Regional economic outlook, October 2020.

The smallest scale of countercyclical support deployed by Tunisia reflects the macroeconomic imbalances that existed prior to the Covid-19 crisis. The policy of austerity and monetary tightening (prompting an appreciation of the dinar), implemented since 2018 to combat these imbalances, had restored some leeway – as evidenced by the significant increase in reserves, by more than $2 billion in 2019, bringing the import coverage ratio back well above the critical three-month threshold, to 5.7 months.

However, the Tunisian authorities have had to partially offset the impact of the stimulus package by accelerating long-planned reforms. First, by taking advantage of the collapse in oil prices, with the end of public subsidies for energy consumption. Second, by freezing public employment (already at a high level), and increasing tax revenues from tobacco consumption. Finally, given a difficult situation of workforce mobilization and access to imports, some major public investment projects have been postponed.

This is proving insufficient in the short term, as the IMF's April 2020 forecast indicated that the public deficit for 2020 that was 5 points higher than initially forecasted (consistent with the figure below). Since then, this gap has been revised upwards due to the serious impact of the crisis on Tunisia's main partners – the deficit for 2020 is estimated at 8 points of GDP, higher than the pre-crisis forecast. As opposed to 2019, the trade deficit has ceased its decline and is now stabilized, due in part to low oil prices.

Tunisia's external financing table

Funding sources	2018	2019	2020F	2021F
Gross financing requirement	**6.5**	**5.9**	**5.1**	**5.8**
… of which trade balance	4.4	3.4	2.8	2.9
… of which refunds	2.0	2.5	2.4	2.9
Funding sources	**6.5**	**5.9**	**5.1**	**5.8**
Net FDI flows	1.0	0.8	0.1	0.7
Long-term debt	2.7	3.5	3.2	3.5
Short-term debt	2.9	3.0	0.1	1.7
Foreign exchange reserves decrease	0.4	-2.2	0.9	-0.1

Source: International Monetary Fund, April 2020
(data consistent with the 2020 World Economic Outlook not available).

In the face of these short-term uncertainties, Tunisia appears to have secured sufficient foreign currency financing for 2020, despite the drying up of short-term financing sources. The IMF has provided an emergency financing package of about $753 million through the Rapid Financing Instrument (RFI). Since the IMF's October 2020 updated scenario does not show a significant deterioration in the trade balance, this external financing plan still appears to be accurate. Hence, the current account has adjusted to the decline in exports, with a spontaneous contraction in imports – as access to foreign currency depends mainly on the intervention of international public donors.

The public accounts situation is more problematic. The $753 million loan secured under the RFI last April will not be enough to cover the entire public financing requirements in 2021. Thus, the multilateral and bilateral donors of the G7 countries, coordinated by the World Bank, have approved an additional $1 billion in the summer of 2020.[10] But the outflow, mainly planned for 2021, were linked to structural reforms negotiated with the previous government. Therefore, their availability is still uncertain.

2. Morocco has more leeway than Tunisia, but it must scale up its growth model

The first case of Covid-19 in Morocco was detected in early March. The authorities then declared a public health state of emergency by decree and created an ad hoc Economic Watch Committee, led by the Minister of Economy, Finance and Administration Reform. Morocco has dedicated about 5 points of GDP to health, which is higher than the average for emerging countries, but has a low number of beds per capita – hence the need to contain the epidemic as much as possible.

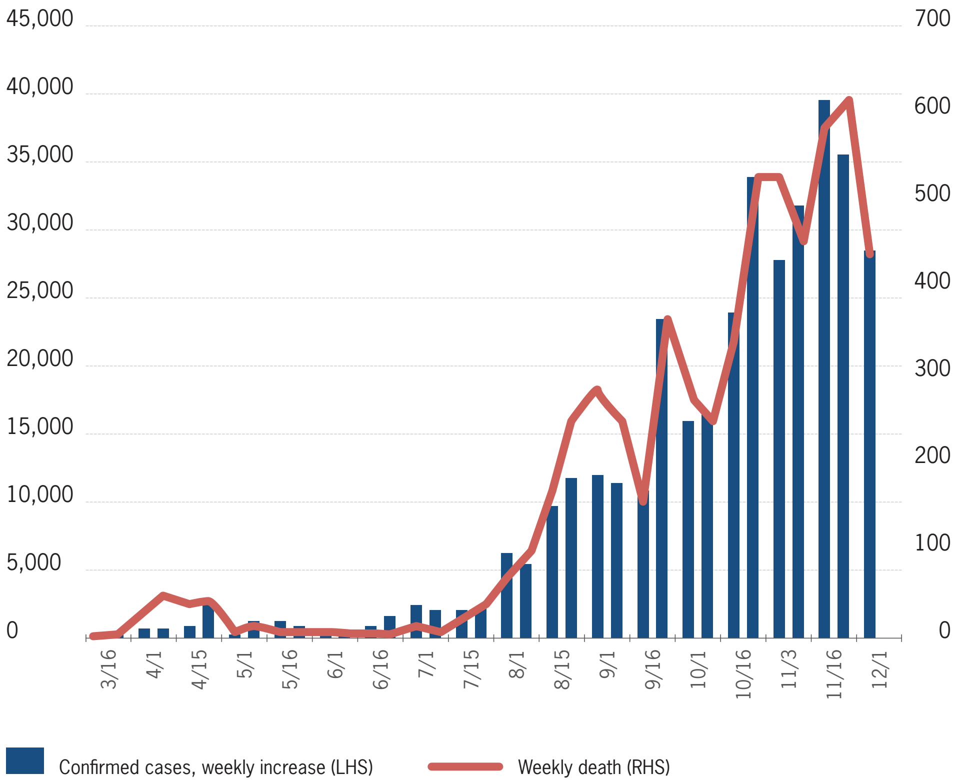
Thus, the Kingdom implemented measures to quarantine the sick, then to confine the population, to limit gatherings (cafes, restaurants, hammams, mosques, places of learning) and to close air borders, and controlled the price of hand sanitizer and masks. Economic activity gradually resumed as of June 11, with airspace reopening on July 14 – but to a limited extent due to the resurgence of the epidemic at the end of July, leading to an extension of the public health state of emergency.[11] While the number of cases per capita measured by the World Bank at the end of September is four times what it is in Tunisia, Morocco is in the lower range of the North Africa and Middle East region. Morocco's testing capacity is limited but average for oil-importing countries in the region. Since the summer lockdown, Morocco has struggled to contain the epidemic, prompting the public health state of emergency to be maintained. The state of emergency was extended again on January 10, after a national curfew was put in place on December 23. Today, Moroccan authorities continue to severely limit gatherings (especially festive ones), while they are preparing for a vaccination campaign with their 30 million dose order (of mainly of Chinese vaccines). This campaign will run for three months in order to vaccinate 80% of the

10 Of which approximately 350 million euros via the French Development Agency.
11 As in Tunisia, air arrivals in Morocco were almost nil in the second quarter, leading to a contraction in tourism-related exports.

adult population. The national vaccination campaign was launched on January 29, 2021, and is free of charge for all Moroccan citizens and foreigners residing in Morocco aged 17 and over. As of April 22, 2021, nearly 4.707 million doses have been administered and nearly 4.207 million people have received the two doses of vaccine.

Number of cases and deaths in Morocco

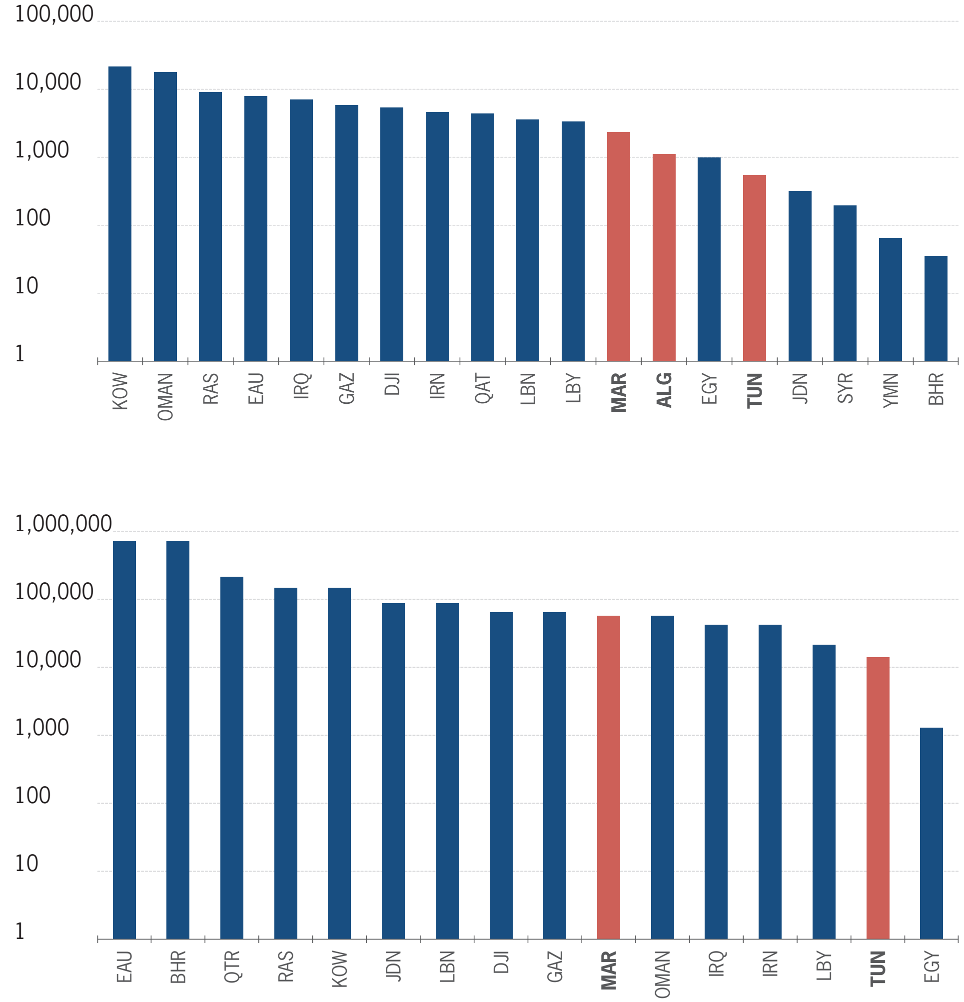
(number of persons)



Source: IMF, Article IV 2020.

Number of cases and tests per million population

(logarithmic scale)



Source: World Bank, October 2020, September data.

As soon as the crisis began, the Moroccan authorities used the full amount of the IMF's Precautionary and Liquidity Line (PLL) of $3 billion, or 3% of GDP, to prevent balance of payments financing problems – Morocco drew on the PLL agreed between the country and the IMF in 2012. This drawdown corresponding to an amount of 3 billion dollars, repayable over a period of 5 years with a grace period of 3 years, aims at contributing to the mitigation of the impact of the health crisis generated by the Covid-19 pandemic on the national economy and to the maintenance of foreign exchange reserves at an adequate level in order to consolidate the confidence of foreign investors and multilateral and bilateral partners of Morocco and this, without impacting the public debt. Moreover, it is important to take into consideration in this respect that Morocco proceeded, on December 21, 2020, to the early repayment of an amount of 651 million SDR (Special Drawing Rights), which is the equivalent of nearly 936 million USD or 8.4 billion dirhams. This operation made effective on January 8, 2021, comes in a context where the outstanding foreign exchange reserves have reached a level to cover more than seven months of imports of goods and services, thanks to the two issues made on the international financial market (1 billion euros in September and 3 billion dollars in December 2020).

Indeed, tourism was reduced by 60% in the first nine months of 2020, according to the Moroccan Foreign Exchange Office. Over the first nine months of the year, tourism accounted for half of the 20% decline in exports, with textiles, aeronautics and automobiles accounting for 5%. Concurrently, data from the Foreign Exchange Office shows a spontaneous contraction in imports of the same magnitude, strongly linked to the fall in oil prices (35%). Remittances began to recover in July, to the point of significantly exceeding the 2019 level by the end of the year (+5.0% according to the Foreign Exchange Office). This highlights the solidarity of the diaspora, more so than the catch-up effect following the lockdown of spring 2020.

However, both the IMF and the rating agencies expect the crisis to increase the current account deficit by 2 to 3 percentage points – which could also be partly due to a decrease in transfer income, linked to the decline in foreign exchange reserves in oil-exporting countries, particularly in the Gulf. The withdrawal of funds from the PLL should make it possible to maintain reserve levels at an equivalent of nearly 7.5 months of imports, which is higher than the historical average of 5.6 months for 2010-2019 and the theoretical "red flag" of 3 months.

Exports and imports by the end of September 2020

(millions of dirhams)

Goods imports	2019	2020	Variation
Capital goods	126,837	109,622	-14%
Finished consumer products	113,024	95,052	-16%
Semi-finished products	104,507	93,079	-11%
Food products	47,825	55,319	16%
Energy products	76,342	49,832	-35%
Raw products	22,101	18,964	-14%
Industrial gold	317	0	-100%

Goods exports	2019	2020	Variation
Automotive	80,156	72,716	-9%
Agriculture / Agri-food	62,094	62,546	1%
Phosphates and derivatives	48,945	50,768	4%
Textile and leather	36,936	29,827	-19%
Other industries	24,272	21,180	-13%
Aeronautics	17,484	12,438	-29%
Electronics and electricity	10,408	10,326	-1%
Other mining operations	4,201	3,378	-20%

Travel	2019	2020	Variation
Proceeds	78,752	36,364	-54%
Expenditure	20,927	10,542	-50%
Balance	57,825	25,822	-55%

Source: xxx.

Moroccan authorities have relied on an ad hoc structure, the Economic Watch Committee, to monitor the economic situation and implement support measures for the affected sectors and populations, and for cyclical support to economic activity. As a result, a large number of measures are being applied through a solidarity fund equivalent to 3 percentage points of GDP, based on public-private contributions, and backed by tax deductions, in addition to measures implemented by the central bank. This includes:

- support mechanisms for vulnerable households:
  - a net monthly allowance of 2,000 dirhams (approx. 185 euros);
  - maintaining AMO (compulsory health insurance) and family allowance benefits for employees who are partially or totally out of work – up to 903,000 employees and 135,000 companies benefiting on a monthly basis, with a total cost of around MAD 6.3 billion at the end of June 2020 (almost 0.55% of GDP);
  - compensation for households working in the informal sector, the amount of which varies according to the size of the household – nearly 5.5 million eligible households, 45% of which live in rural areas;

- cash flow and investment support mechanisms:
  - cutting policy interest rates from 2.25% to 1.25%, and temporarily relaxing prudential standards (reserve requirement reduced from 2% to 0%, temporary reduction of the capital adequacy ratio, expansion of eligible collateral at the Central Bank). On an annual basis, this has allowed a 60% increase in liquidity advances made by the Central Bank to the banking sector between March and June 2020;
  - exemption or deferral of financial deadlines (State and banks pay part of the interests), of tax and social security payments; partial unemployment, with reinforced targeting of SMEs – 1 million workers and 135,000 eligible companies;
  - reducing payment periods for public orders;
  - public guarantees intended for financing public-private partnerships in particular (approximately MAD 120 billion in outstanding amounts covered, i.e., nearly 12% of GDP);

- support for exports and for financing the current account deficit, with an easing of exchange controls to widen the fluctuation range of the dirham.

Support offers have been extended to June 30, 2021.

International donors, such as the IMF and the World Bank, have noted the Moroccan authorities' good targeting capacity in the fight against poverty. To compensate for the difficulties Moroccans face in accessing their workplace, the government has used digital databases to target vulnerable populations, mainly employed in the informal sector. For example, the "RAMED" health insurance program has allowed for mobile or cash payments, depending on the needs of the population. By the end of April, 85% of eligible households had benefited from the program. Moreover, this type of assistance was not limited to RAMED beneficiaries, as the government has set up a platform to identify people who have lost their jobs due to the crisis.

After the first wave of Covid-19, Morocco has demonstrated its ability to leveraging a large number of financing tools quickly, while prioritizing support for fragile populations and health crisis management. However, the rapid increase in the debt ratio and the widening of current account deficits threaten the sustainability of the Kingdom's finances, and its sovereign rating could be downgraded.

3. In Algeria, the fall in oil prices has made the adjustment more brutal

Algerian authorities implemented lockdown measures beginning in early February 2020 (e.g., canceling flights and a quarantine for repatriated Algerians), followed by a stricter and more extensive lockdown in March 2020. Measures included shutting down schools, universities, restaurants and stores, cancelling public and private events, the closure of transportation services, and a mandatory leave of absence for half of the civil service and private workers. Religious events and activities were cancelled and a total lockdown of affected areas was ordered, with curfews in several cities including Algiers.

The economic response was twofold. Measures to offset the massive decline in activity were varied (targeted aid to households, bank loans at concessional rates, deferral of charges and tax deferrals). The implementation of the recovery plan has been studied as of the summer of 2020, it refers to the necessary diversification of the Algerian economy (with the intention of President Tebboune in August 2020 to increase exports other than fuel to 5 billion dollars by the end of 2021). Thus, a recovery plan was announced in August 2020, particularly aimed at ensuring robust food and pharmaceutical safety, at promoting a favorable business climate and sectors with high added value as well as international trade and FDI. Credits amounting to 70 billion dinars have been leveraged to mitigate the health and economic impacts of the crisis (including 20 billion in allowances for the unemployed and 11.5 billion in transfers for disadvantaged households). The medium-term and structuring effects of these policies have yet to have an impact, notably in terms of public investment in "structuring projects" as referred to by the Algerian presidency.

Budgetary measures are being considered within a constrained framework. The significant cut in capital expenditure (-27% announced in 2020) should be offset by social measures, decided for the most part after the *Hirak* protests (e.g., increasing minimum wage, tax adjustments for individuals, support for pensions).

The revenue side of the Algerian budget has not yet been clearly defined. The IMF estimates that the budget deficit will likely represent 20% of GDP for this year, with a public debt of 61% of GDP (compared to 56% in 2019) and probably a significant monetization of the debt.

Algeria's latitude in terms of external balances is expected to shrink rapidly. Foreign exchange reserves represented $188 billion in 2013, before the collapse of oil prices in 2014. They represent less than $45 billion at the end of 2020. Without a significant recovery in oil prices, they could be completely exhausted by 2022.

The response is facing many structural problems

Nevertheless, the effectiveness of the cyclical measures is limited by the Algerian economy's structural handicaps. The business climate remains poor, making the country one of the least attractive for FDI (whose stock barely exceeds 15% of GDP). The legal security of foreign companies is perceived as weak (numerous problems with payment delays reported in foreign companies) and the attractiveness of investment is limited by red tape. The economy is poorly diversified and concentrated on mining. The labor market is mismatched. The unemployment rate among young people is high. Finally, the Algerian banking system finances the economy imperfectly, and half of outstanding bank loans are in the public sector.

4. The social situation in these three States is a cause for concern

The social situation in the Maghreb was difficult before the crisis: the Algerian *Hirak* protests throughout 2019, the Moroccan Rif Movement in 2017, and the strong protests in southern Tunisia since 2011, attest to the ongoing social protests affecting the region. Inequality and poverty, especially in rural areas, undermine the social pact. With the health crisis, the economic downturn and the drastic drop in oil prices, this instability has grown further.

Tunisia was in lockdown for four days during the celebration of the ten years of the Revolution. This did not prevent riots in poor neighborhoods of major cities – which had already been the cradle of the Jasmine Revolution. The social situation is very tense in a context of latent political instability and potential tensions between the President of the Republic and the Prime Minister.

In Morocco, the government reacted quickly, both in terms of health and finance. Despite a strict lockdown, it has managed to support businesses with measures comparable to those taken in rich countries. However, citizens outside of the market economy are suffering greatly from the crisis, and loss of the tourist season will have a massive impact on the income of many workers.

Unemployment is on the rise everywhere, of course this is greatly affecting young people, university graduates in particular. In the Maghreb, unemployment hits graduates harder than non-graduates. And yet, graduates have a stronger capacity than non-graduates to react and to make demands. Women are also hard hit, even though their participation rate was already quite low. However, and this is new, men in their prime, working in the tourism and transport sectors in particular, have also being impacted.

Covid-19, and above all its economic consequences, are therefore likely to weaken these three Maghreb States. Social tensions are likely to be exacerbated and could potentially be a source of further political instability. The consequences for Europe could be very worrying: immigration, security problems, the establishment of hostile powers.

IV

EMERGING FROM THIS CRISIS AND INVESTING IN THE FUTURE

The financial crisis and the Covid-19 pandemic have exacerbated the structural weaknesses of Maghreb economies. Hence, this paper projects 2020-2021 financing scenarios with two objectives:

- absorbing the surplus of current account and public deficits resulting from the crisis;
- funding for an “additional” stimulus package to offset some of the loss of revenue and investment.

These projections are based on the latest macroeconomic scenarios produced by the international financial institutions. However, some data had to be estimated.

1. Tunisia’s additional funding needs are urgent

According to the most optimistic scenarios (“low”), Tunisian financing needs could be between $3 and $5 billion, but they are between $5 and $9 billion in the pessimistic scenarios (“high”).

Main variables of the financing needs

These financing scenarios are based on an assessment of the residual cash flow requirement in Tunisia for 2020-2021, linked to the following factors:

- the increase in current expenditure, directly inherited from the crisis – which, for the sake of simplicity, we coupled with the increase in the public deficit (change in the public balance);[13]

13 In reality, the need for capital or supplementary financing must take into account the change in foreign exchange reserves and the distinction between public and private savings, since the current account (or trade balance) is equal to the sum of savings (public and private) minus the change in foreign exchange reserves.

- the requirements related to an investment plan, aimed at compensating for all or part of the drop in the investment rate;
- the need to mitigate the impact of the crisis on poverty, by assessing the cost of “catching up” to the tipping point of Tunisians under the thresholds of 3.2 and 5.5 dollars per day, according to World Bank data of October 2020;
- Finally, the additional costs associated with financing these needs – interest linked to a sovereign bond issue and/or bank recapitalization.

In order to associate amounts (low/high) to each of these factors to construct financing scenarios (optimistic/pessimistic), we estimated the “cost of the crisis” by observing the differences between the IMF forecasts (the latest having been published in the *World Economic Outlook* of October 2020, “WEO 2020”), supplemented by ad hoc data from the World Bank, regarding the impact of the crisis on poverty. We were thus able to quantify the needs related to the aforementioned factors (see appendix).

Summary of Tunisian financing needs according to the scenarios

(percentage points of GDP)

Availability of funding / Scope of needs	Low	High
Total by international public donors	0	0
Partial coverage (50% of total)	8	14
Null	13	23

Where to find funding?

A scenario of full recourse to multilateral donors can be imagined, but seems unrealistic. Therefore, a scenario of leveraging Tunisia’s own resources must be considered:

- financing the spending surplus (current, investment and poverty plan) through sovereign and bank debt, and marginally through taxation;
- a variation of this scenario, in which donors would agree to contribute 50% of the cash requirement.

Methodology box – Tunisian financing needs

- **Current expenditure:** We have assumed that the $753 million Rapid Financing Instrument (RFI) loan in April 2020 has provided for the financing requirement which existed at that moment. Therefore, the current expenditure financing requirement pertains to the estimated increase in the public deficit between the IMF's October 2020 scenario (WEO 2020) and the April 2020 scenario (underlying the endorsement of the RFI 2020). This results in the following range of estimates:
  - **low range:** the April 2020 financing requirement is increased by the difference with the WEO 2020 forecast for the public deficit;
  - **high range:** we have increased the previous amount by 50%, in order to keep a margin of error in case the crisis worsens (the IMF forecasts made in the fall did not take into account the impact of "subsequent lockdowns" of the last quarter of 2020).

- **Investment plan:** beyond the IMF scenario, we are adding an additional investment to compensate for the decline in the investment rate, as observed between the WEO 2020 and 2019. This would be financed equally by banks and the government:
  - **low range:** partial compensation, up to 5 GDP percentage points;
  - **high range:** almost total compensation by international donors, up to 10 percentage points of GDP.

- **Poverty plan:** undoing the effects of the crisis that have pushed many Tunisians below the poverty line, according to World Bank data. It is a question of granting cash compensation to those eligible, entirely financed by an increase in taxation (redistribution policy):
  - **low range:** compensation by social transfers financed by public authorities;
  - **high range:** integrating an additional cost for targeting this public policy, of 50% of the cash amount considered in the low range.

- **Various financial surcharges,** consistent with the ranges associated with the previous requirements:
  - **interest related to a bond issue,** the amount of which depends on whether or not there is additional support from public donors *(see before)*, used to finance current expenditures and investments; only the interest

…/…

payment for 2021 is taken into account here, as this is a study of short-term needs;
  - **recapitalization of the banking sector,** as we are assuming a 50% share in financing the investment plan with the State.

1. In Tunisia, the crisis is deepening poverty and the need for public financing, while causing a drop in investment

Overview of macroeconomic aggregates

Estimated impact of the crisis	2020	2021	Total
Real growth (%)	-9.5	1.1	-8.4
Investments (points of GDP)	-10.8	-9.6	*n.a.*
Current account (% GPD)	0.5	-0.4	0.1
Public balance (% GPD)	-4.5	-2.8	-7.3
Public debt (% GDP)	6.1	4.3	*n.a.*

Source: World Economic Outlook, October 2019 and 2020.

***Note:** for purposes of benchmarking (Morocco and Algeria) and completeness, the WEO 2020 data has been retained. Article IV published at the end of February 2021 presents Tunisian aggregates that have deteriorated significantly: GDP and the investment rate in 2020 have fallen by an additional 1.2 and 2.5 percentage points respectively, and the public balance has deteriorated sharply (cumulatively, by around 6 percentage points of GDP over 2020-2021). Consequently, the needs identified are reductive.*

According to IMF forecasts, Tunisian growth is penalized by a massive decline in investment, which will not be caught up in 2021. Its weight would have decreased by 11 points in 2020, which means a total decline of about 6 billion dollars in 2020 and 2021. This drop follows a marked decline in investment contributions to economic growth during the 2010s. It therefore threatens Tunisia's long-term growth potential (see chart above).

At the same time, household consumption is expected to continue to grow, although at a slower pace than before the crisis.[14] This is a consequence of the emergency measures set up following the lockdown, as well as the significant weight of public employees on GDP. As a result of the crisis and the rigidity of the wage bill, public finances will be permanently degraded, further reducing the capacity for public investment.

The trade balance is holding up, following a simultaneous contraction in exports, especially tourism-related (about 3.5 points of GDP less in 2020 than in 2019), and imports (in April, the IMF forecasted a decrease in foreign exchange reserves between 2019 and 2020 of 6 to 4 months worth of imports, which would be insufficient to finance a significant growth in the trade deficit), with Tunisian authorities exercising caution in their monetary policy (refraining from intervening on the foreign exchange market). There is therefore no additional need for current account financing.

This situation will further increase the need for investment in tourism infrastructure, which has been heavily affected by the crisis. The sector accounts for the bulk of non-performing loans and represents a direct contribution of 7% to GDP, and probably 14% to GDP according to Moody's, including indirect effects.

The ability to finance the public deficit for both 2020 and 2021 remains highly uncertain, as illustrated by the IMF's updated forecast in October 2020 – even before a second wave was taken into account. Thus, for 2020, Tunisia may have to finance almost 4 percentage points more of the deficit than estimated when it negotiated the $753 million IMF loan in April 2020 and a slightly lower amount for 2021.

14 April 2020 forecast, data consistent with October 2020 forecast not available.

2. Significant funding needs

a) Current expenditure – the underlying World Economic Outlook 2020 scenario ("business as usual")

Before taking into account the deterioration identified by the IMF in February 2021, more than six points of GDP public account deficits required refinancing (forecast 2020 and 2021 deficit respectively today of 10.6% and 9.3% of GDP). This significant deterioration only goes to highlight the need to help Tunisia. **WEO 2020 gap**	**2019**	**2020 F**	**2021 F**
vs. Public balance October 2019	0	-4.5	-2.8
vs Public balance April 2020 (to be funded)	0	-3.8	-2.6

Current expenditure funding (% GDP) – October 2020	**2019**	**2020 F**	**2021 F**
Low scenario – change in public balance WEO 2020 vs RFI 2020	*n.a.*	3.8	2.6
High scenario – additional 50% markup	*n.a.*	5.7	3.9

b) Which investment plan for Tunisia? – 5 to 10 points of GDP to be leveraged to facilitate a partial catch up

	Average 2010-16	**2020**		**2021**	
		Pre Covid	**Post Covid**	**Pre Covid**	**Post Covid**
Investment rates (% of GDP)	23.6	21.1	10.3	21.5	11.8
GPD (Bn USD)	45	40	39	38	41
Investment (Bn USD)	11	8	4	8	5

By comparison, the Next Generation EU investment plan of 750 billion over seven years, will generate 8 points of GDP in net subsidies for Greece and 4 for Portugal. A comparable range can be imagined for Tunisia, to partially make up for the investment gap created by the crisis. This medium-term plan should focus on the main productivity pockets of the country's economy: infrastructure and the development of the technological and digital ecosystems, particularly in the financial sector.

A significant acceleration of the investment profile would help to smooth the economic cycle, in particular through network and tourism infrastructures, and support for digital distribution to boost productivity.

Funding infrastructure and network industries

Given the current trajectory of infrastructure investment, Tunisia is likely to commit about 54 billion dollars between 2017 and 2040. This path is equivalent to 3.16% of Tunisia's GDP. The 2018 *Oxford Economics and Global Infrastructures Hub* report assesses infrastructure financing needs and estimates that investment needs for the country for the period 2016-2040 are in the range of $75 billion, which represents 4.5% of Tunisia's projected GDP over the period.

Financing needs are particularly diverse and vary from one key infrastructure sector to another

At this stage, the aggregate funding needs for the power grid ($14 billion), telecommunications (also $14 billion), airport infrastructure (about $500 billion), and rail infrastructure ($1.7 billion) are covered by planned public and private spending. The report even mentions a "very good quality of infrastructure relative to the allocated amounts". The same observation is made for airports and telecoms. Regarding access to electricity, Tunisia is in an overall good situation if the planned investments are applied.

However, three sectors are in dire need of financing: road infrastructures, ports, and water supply infrastructures.

For road infrastructures, funding needs are estimated at $36 billion by 2040, while on current trends, committed or planned funding is expected to be $17 billion. An additional $19 billion is therefore needed in this sector over the next 20 years, which represents a commitment of more than one point of GDP.

In terms of water infrastructure, out of the $7.3 billion need, only $5 billion in funding requirements would currently be covered by 2040, which implies that $2.4 billion in investment needs is still outstanding.

Breakdown of infrastructure financing needs between 2017 and 2040

Sector (Bn USD)	Amount	Funding needs	in % GDP
Total	**75.0**	**22.0**	**1.26%**
… of which ports	1.3	0.6	0.03%
… of which roads	36.0	19.0	1.09%
… of which water	7.3	2.4	0.14%

Source: Global Infrastructure Hub.

Hence, the investment plan would leverage funds equivalent to the need of 1.26% of annual GDP.

Improving tourism infrastructure to allow this sector to contribute to the economic rebound when economic activity resumes

Beyond network infrastructure, the tourism sector represents nearly 14% of GDP (including indirect contributions), according to KPMG figures in 2018, and accounts for about 11% of the employed labor force (responsible in 2018 for 98,000 permanent jobs, out of a total of 389,000 direct and indirect jobs, aggregating seasonal jobs as well as induced jobs in the fields of catering and transportation services in particular). While the IMF expects a slow recovery in tourist flows, Tunisia has lost significant market shares in this area and has not been able to renew its offer. As a result, while Morocco and especially Marrakech became a leading destination with a high amount of spending per tourist, Tunisia has not been able to invest to upgrade its tourism facilities and has lost itself in the "all inclusive" packages which generates meagre profit margins.

Over the first 9 months of 2020, Tunisia recorded a 60% drop in tourism revenue compared to the previous year – 491.4 million euros, according to the Ministry of Tourism's figures. Over the same period, the number of overnight stays did not exceed 4.6 million, a 79.5% drop compared to the same period in 2019. Moreover, its international tourism is mid-range level tourism. Indeed, Tunisia hosts 0.6% of global tourists, but accounts for only 0.2% of global tourism spending. One of the explanations lies in the average quality of its hotels and infrastructure. The hotel sector is also financially weakened: outstanding non-performing loans (NPLs) on behalf of hotel infrastructures represent 532 million euros, or 30% of the NPLs held by the three main public banks (STB, BH, BNA).

A specific support policy for these hotel infrastructures therefore seems necessary. In 2019, René Trabelsi, Minister of Tourism and Handicrafts, mentioned the implementation of a "Marshall Plan" to address the issue of hotel debt. Potential avenues included the possibility of negotiating with banks to reschedule the debts of indebted hotels, or even the possibility of partial interest exemptions for loans taken out. These measures could go hand in hand with measures to support investment in the hotel sector, in order to improve hotel infrastructures and increase the profitability of hotel stock. It is probably also necessary to create a turnaround fund to enable the takeover of bankrupt hotels by professionals capable of injecting capital and boosting the quality of tourism facilities.

Improving overall productivity factors requires spreading innovation to the financial and banking sectors

An innovation strategy in the financial sector and payment methods is essential, as evidenced by Tunisia's difficulties to curb inflation – money's speed of circulation is significantly higher than in Morocco, and Tunisians resorted to massive withdrawals from their bank assets during the 2010s. Only 27% of Tunisians have an account in a banking institution.

Many businesses identify access to credit as one of the major strains on their development. The supply of financial services is poorly developed and concentrated in the coastal regions, although the presence of the Post Office in inland regions allows people in rural and remote areas to have access to financial services.

However, this development must be part of a structural reform program to improve the business climate, the labor market and total factor productivity.

c) Implement a plan to fight poverty

The increase in poverty is cause for concern, as noted by the World Bank in its October 2020 report on the regional situation in the MENA area. In total, nearly 800,000 Tunisians would fall below the poverty line.

Number of Tunisians living below the poverty line

	Percent (% population)		Number (thousands)		
Poverty line (USD	**Pre Covid**	**Post Covid**	**Pre Covid**	**Post Covid**	**Gap (A)**
< 3.20 / day	2.4%	4.2%	281	491	211
< 5.50 / day	15.0%	22.0%	1,754	2,573	819
Population 2019 (Billions, World Bank)	11,695	11,695	11,695	11,695	

Source: World Bank, MENA economic update, October 2020.

We have simulated a neutral impact of the crisis on poverty at the threshold of $5.20 of income per day – that is, if the government compensates for lost income. For the sake of simplicity, we have made the following assumptions (both assumptions must be combined):

- the 800,000 people are thought to have fallen into poverty as a result of a decrease in their income equivalent to the fall in GDP (about 10%);[15]
- we assume that it was a proportional decrease in GDP that pushed these households below the poverty line (again for the sake simplicity, all were earning about $5.7 per day and lost about $0.5 in income).

Estimated neutralization costs 5.2 USD	Amount	% GPD
Estimated yearly income per person before the crisis (USD) (A) = Considered threshold × (1+ decrease GDP) × 365	2,114	*n.a.*
Estimated income loss 2020 - GDP gap forecast - (B) - Source World Bank *	11.4%	*n.a.*
Thousands of people fallen below the poverty line (C)	819	*n.a.*
Total cost M USD = A × B × C	**197**	**0.2%**

*Different from the IMF's forecasted gap, coherently used with the rise of poverty

15 Thus, we assume that people in the two subsamples earned at most 3.20 × 1.1 and 5.5 × 1.1, or USD 3.52 and 6.05 per day, which allows us to find a cost marker for the plan.

This amount does not take into account the cost of rolling out public policies to effectively target the populations in question – often in the informal sector, insufficiently involved with banks, and census records for which are inadequate.

Therefore, such a measure should include a simplification of public policies, following the establishment of a single benefit, based on a robust census of income across the country. This requires a proper census of the population.

1. How should it be financed? Making funding available will require reform commitments after the difficulties of the last few years

a) A loss of momentum in donor funding

Tunisia will not find foreign currency unless it presents a credible plan for the use of funds, which needs to include a presentation of the projects to be financed, but also and perhaps more importantly the implementation of dedicated teams and public governance able to spend this money effectively. This is the case for the disbursement of the multi-donor program negotiated in the summer of 2020 with the World Bank and bilateral donors, mainly G7 countries. None of the donors will finance the increase in public spending, especially salaries.

Without depth and access to capital markets, securing concessional external financing is a vital issue for Tunisia, as early as 2021, and even by 2020, which implies accelerating structural reforms.

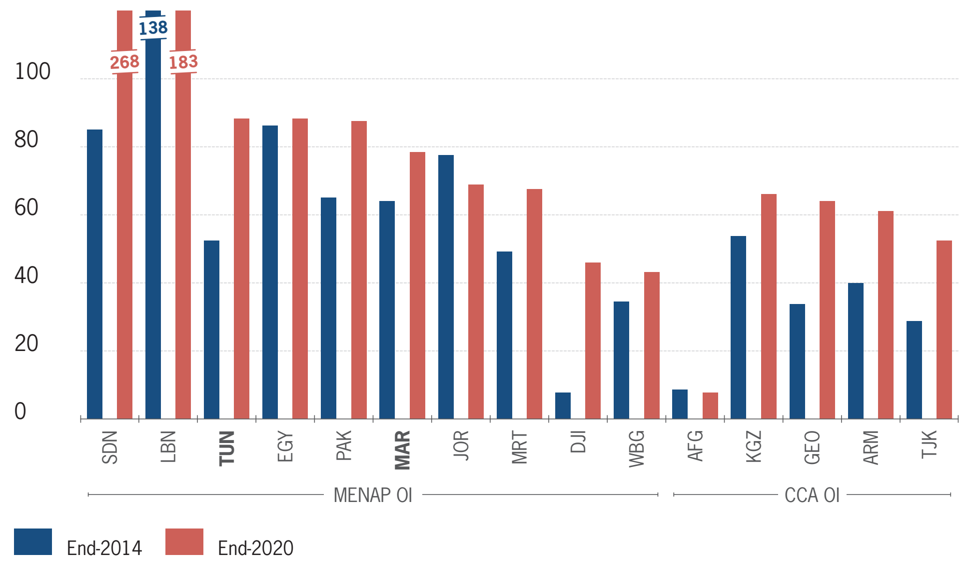
Beyond financing the public deficit and balancing payments for 2020 and 2021, the longer-term recovery of Tunisian growth will be penalized by the weight of public debt and external constraint – in July, the IMF forecasted that the stock of foreign currency-denominated public debt would reach 67.1% of GDP, out of a total of 88.5% in 2021 – despite a relatively moderate increase in post-crisis public financing needs.[16]

As a result, Moody's downgraded the outlook for the sovereign debt rating on October 6, 2020, while Tunisian sovereign rates, as measured by credit default swaps, had been among the most sensitive to the sharp deterioration in economic conditions (nearly three times higher than the levels recorded for Morocco).

16 This is particularly true for the of oil-importing countries of the MENA region.

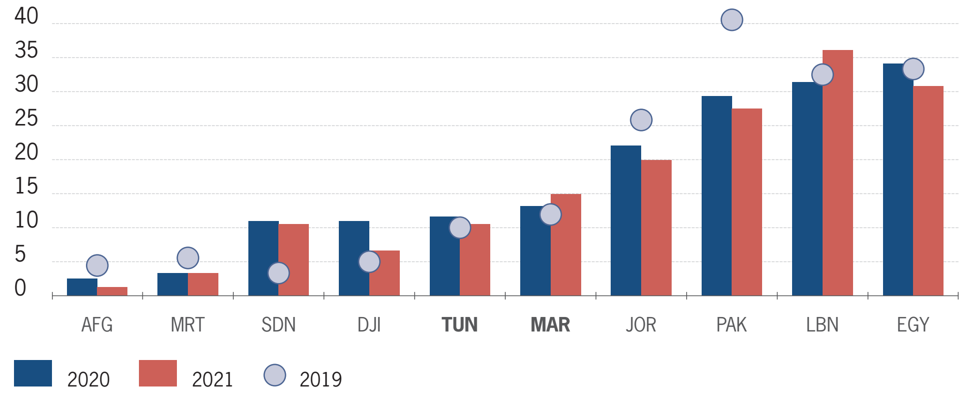
Public funding needs in the MENA region / Oil Importers, Total Government Gross Debt

(% of GDP)



Public funding needs in the MENA region / Public Gross Financing Needs

(% of GDP)



Source: National Authorities and IMF staff calculations.

Given its limited leeway in the financial markets and the significant investment needs created by its demographic dynamics and unemployment rate, Tunisia is closely dependent on its foreign creditors, bilateral and multilateral in particular.

The banking sector is also of growing concern. According to Standard & Poor's, Tunisia's loans will exceed 100% of GDP by the end of 2020, significantly higher than the ratios observed in countries with similar financial ratings. In particular, the agency estimated in the fall that the stock of bad debts will rise from 14% at the end of 2019 to more than 20% by the end of 2020.

Despite the diversification of the Tunisian economy, the banking sector remains fundamentally asymmetrical: a fragmented set of players, with no prospect of rapid consolidation, and outstanding loans extensively resting on a limited collateral. As a result, banks are not in a position to provide lasting support for recovery nor reinforce potential growth.

Thus, the slowness of Tunisia's structural reforms – which are the expected counterpart of multilateral financing programs, primarily those of the IMF – combined with the overall scale of the crisis, could limit donors' capacity to support Tunisia.

b) More limited multilateral funding should be considered and Tunisia's resources should be mobilized

It is therefore necessary to assess Tunisia's additional financing levers, in order to finance both the 2020 and 2021 deficits, and make up for some lost growth due to the crisis.

Taking into account the IMF's October 2020 forecast *(World Economic Outlook)*, we have identified two sub-scenarios:
- support from public donors only covering the financing needs identified in April 2020 (i.e., Tunisia needs to finance the additional deficit expected in the fall of 2020 alone);
- support from international donors (multilateral and bilateral) finance half of the gap between the April and October 2020 forecasts (through guarantees or direct funding).

In addition, we have identified "low" and "high" scenarios when it comes to the cost of fighting poverty and the size of the increase in deficits, as well as the size of the investment plan.[17]

17 See methodology box.

These scenarios would aim to preserve Tunisian growth and contain the public deficit in 2020-2021, with as moderate an increase in taxation as possible. Implementing incrementally would limit the impact on GDP, and consumers in the non-competitive sector, public administrations especially, would be relatively spared by the crisis.

These scenarios would have the major disadvantage of significantly increasing public debt, while the Tunisian ratio would be close to 90% of GDP in 2021. Only a relevant targeting of the investment plan on network infrastructure would make this trajectory more sustainable – through a "denominator" effect linked to an increase in GDP.

Overall, a scenario without international public donor support is difficult to imagine for Tunisia. A scenario of public donors support of 50% of the total financing requirement (investment plan, growing deficits and recapitalization of the banking sector) would be more manageable, with the Tunisian government financing a total of 2 to 3 billion euros (or 5 to 10 points of GDP).[18]

Summary of needs – unassisted scenario

Summary 2020-21 – GDP points, without aid	Low	High
Jobs	**13.2**	**22.3**
Growing deficits	6.3	9.4
Investment plan	5.0	10.0
Poverty Plan[19]	0.2	0.4
2021 Eurobond Coupon	1.0	1.6
Cost of bank recapitalization	0.7	0.7
Resources	**13.3**	**22.4**
Sovereign issuance	9.5	14.3
Taxation (IT audit and additional measures)	1.0	2.7
Freeze in the value of payroll	0.4	0.4
Bank funding[20]	2.5	5.0

18 Between the IMF loan grant and October 2020.
19 High assumption increased by a flat 50% due to targeting costs.
20 Assuming recapitalization of the banking sector by the State.

Summary of needs – partially assisted scenario

Tunisia's multiple needs stem from (i) the seriously worsening situation of public finances (payment of salaries, current public orders, etc.) which is cause for concern, and (ii) the collapse of productive investment. This would result in coupon payments corresponding to the bond issues (the impact of which would be a "burden" spread over several years) as well as costs related to recapitalizing the banking sector (i.e., to finance the investment plan). The cost of financing the poverty plan would be relatively low. In the "low" scenario, it is assumed that concessional financing will be used to reduce the cost.

Synthesis 2020-21 – GDP points, with partial aid (50%)	Low	High
Jobs	**8.0**	**13.9**
Growing deficits	3.1	4.7
Investment plan	3.8	7.5
Poverty Plan[19]	0.2	0.4
2021 Eurobond Coupon	0.5	0.8
Cost of bank recapitalization	0.4	0.5
Resources	**8.0**	**13.9**
Sovereign issuance	4.7	7.2
Taxation (IT adjustment and additional measures)	0.8	1.4
Freeze value of payroll	0.0	0.4
Bank funding[20]	2.5	5.0

19 High assumption increased by a flat 50% due to targeting costs.
20 Assuming recapitalization of the banking sector by the State.

2. Morocco will bend but likely won't break

The method used for our calculations is similar to that used for Tunisia. Morocco has fewer constraints, particularly in terms of recapitalization of the banking sector and access to international financing (capital markets and international public donors).

Summary of Moroccan funding needs according to the scenarios

(points of GPD)

Availability of funding / Scale of needs	Low	High
Morocco only	5.8	9.2
With the help of international donors[21]	3.0	5.2

In the low/optimistic scenarios, Morocco's financing needs would be between \$3.5 billion and \$6.5 billion, while in the high scenarios they would be between \$6 billion and \$11 billion, if it does not receive assistance from international donors.

Key requirement variables:
- growing deficits due to the crisis;
- investment plan between 2.5 and 5 points of GDP;
- cost of poverty plan targeting.

Key underlying assumptions
The estimate of the cost of the crisis is based on the use of the IMF October 2020 scenario (World Economic Outlook, "WEO 2020"), which corresponds to the difference between the IMF's October 2020 and 2019 forecasts.

Identifying the needs follows a similar process to that used for Tunisia.

- **Current expenditure:** funding needs for 2021 only (we assume 2020 is funded), and measure by the difference between IMF forecasts (public and current deficits, from WEO 2020 and 2019), with estimate ranges:
  - low scenario, adding public and current deficits which differ from the WEO 2019;
  - high scenario, increasing this amount by 50%;
  - unlike Tunisia, there is no additional cost of issuing bonds to support current expenditure.

21 Full financing of the government's share of the investment plan for 2.5 to 5 GDP points in the "no aid" scenario.

- **Investment plan:** beyond the IMF scenario, the plan would be financed on a parity basis by the banks and public authorities, with a range of estimates (low at 2.5 GDP points, high at 5 points), without needing to recapitalize banks.

- **Poverty plan:** aims to mitigate the effects of the crisis – which has pushed many Moroccans below the poverty line, according to World Bank data. The plan is to grant cash compensations to those who need it, and is entirely financed by an increase in taxation (redistribution policy):
  - **low range:** compensation by social transfers financed by public authorities;
  - **high range:** integrating additional cost for targeting this public policy, 50% of the cash amount considered for the low range.

This leads to two types of funding scenarios:
- in the first, there is a full recourse to the financial markets and bank borrowing;
- in the other, international public donors take full responsibility for investment needs, and 50% for the current public deficits resulting from the crisis.

1. Impact of the crisis: larger current account deficits than in Tunisia, but the Moroccan financial system is more robust

Overview of macroeconomic aggregates

Government budget balance (% GDP)	2020	2021	Total
Real growth (%)	-10.7	0.8	-9.9
Investment (GDP points)	-6.7	-5.8	*n.a.*
Current account (% GDP)	-3.4	-2.3	-5.7
Government budget balance (% GDP)	-4.5	-3.0	-7.5
Public debt (% GDP)	12.3	13.4	*n.a.*

Note: *WEO 2020 data has been used for the sake of comparison and comprehensiveness (Tunisia and Algeria). The IMF's Article IV published in early January 2021 includes virtually unchanged forecasts for Morocco, with the exception of a one-point improvement in the 2020 current account.*

Source: MF, World Economic Outlook 2020.

Beyond the IMF data, analysis of the 2021 budget bill and dialogue with Moroccan authorities provide useful additional analysis.

By the end of 2020, the Moroccan authorities are forecasting a slightly smaller contraction in GDP than what the IMF presented in October 2020: 5.8% contraction in GDP compared to 7% – against a backdrop of drought, which worsened the impact of the global crisis. For 2021, the authorities' forecasts are almost identical to those of the IMF, and expect a gradual recovery (4.8% compared with 4.9% in the IMF's October scenario), which does not fully offset for the decline recorded in 2020. The authorities estimate the recovery of non-agricultural GDP at 4%.

Growth in 2020 was strongly impacted by the decrease in tourism exports – despite the decline in oil prices, the balance of goods and services would contribute negatively to growth.

As regards demand and investment, government support to economic activity has been greater than in Tunisia, not only in fiscal terms (3 points compared with around 2 points of GDP), but also following the deployment of substantial public guarantees, which have helped to support access to liquidity for SMEs (equivalent to the state-guaranteed loans in France). Thus, in 2021, general government spending is expected to grow by 3.8% and household spending by 3.5%. In total, consumption items should contribute 2.1 points to growth in 2021, instead of -0.6 points in 2020. As for investment, it should increase by 6.4% after a 5.1% drop in 2020, and its contribution to economic growth should be 1.8 points, compared with a negative impact (-1.4 points) in 2020. However, this growth rate is lower than the consumption rate, resulting in a significant decline in the share of investment in GDP – albeit to a lesser extent than in Tunisia. Consequently, we also believe that investment programs need to be stepped up.

Foreign trade is expected to gradually return to its pre-crisis levels, driven by a recovery of global activity and end of lockdown. Overall, the contribution of foreign trade should be +0.3 points in 2021, after -1.5 points in 2020. Tourism, as well as the automotive and textile/clothing sectors, are expected to be among the main beneficiaries.

On the other hand, banking sector equity levels are considered adequate by Standard and Poor's, and by the authorities, thus a generalized recapitalization is not warranted. The macro stress test carried out by the Central Bank in June 2020 estimates a decrease in the capital ratio of 110 basis points, from 10.3% to 9.2% between 2019 and 2021, due in particular to an increase in the non-performing loans ratio, from 8.7% in 2019 to 13.4% of outstanding loans in 2020.

Finally, the authorities are predicting an increase in the unemployment rate from 9.2% to 12.7% in the third quarter of 2020, even though the participation rate is expected to fall by 2.5 percentage points over the same period, with some regions, such as Oriental and Béni Mellal-Hénifra, seeing their unemployment rate double. At the sectoral level, the primary sector is expected to account for most of the losses, with nearly 500,000 jobs lost (i.e., 13% of the sectoral total). In line with comments made above, a poverty reduction plan may be necessary, for reasons similar to Tunisia.

Compared to the October 2019 forecast, this situation leads to a larger increase in public debt and the current account deficit (Morocco has managed to maintain its imported "lifestyle" better than Tunisia). However, the level of external debt is still sustainable, particularly because public investment is financed by Moroccan banks, reflecting the relative strength of the sector.

2. Funding needs

a) Current Expenditures – World Economic Outlook 2020 Scenario ("business as usual")

The deterioration of public accounts was mainly due to the activation of automatic stabilizers and the stimulus package, Morocco was able to rely on its access to capital markets to absorb it.

WEO 2020 Gap	2019	2020F	2021F
vs. account during October 2019	-0.4	-3.4	-2.3
vs. public balance October 2019	-0.4	-4.5	-3.0

Public financing requirement (% GDP) – October 2020	2019	2020F	2021F
Low scenario – change in government balance October 2019	*n.a.*	funded	3.0
High scenario – additional 50% markup	*n.a.*	funded	4.5

b) What kind of investment plan should Morocco consider?

Morocco's Investment Needs

	Average 2010-16	2020		2021	
		Pre Covid	Post Covid	Pre Covid	Post Covid
Investment rates (% GDP)	34.6	34.9	28.2	35.3	29.5
GDP (Bn USD)	100	110	119	119	125
Investment (Bn USD)	34	38	33	42	37

It seems that Moroccan authorities have already anticipated investment needs consistent with the levels identified by the IMF, including education, health, support for SMEs, and energy transition. In the documents for the draft budget law for 2021, the authorities put forward a figure close to 10% of GDP (120 billion dirhams), the budgetary impact for 2021 is not explained.

According to the 2021 budget bill, the investment share would contribute 1.4 percentage points of GDP in 2020, then contribute 1.8 percentage points in 2021, bringing it to 29.6% of GDP (compared with 29.5% in the WEO).[22]

The additional investment needs can be estimated at around 5 points of GDP to return to a level close to what was anticipated before the crisis.

Improving productivity, a structural priority supported by an investment plan geared towards the secondary sector

A major strategic reflection has been led by Chakib Benmoussa, chairman of the Commission on the Development Model, set up in November 2019, well before the onset of Covid-19 pandemic. The objective of the Moroccan authorities is to define a more inclusive and also more efficient growth model, following the disappointing results of the 2010 decade.

The creation of the Strategic Investment Fund was announced in the summer of 2020, and could be an essential lever for the proper orientation of capital towards

22 Measured by gross fixed capital formation.

the highest priority production sectors. The package initially planned for this fund (below $5 billion) could be increased in order to provide better allocation of capital and investments towards industrial sectors.

Human capital development

According to the World Bank in 2018, 41% of the country's per capita wealth was based on human capital. This figure is lower than that of middle-income countries.

Morocco is structurally challenged by an ineffective education system. In 2019, 66% of Moroccan children aged 10 were not fully literate, 2.5 percentage points below the MENA regional average and 10.7 percentage points below the average for countries comparable to Morocco (lower middle-income economies).

The Moroccan school system is inefficient. The years of schooling for Moroccan students adjusted for learning outcomes were estimated at a total of 6 years, out of a total of 10 years of schooling, in 2018. Thus, the actual length of schooling in Morocco was on average about 4 years shorter than the actual length of schooling, according to the World Bank.[23]

The Moroccan Ministry of Education's budget for 2020 is $7.138 billion. This amount represents 6% of GDP. An additional 2 GDP points per year would allow Moroccan education policy to catch up.

Funding infrastructure and network industries

Current trends show that Morocco is expected to invest $210 billion in infrastructure between 2016 and 2040. The Global Infrastructure Hub estimates that $246 billion would be needed (6.1% of GDP). This implies an additional $36 billion by 2040, or additional annual spending of about 0.9% of its GDP.

The priority should be to improve the road infrastructure network, where a $34 billion investment gap over this period is identified by the GIH (road investment needs represent the bulk of the consolidated infrastructure needs identified by the G20).

23 https://www.banquemondiale.org/fr/news/feature/2020/10/27/a-case-for-building-a-stronger-education-system-in-the-post-covid-19-era#:~:text=Un%20pr%C3%AAt%20de%20500%20millions,et%20la%20gouvernance%20du%20secteur

Improving the quality of the road network is not only identified as an economic imperative but also as a condition for a more balanced development of the different regions of the country. The coast benefits from an efficient network of roads, while the mountainous areas of the Atlas are less well serviced and are faced with increasingly degraded roads.

Accelerating investment in the road network, which could need around $5 billion per year over the next seven years, would make it possible to meet this outstanding financing need and help reduce the imbalances between the country's economic heartlands (primarily Rabat-Salé and Casablanca) and the more remote and less economically developed regions (Rif, Atlas, the south of the country). These disbursements would nevertheless imply an annual leveraging of about 4.2% of Moroccan GDP for 7 years.

Supporting the energy transition

Morocco faces challenges in energy security, sustainability and cost. The country's energy demand is expected to double by 2030, and is still highly dependent on imported fossil fuels. The dependence on electricity imports is increasing year on year. Energy intensity and carbon intensity ratios are expected to trend upwards as the Moroccan economy develops.

Morocco, unlike other countries in the Maghreb, has no fossil energy resources. However, its potential for solar and wind energy is high. The public objective of achieving 42% of energy capacity from renewable energy sources by 2020 has only been partially achieved and needs to be supported and deepened. The state's energy efficiency program needs to be stepped up (it faces delays in most sectors).

Specific support should be provided for SMEs, which do not have the appropriate incentives, expertise or financing mechanisms to implement energy efficiency measures.

Morocco is highly vulnerable to climate change. Water scarcity in Morocco is a major problem for the country's growth. Water and sanitation networks are poorly maintained and leak, while access to wastewater networks is relatively low. These water system deficiencies have an impact on business productivity, but are also an important social issue, affecting household welfare and public health. Limited access to drinking water affects women disproportionately. Irrigation is the most important source of water use, absorbing up to 85% of water compared to the 10% used for drinking water. Irrigation systems need to be modernized to improve their water efficiency.

Funding the modernization of the social protection and health system

Despite the efforts made in recent years, the Covid-19 health crisis has shown the importance of undertaking a profound reform of social protection in Morocco, aimed first and foremost at extending its benefits.

The 2021 budget law formalizes the launch of a major reform, based on four main pillars – health (compulsory health insurance), family (benefits), old age (pensions) and unemployment (compensation). Generalized health coverage should be phased in from the very start of these provisions being rolled out, backed to a tax reform (simplifying funding sources). A framework law governing the operation of social protection coverage has been adopted, which should enable an additional 22 million Moroccans to be insured against illness within five years.

In addition, the government hopes to eventually have a single social register of its citizens, which is currently being developed and which should be based on a reliable and comprehensive census of the population. According to the OECD, in order to meet the health-related MDGs in 2030, Morocco would need to increase health spending by 2.5 GDP points.[24] Following IMF methodology, per capita health spending would significantly increase from $170 in 2016 to $419 in 2030, with the number of doctors increasing by a factor of 2.6, and the number of medical staff increasing 3.6 times. Such a health investment plan would require annual financing of about 8 billion dirhams per year, or just under $1 billion per year, or one point of GDP.

c) Poverty Plan

The methodology is the same as that used for Tunisia: the aim is to simulate the cost to the government for offsetting the loss of income that pushed Moroccan households below the poverty line. For the sake of simplicity, it was assumed that the eligible Moroccan households would lose income in the same proportion as the decline in GDP – which probably minimizes their actual income loss.

24 OECD, *Tax Revenue Mobilization for Health Financing in Morocco*, September 2020.

Poverty plan cost

Estimated neutralization costs 5.2 USD	Amount	% GPD
Estimated yearly income per capita before the crisis (USD) (A) = Base line threshold × (1+ decrease GDP) × 365	2,103	*n.a.*
Estimated income loss 2020 - GDP gap forecast - (B) - Source World Bank[25]	11.0%	*n.a.*
Thousands of people fallen below the poverty line (C)	1,495	*n.a.*
Total cost M USD = A × B × C	**339**	**0.3%**

3. How should it be funded? Funding scenarios based on access to the Moroccan capital market, and a good relationship with international public donors

Morocco's current path is already consistent with these scenarios, the government raised about $3 billion in December 2020, following a similar yield curve – with higher maturities. In fact, the IMF noted in its January 5, 2021 report that Morocco's debt appears sustainable in the short term. This confirms that an additional investment effort appears to be available to the Moroccan authorities, through a combination of concessional loans and market financing.

As Morocco enjoys an excellent relationship with international donors, based on political stability and institutional capacity to implement large infrastructure projects, it is likely that donors will contribute significantly to accelerate Morocco's investment effort.

Scenario 1 – Full capital market funding

Summary of needs – scenario without donor support

Morocco's needs arise mainly from the collapse of productive investment. This results in coupon payments on bond issues (the "burden" would be spread over several years) as well as the cost of recapitalizing the banking sector (to finance the investment plan). The cost of financing the poverty plan would be relatively low. In the "low" scenario, it is assumed that concessional financing will be used to reduce the cost.

25 Different from the IMF's forecasted gap, used consistently with the rise of poverty as calculated by the World Ban.

Summary 2020-21 – GDP points, without aid	Low	High
Jobs	**5.8**	**10.0**
Growing deficits	3.0	4.5
Investment plan	2.5	5.0
Poverty Plan[26]	0.3	0.5
2021 Eurobond Coupon – investment plan	0.02	0.05
Cost of bank recapitalization	0.0	0.0
Resources	**5.8**	**10.0**
Sovereign issuance	4.2	7.0
Taxation (social contributions)	0.3	0.5
Bank financing[27]	1.3	2.5

Scénario 2 – International public donors take over the investment plan

Summary of needs – scenario with foreign aid (100% investment plan excluding bank financing, 50% deficits)

Synthesis 2020-21 – GDP points, with aid	Low	High
Jobs	**3.0**	**5.2**
Growing public and current deficits	1.5	2.2
Investment plan (banking sector only)	1.3	2.5
Poverty Plan[26]	0.3	0.5
2021 Eurobond Coupon – investment plan	0.0	0.0
Cost of bank recapitalization	0.0	0.0
Resources	**3.0**	**5.2**
Sovereign issuance	1.5	2.2
Taxation (social contributions)	0.3	0.5
Bank financing[27]	1.3	2.5

26 High assumption increased by a flat 50% due to targeting costs.
27 Assuming no need for recapitalization in the banking sector.

3. In Algeria, post-crisis scenarios are linked to political uncertainties

Crisis exit scenarios matrix for Algeria

	Type of measurement	Short term	Medium term	Long term
Internal support	Budgetary (and sectoral policies)	Recovery Plan "internal borrowing"	Improving oil income? Turning to private savings and the informal sector? Replenishment of the FRR	Structural reforms: bureaucracy Tax reform Economic diversification Decrease in social spending? (1/4 of public spending)
	Monetary	Inflation control vs. Printing money (2017-2018)	Inflation control? Reforming the banking system and easing liquidity pressures	Monetizing the debt? Price competitiveness through external devaluation?
External support	Budgetary	IMF Program	Support from international public donors (development banks)	Improvement of the business climate; attraction of FDI; legal security
	Monetary	Devaluation	Re-accumulating foreign exchange reserves	Low anchoring of the dinar

Defining exit scenarios for Algeria is an exercise bound by the uncertainties of the economic policy responses mobilized by the government in the coming months. Add to this the highly volatile parameter of fossil fuel prices, closely tied to foreign exchange reserves and the Algerian government's leeway to extend its social transfer channels.

The hypothesis of a domestic support package is based on the design of an effective and properly proportioned stimulus package, as well as on the evolution of fossil fuel prices in the coming months.

The budget bill for 2021 as presented in November 2020 foresees an increase in overall budget spending from 7,372.7 billion dinars in 2020 to 8,113.3 billion dinars in 2021 (+10%) and then an increase to 8,605.5 billion dinars in 2022 (+6.07%) and to 8,680.3 billion dinars in 2023 (+0.9%). The operating budget, which includes the salaries of civil servants, will increase by 11.8% in 2021 (5,314.5 billion dinars). Capital expenditure will reach 2,798.5 billion dinars in 2021 (+6.8% compared to 2020) and 3,246.6 billion dinars in 2022 (+16.01% compared to 2021). The budget deficit is expected to increase in 2021 to 13.5% of GDP. The Algerian government expects inflation to accelerate to 4.5% in 2021. However, there are still significant uncertainties regarding oil price trends and political and institutional developments that could alter the economic decisions taken so far.

Since the 1990s, the Algerian government has been very averse to external financial support and assistance from multilateral financial institutions, in particular the IMF. The IMF has forecast a current account deficit of -10.5% of GDP for 2020 and more than 10% of GDP for 2021. Algeria's fiscal and external balances are weakened by the decline in the value and volume of hydrocarbon exports, which seems to confirm Algeria's vulnerability to exogenous shocks. Multilateral donors are also concerned about an adjustment in the exchange rate that could lead to increased recourse to monetary funding. Collateral requested by multilateral financial institutions could include potential financial support (structural reforms, diversification, improvement in the quality of banking assets, transparency and increased independence of regulatory authorities), making it difficult at this stage to secure external support from international public donors. The lack of transparency in Algeria's public and especially economic management remains an obstacle to normalizing relations between the country and the main multilateral financial institutions.

Nevertheless, we can probably estimate an innovative scenario that would involve the creation of a new dinar. This would allow Algeria to better control its money supply and fight inflation more effectively, based on a model that has been successfully tested in the past in Mexico or Turkey, for example.

4. Which financing instruments should be leveraged?

EU countries' support to Maghreb countries is largely focused on Tunisia and Morocco, with Algeria being relatively closed to international public financing (the African Development Bank is an exception), since the IMF-financed adjustment programs of the 1990s. For both Morocco and Tunisia, Germany has become a major partner, joining France as the leading bilateral donor, supported by a good capacity to allocate concessional funding and even grants. Other Western donors are less present in these two countries. They are mainly involved through multilateral donors, whose weight is much greater in Tunisia than in Morocco. Among them, the EU remains a major donor, notably through external aid programs allocated through the European Investment Bank – frequently implemented through bilateral development agencies (such as the French Development Agency, AFD). The aid architecture in the Maghreb is not the problem. In the face of this crisis, insufficient funding levels are the issue.

Of the three Maghreb countries, Algeria has the largest budget deficit. It is also heavily dependent on a single resource – fossil fuels, especially gas, whose prices are volatile. Nevertheless, Algeria has little debt (46.3% of its GDP in 2019). Today, it remains very reluctant to accept all multilateral aid, particularly from the IMF. But it has the capacity to finance itself without difficulty on the markets: its very low debt ratio and its fossil fuel resources can be understood as collateral for its signature. The Algerian authorities have also put in place a social system that acts as a shock absorber for both endogenous and exogenous economic shocks. Finally, they know how to manage social and political risks very well, as demonstrated by the absence of violence during the *Hirak* protests.

Morocco, despite its high level of debt, has been able to mobilize significant internal resources to support its economy and has very recently been able to finance itself through the money markets without difficulty. It must nevertheless finance a major medium-term investment plan for which a high-level commission was set up shortly before the onset of the health crisis.

The situation in Tunisia is the most worrisome in the short term: government instability and the difficulties of the various governments in implementing reforms, the sharp rise in public debt and the trade deficit, the now essential support of international donors, and the sharp drop in investment since the beginning of the health crisis, all point to the fact that Tunisia needs massive, long-term support (without much in return), to avoid a social and political shock that would threaten the fragile democracy.

One form of support could be a general allocation of IMF special drawing rights (SDR). An SDR allocation would be a way to increase the international reserves of the economies. The IMF has the power to create unconditional liquidity through "general allocations" of SDRs proportionally to their IMF quotas. Once allocated, members may hold their SDRs as part of their international reserves or sell some or all of their SDR allocations. Members may exchange SDRs for freely usable currency among themselves and with holders. This exchange may take place under a voluntary agreement or under designation by the Fund. IMF members may also use SDRs in operations and transactions involving the IMF. A general SDR allocation of about $500 billion would provide the economies of the African continent with about $18 billion in additional liquidity. For the economies of the Maghreb, such an allocation would provide $420 million for Tunisia, $690 million for Morocco and $1,500 million for Algeria. However, one can imagine a transfer of SDRs from certain European countries to Africa in general and the Maghreb in particular.

One question remains: if the Maghreb countries' traditional donors do not contribute, can other donors provide attractive financing? And, beyond this simple financial question, could the geopolitics of the region be disrupted by the Covid-19 crisis through the entry of new players, attracted by the Maghreb's position at the crossroads between Europe and Africa?

CONCLUSION

ACT BEFORE IT'S TOO LATE

This analysis clearly highlights that the Maghreb countries – Tunisia in particular – need to be supported throughout the health crisis. Algeria spends a lot and depends on its fossil fuel revenues; however, it has sufficient reserves and could finance itself on international markets – provided it is willing to shift its policy. Morocco requires deep structural reform, it must develop its economic model to ensure more wealth-creation and better distribution. Highly integrated into European trade, it also needs support. Tunisia, shaken by the post-revolutionary changes and weakened by recurrent political instability, has ensured its social stability at the cost of significant public debt. Its funding needs are significant, and require both a very short-term and a medium-term solution. In addition, the political class needs to unite around a shared vision in order to gain donors' trust. Thus, the health crisis could push Tunisia to reinvent itself economically and politically.

Much is at stake in this health, social and economic crisis: if we do not want it to lead to a political crisis in all middle-income countries, the more advanced countries must give them access to liquidity in order to step up the transformation of their development models. Only if these conditions are met can this crisis be an opportunity to achieve sustainable recovery.

The first opportunity will be seized when a real strategic policy dialogue is initiated between the north and the south of the Mediterranean, between Europe and the Arab World. The Union for the Mediterranean was a beautiful idea, but its scope was too broad, which explains its political failure. It was fraught with too many diverging interests on one side (immigration, the Israeli-Palestinian question, the fear of Islam in the north), and too much disinterest on the other (the north and east of Europe for the south, the Arab countries for Europe, who are more interested in Asia or America), to build a shared vision. Especially since while the European Union speaks with one voice and supports the southern Mediterranean, the Arab Mediterranean countries are divided and envious of each other's bilateral relationships with the EU. Under these conditions, it is difficult to have a proper policy dialogue, even limited to the 5+5 (France, Spain, Italy, Malta, Portugal on one side, Mauritania, Morocco, Algeria, Tunisia, Libya on the other).

Yet, for Europe, it is a major issue given the human, economic, political and social bonds between southern Europe and northern Africa: instability in the Maghreb is a risk for Europe. The risk is both long and short-term: a long-term risk, as global warming in the south will accelerate migration to the north; and a short-term risk because of the Covid-19 crisis. Today, one way to reduce this risk in the Maghreb is to financially support these countries at a time when the Covid-19 crisis is putting a very serious strain on their public finances. Europe has voted a 750-billion-euro recovery plan for European countries. How can we not include consideration for the economic and political stability of Europe's "near-abroad" neighbors, who are confronted with the same difficulties and yet lack the means and the credibility afforded by the euro?

Of course, temptation to reduce funds for external action will be great, as after any economic crisis, when the "whatever it takes" approach is abandoned and the question of spending cuts is inevitably raised again. But if one of these three Maghreb countries were to enter into a long-term social and therefore political crisis, the consequences in terms of uncontrolled emigration, consolidation of Turkish or Chinese influence at the gates of Europe, or even the rise to power of more aggressive Islamist groups than those currently active in the three countries, would not only be a risk but probably a great disgrace. We would once again be faced with the longstanding question: how could it have come to this when the difficulties these countries were faced with were already well-known?

Thus, we suggest looking beyond the bias of certain donors with regard to the North Western African countries, their imperfect economic models and their difficulty in using allocated aid. Given the urgency of the situation, particularly in Tunisia, why not create an informal group of friendly countries, including traditional donors? This group could first finance and build capacity in the Tunisian administration and particularly in management bodies (cabinets, central government departments, SOEs), by using funding to attract skills from the private sector and to better pay for the best civil servants. These skills would be exclusively Tunisian in order to avoid undermining the country's sovereignty.

Furthermore, a substantial sum, including grants and concessional loans, could be provided on condition that the economic emergency law – which is one of the many bills that has still not yet been seriously examined by the Assembly of People's Representatives – be passed. Finally, the informal group could review proposals from the Tunisian government to initiate reforms aimed not only at reducing the wage bill in the civil service or the deficits of SOEs, but also at lowering prices so that middle and working-class Tunisians do not feel that they have to pay for the necessary adjustments.

Helping these three Maghreb countries, and particularly Tunisia, to overcome the crisis is socially fair, morally necessary and politically useful. Let us act before it is too late.

STATISTICAL APPENDICES

1. Tunisia

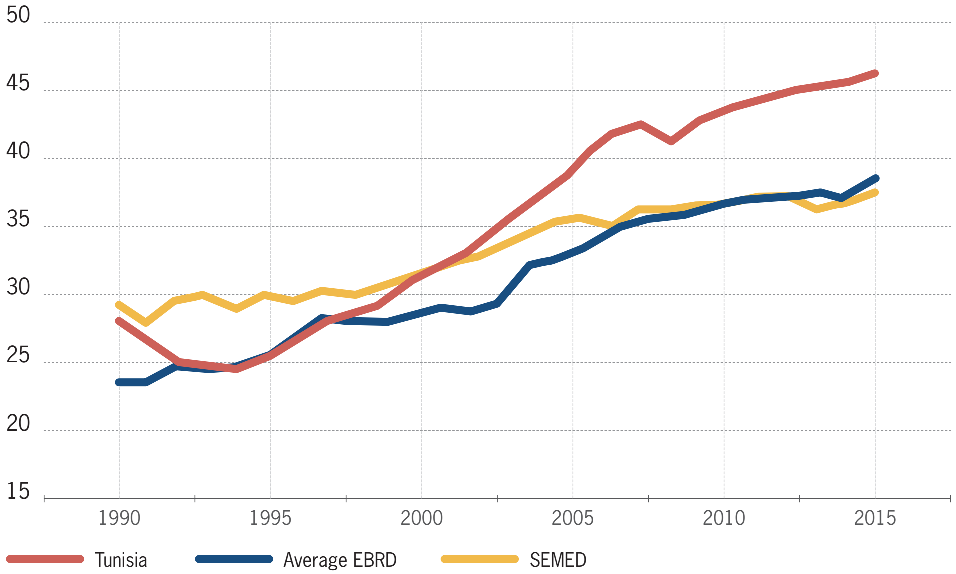
1. Diagnosis

Worldwide governance indicators (percentile, rank)

Worldwide Governance Indicators	2000		2010		2019	
Rank	Morocco	Tunisia	Morocco	Tunisia	Morocco	Tunisia
Voice and accountability	34.3	23.4	28.9	9.0	29.6	56.7
Political stability and lack of violence	41.8	59.8	32.7	43.6	32.4	17.1
Government effectiveness	54.4	71.3	50.2	63.2	47.6	48.6
Regulatory quality	52.3	53.8	50.7	52.6	46.2	35.6
Rule of law	55.0	43.6	50.2	57.3	48.6	55.8
Control of corruption	54.3	48.2	52.9	48.6	45.7	52.9

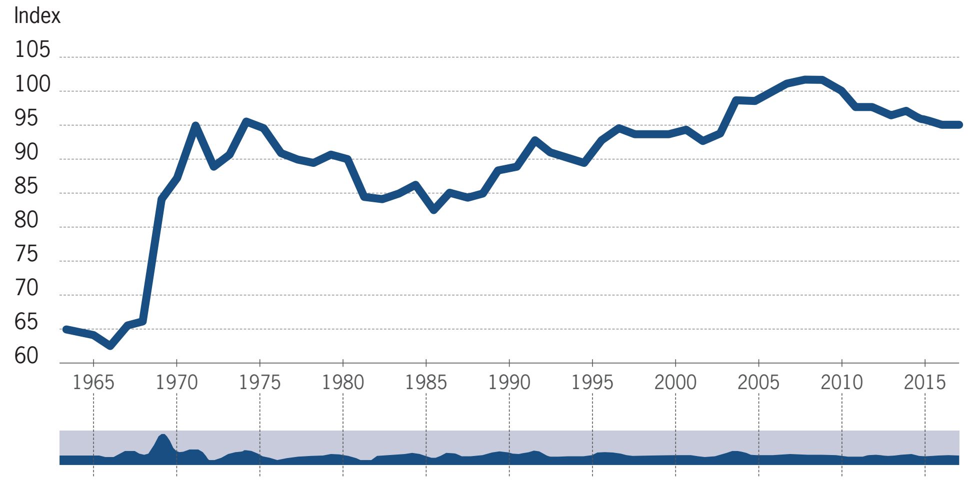
Labor and factor productivity – GPD per person employed

(Thousands of 2016 PPPs)



Total Factor Productivity at Constant National Price for Tunisia

(2010 = 100)



Source: BERD, FED St Louis.

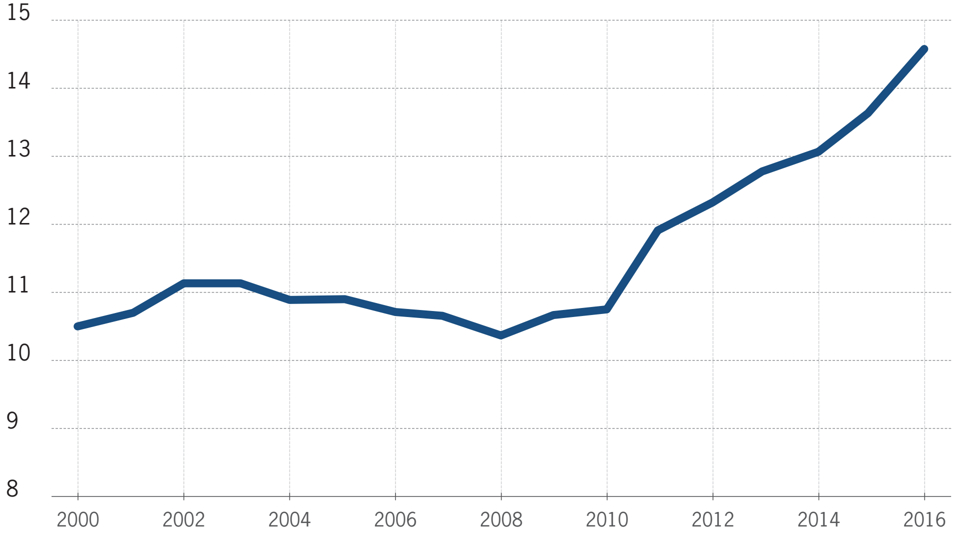
Annual growth of added-value per sector of activity

	Yearly average 2000-2010	2011	2012	2013	2014	2015	2016	2017	Yearly average 2011-2017
Agriculture and fishing	**1.9**	10.3	5.8	-3.3	3.4	9.2	-8.1	2.5	**2.8**
Manufacturing industries	**2.7**	-2.7	2.1	1.5	1.0	0.0	0.9	0.8	**0.5**
Agri-food industries	**3.5**	1.1	4.7	2.5	-2.5	5.3	-2.4	1.4	**1.4**
Non-manufacturing industries	**3.1**	-9.8	-0.4	-3.0	-2.8	-4.1	-1.9	-3.2	**-3.6**
Market services	**6.2**	-3.7	4.7	4.4	2.5	-0.5	2.7	4.0	**2.0**
Non-market services	**5.2**	7.3	5.9	4.6	3.2	2.9	2.7	0.4	**3.9**
GDP (at market price)	**4.5**	-1.9	3.9	2.4	2.3	0.8	1.0	1.9	**1.5**

Source: H.E. Chebbi, J.-P. Pellissier, W. Khechimi, J.-P. Rolland. Based on national accounts data (Tunisia National Statistics, INS, 2019).

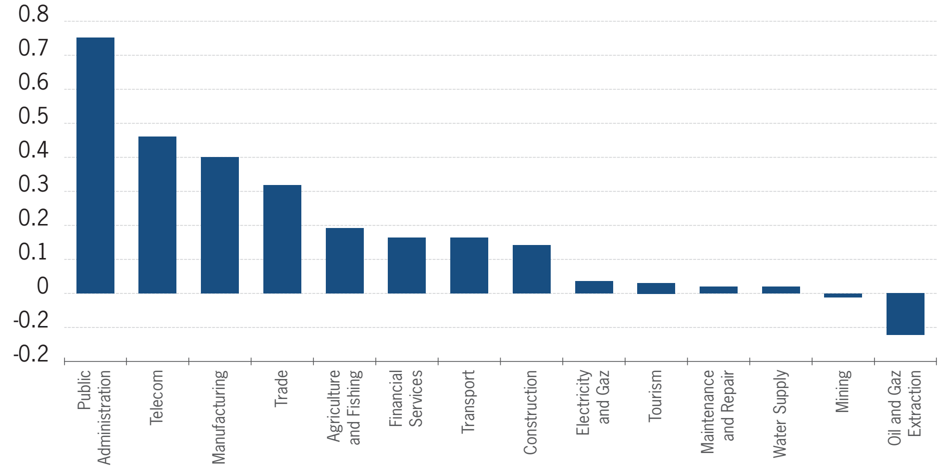
Public employment – Tunisia: General Government Wage Bill

(2000-2016,% of GDP)



Government contribution to growth and productivity

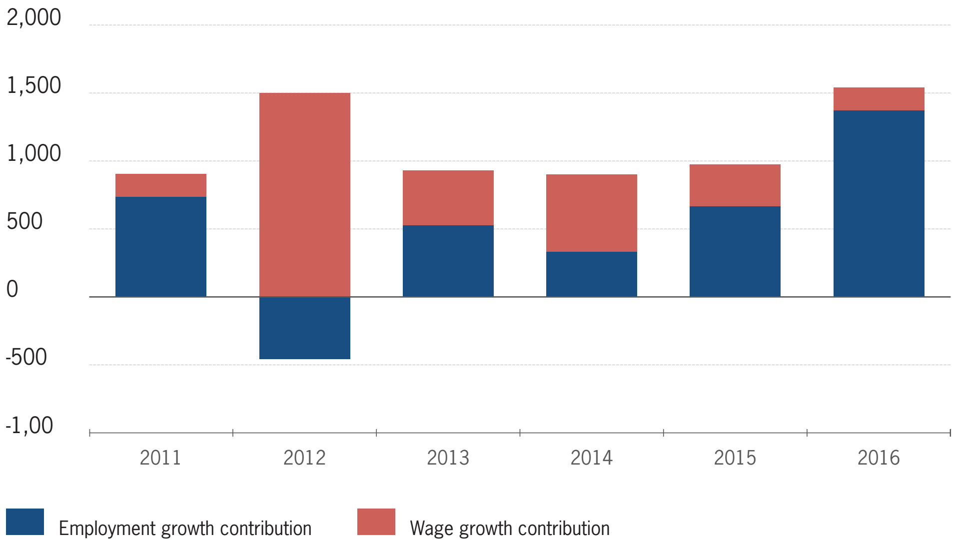
(average 2001-2016)



Source: IMF.

Public employment – Tunisia: contribution to yearly wage bill growth

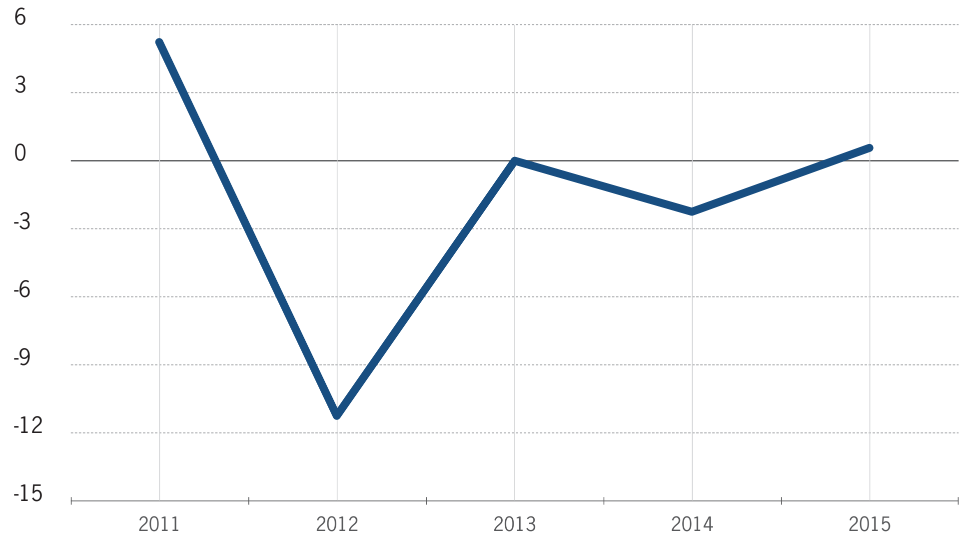
(Thousands of dinars)



Source: IMF.

Productivity growth in public sector (2011 - 2015)

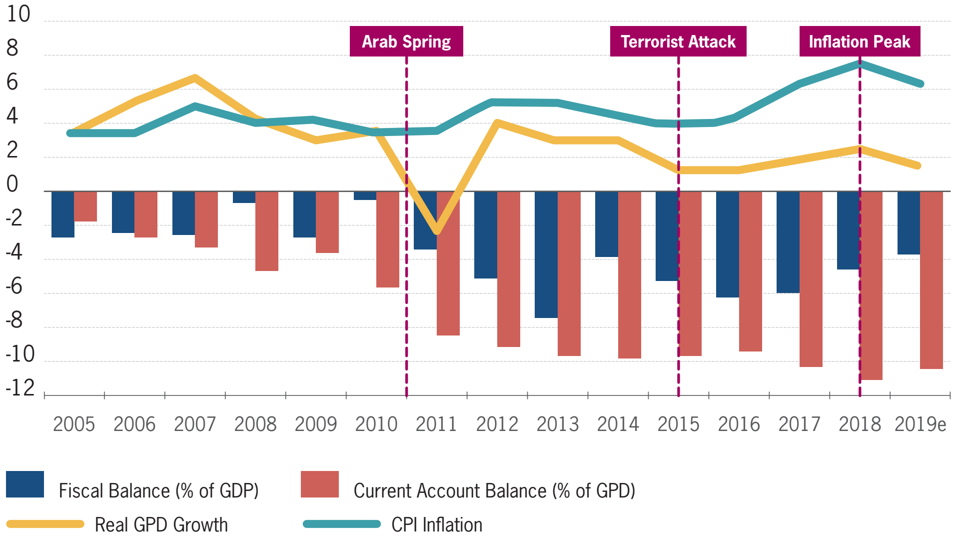
(Percent)



Source: FMI.

Tunisian monetary policy evolution

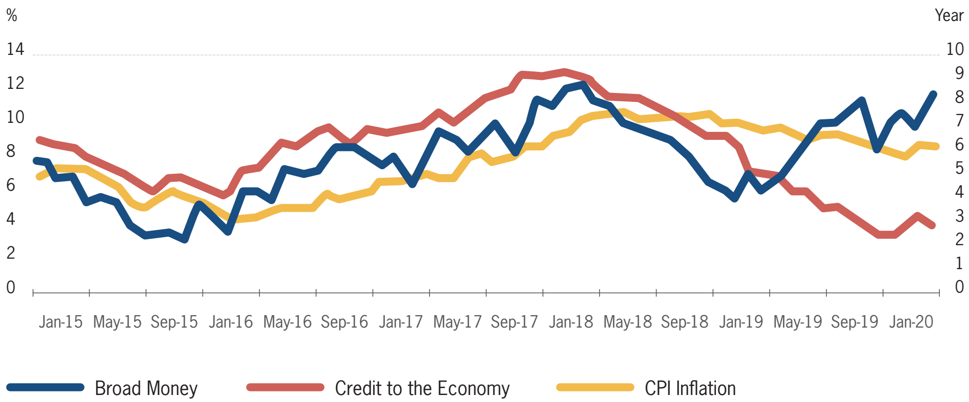
(Selected Macroeconomics Indicators)



Source: FMI, Tunisia monetary policy since the Arab Spring.

Money, inflation and credit to the private sector

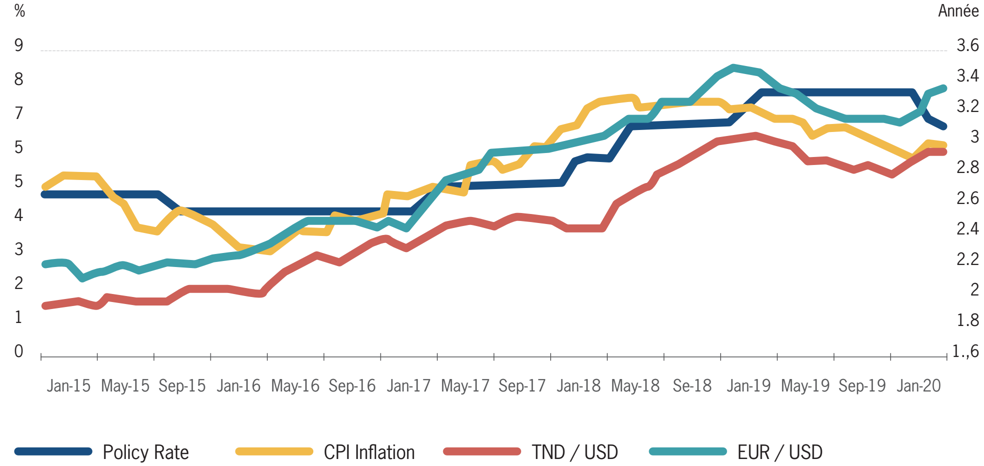
(Inflation, Broad Money, and CRedit Growth)



Source: FMI, Tunisia monetary policy since the Arab Spring.

Money, inflation and credit to the private sector

(Inflation, Policy Rate, and Exchange Rates)



Source: FMI, Tunisia monetary policy since the Arab Spring.

2. Leveraging Tunisian resources

Step 1 – Using taxes to fight poverty

The plan to fight poverty could be based on an increase in the redistributive function of income tax.

Tunisia has a good tax-raising capacity, relative to the rest of African economies – with a compulsory levy ratio of 31.2% of GDP in 2017, compared to 17.2% in Africa, and 27.6% in Morocco.

According to the finance bill for 2020, Tunisia had planned to bring its income tax level in line with the OECD average. However, according to the latest IMF forecasts, income tax revenues will fall by about 0.8 percentage points of GDP compared to this forecast.

2017 (last available data)	Tunisia	OCDE
Compulsory contribution rates (1)	31.2%	34.2%
Income tax contribution (2)	21.0%	24.0%
Income tax / GDP = (1) × (2)	6.6%	8.2%

	Funding bill 2020	IMF forecast
Income tax (% GDP)	8.4%	7.7%

Consequently, new redistributive measures linked to personal income taxation would make it possible, to finance the anti-poverty plan in particular, and to fund part of the financing costs of a sovereign bond issue. These additional measures, which could take the form of a more progressive tax scale, would be adjusted according to the gap between employment and resources, beyond the 0.8% of GDP recovery measures that were planned in the 2020 funding bill.

Step 2 – Capital Markets – Sovereign issuance (dollars) – and bank financing

Despite an already high external debt profile, in July 2019, Tunisia recently issued a 7-year Eurobond for a total of $700 million at an annual coupon of 6.375%.

Tunisia benefits from a very long-term, low-interest debt structure, with nearly 60% of its external debt coming from official donors, mostly multilateral (40%, with bilateral claims from G7 countries accounting for about 20%).

A new sovereign issuance would make it possible to finance both the deficits resulting from the crisis and contribute to financing an investment plan. The two sub-scenarios mentioned above have been simulated, assuming a contribution to the investment plan of 5 points of GDP, and an additional cost of the issue equivalent to the ratio between the sovereign spread at 7 years between its level in the summer of 2019 and its level today.

Compared to an external debt service of about 15 points of exports, according to World Bank data, the impact on this ratio would be relatively manageable.

However, in a context of extreme uncertainty, the issuance of such a bond without a guarantee from a multilateral donor or G7 country (directly or through a development agency) seems unlikely.

Low scenario

Needs not financed by international public donors (Bn USD)	2020	2021	Total
Total coverage by Tunisia			**3,8**
Increased need for public funding (between April and October)	1.5	1.0	2,5
Cost of bank recapitalization	0.0	0.3	0,3
Investment needs – 5 GDP points distributed with banking sector*	0.5	0.5	1,0
Covered at 50% by Tunisia alone	***n.a.***	***n.a.***	**0,9**
Increased need for public funding	0.7	0.5	1,3
Cost of bank recapitalization	0.0	0.1	0,1
Investment needs – hypothesis 2.5 points GDP	0.2	0.3	0,5

Amount (Bn USD) – 7 year maturity	**1.9**	**3.8**
GDP points – 2021 IMF forecast (A)	5%	9%
CDS ratio November 2020 vs July 2019 (B)*	171%	171%
Rate = B × 6.375%	11%	11%
Funding cost (% GDP 2021) - (C)	0.5%	1.0%
Net contribution to the public funding requirement 2020-21 = A - C	4.2%	8.4%

* Ratio between current spread on CDS versus at the time of issuance in July 2019

High scenario

Needs not financed by international public donors (Bn USD)	2020	2021	Total
Total coverage by Tunisia	***n.a.***	***n.a.***	**5.8**
Increased need for public funding	2.2	1.6	3.8
Cost of bank recapitalization	0.0	0.35	0.35
Investment needs – 10 GDP points distributed with banking sector*	1.0	1.0	2.0
Covered at 50% by Tunisia alone	***n.a.***	***n.a.***	**2.9**
Increased need for public funding	1.1	0.8	1.9
Cost of bank recapitalization	0.0	0.2	0.2
Investment needs – hypothesis 5 points GDP	0.5	0.5	1.0

Amount (Bn USD) – 7-year maturity	1.9	3.8
GDP points – 2021 IMF forecast (A)	7%	14%
CDS ratio November 2020 vs July 2019 (B)*	171%	171%
Rate = B × 6.375%	11%	11%
Funding cost (% GDP 2021) - (C)	0.8%	0.6%
Net contribution to the public funding requirement 2020-21 = A - C	6.4%	12.8%

* Ratio between current spread on CDS versus at the time of issuance in July 2019

Step 3 – Freeze in public wages

April 2020 forecast (Rapid Financing Instrument)	2020	2021
Wage bill	16.5%	15.4%
Value (Bn TND)	18,879	19,359
Growth value	*n.a.*	*2,5%*
Value freeze savings (% GDP)	*n.a.*	0,4%

Given the weight of the public wage bill and the relative tranquility of the sector compared to the open sector, it is likely that donors will want to make a contribution to the public service as part of a national reconstruction effort – it should be noted that the trajectory of the IMF's central scenario is consistent with the 2020 budget law.

Step 4 – Strengthening the capital base of Tunisian banks

The Tunisian banking system is penalized by a high ratio of NPLs, made worse by a concentration of risks. Tunisian banks could be recapitalized using the private sector development financing tools of international financial institutions – in particular, the World Bank's International Finance Corporation and the EBRD.

Taking advantage of the liquidity provided by the IMF through the Rapid Financing Instrument, the central bank has significant leverage to encourage consolidation of the banking sector, backed by a capital increase open to subscriptions by institutions, such as the EBRD and the IFC. These institutions could step in for the government in the capitalization of several banks.

Funds raised could then be invested in the Marshall Plan. Assuming that the ratio of bank capital to assets remains stable at 8.6%, **before taking into account the increase in bankruptcy (bad debt ratios)**, a capital requirement equivalent to 0.9% of GDP would make it possible to finance the remaining 5 points of GDP investment – costs of absorbing NPLs.

Low scenario

	Assumption – maintaining capital ratio to the pre-crisis level 2	2019	2021	Gap
Crisis absorption	Capital ratio (% of bank assets Sept 2019, IMF) - A	8.6%	8.6%	0.0%
	NPL ratio post-crisis (% of banking assets, S&P) - B	14.0%	19.0%	5.0%
	Marginal capital consumption by NPL C	100.0%	100.0%	0.0%
	Capital consumption by NPL (% of banking assets) D = A × B × C	**1.2%**	**1.6%**	**0.4%**
	Bank assets (% GDP) - E	91.4%	99.0%	7.6%
	Capital consumption by NPL (% GDP) F = D × E	**1.1%**	**1.6%**	**0.5%**
Funding plan	Plan – 50% bank funding (% GDP) H = G × A	0.0%	2.5%	3.0%
	Need for bank capital (% GPD) H = G × A	**0.0%**	**0.2%**	**0.2%**

High scenario

	Assumption – maintaining capital ratio to the pre-crisis level 2	2019	2021	Gap
Crisis absorption	Capital ratio (% of banking assets Sept 2019, IMF) - A	8.6%	8.6%	0.0%
	NPL ratio post-crisis (% of bank assets, S&P) - B	14.0%	19.0%	5.0%
	Marginal capital consumption by NPL C	100.0%	100.0%	0.0%
	Capital consumption by NPL (% of banking assets) D = A × B × C	**1.2%**	**1.6%**	**0.4%**
	Bank assets (% GDP) - E	91.4%	99.0%	7.6%
	Capital consumption by NPL (% GDP) F = D × E	**1.1%**	**1.6%**	**0.5%**
Funding plan	Plan – 50% bank funding (% GDP) - G	0.0%	5.0%	5.0%
	Need for bank capital (% GPD) H = G × A	**0.0%**	**0.4%**	**0.4%**

Source: IMF, Standard & Poor's.

2. Morocco

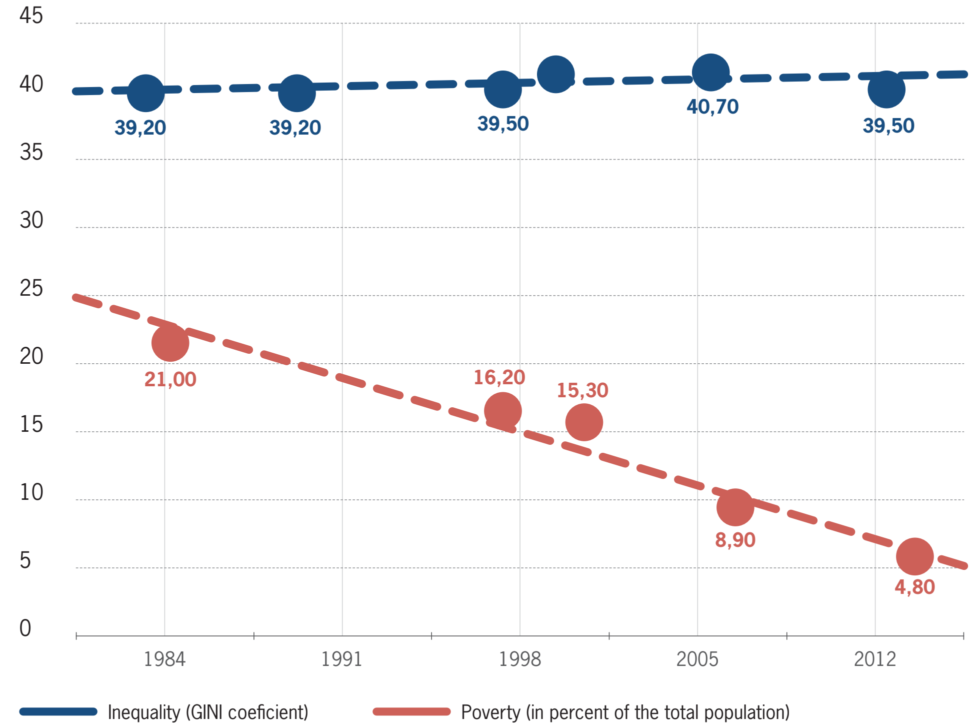
1. Diagnosis

Doing business criteria

Doing Business criteria (2020, World Bank)	Score		Rank	
	Tunisia	Morocco	Tunisia	Morocco
General Index	**68.7**	**73.4**	**78**	**53**
Starting a business	94.6	93.0	19	43
Dealing with construction permits	77.4	83.2	32	16
Getting electricity	82.3	87.3	63	34
Registering property	63.7	65.8	94	81
Getting credit	50.0	45.0	104	119
Protecting minority investors	62.0	70.0	61	37
Paying taxes	69.4	87.2	108	24
Trade-in across borders	74.6	58.6	90	58
Enforcing contracts	58.4	63.7	88	60
Resolving insolvency	54.2	52.9	69	73

Poverty rate and Gini coefficient

(Index)

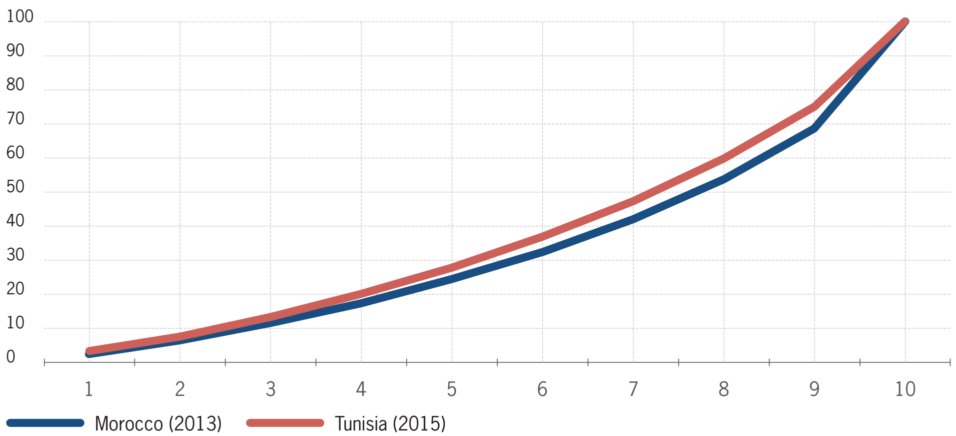


Source: International Monetary Fund, World Economic Outlook (October 2020) and latest "Article IV" (July 2019).

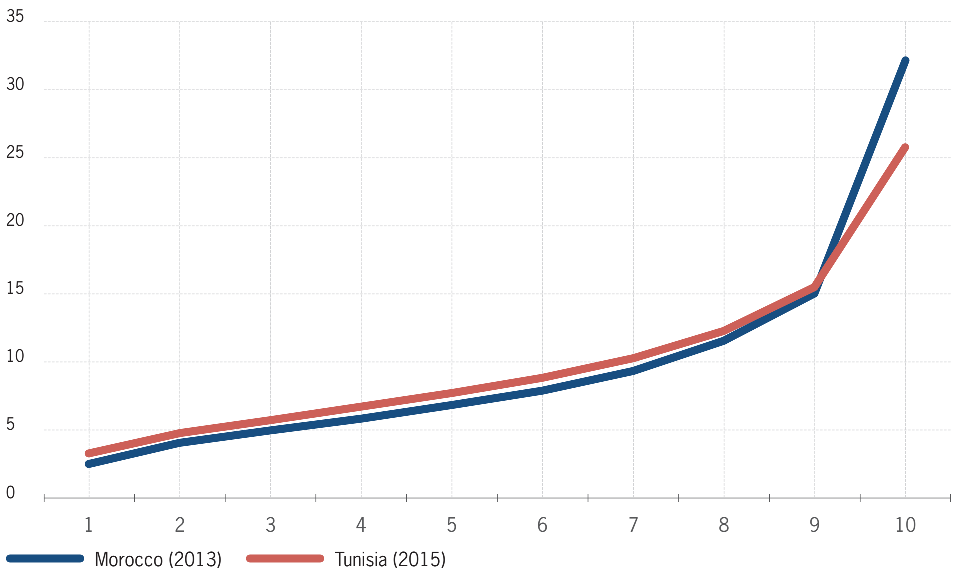
Income distribution in Morocco and Tunisia

(% of national income, by decile)

Cumulative data



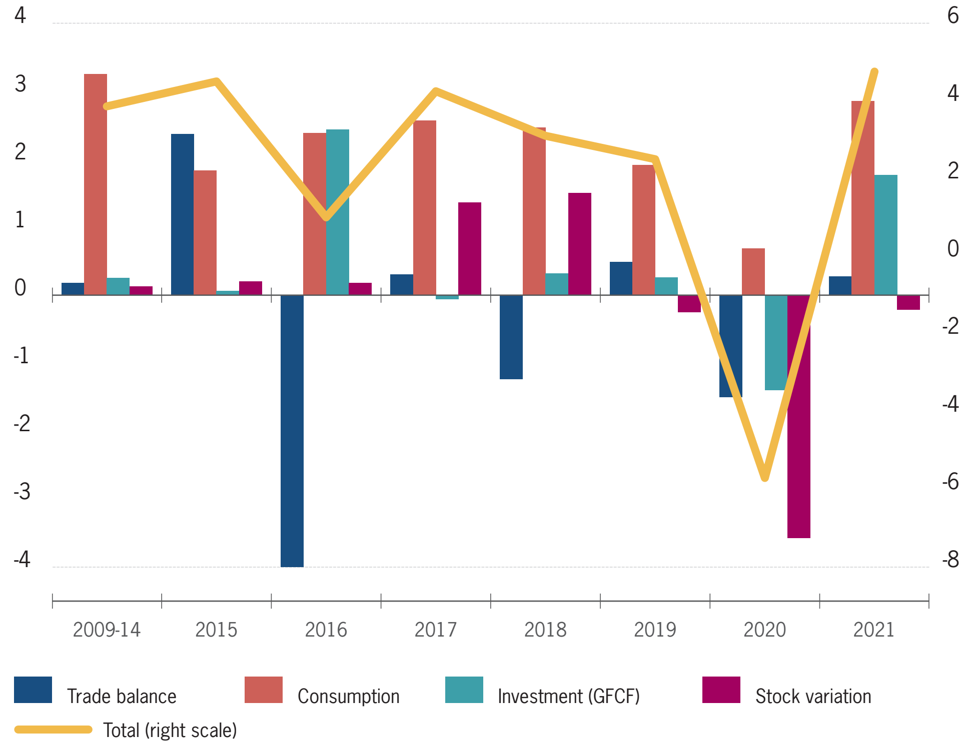
Value per deciles



Source: World Bank, "Povcalnet" database.

Contribution of GDP[28]

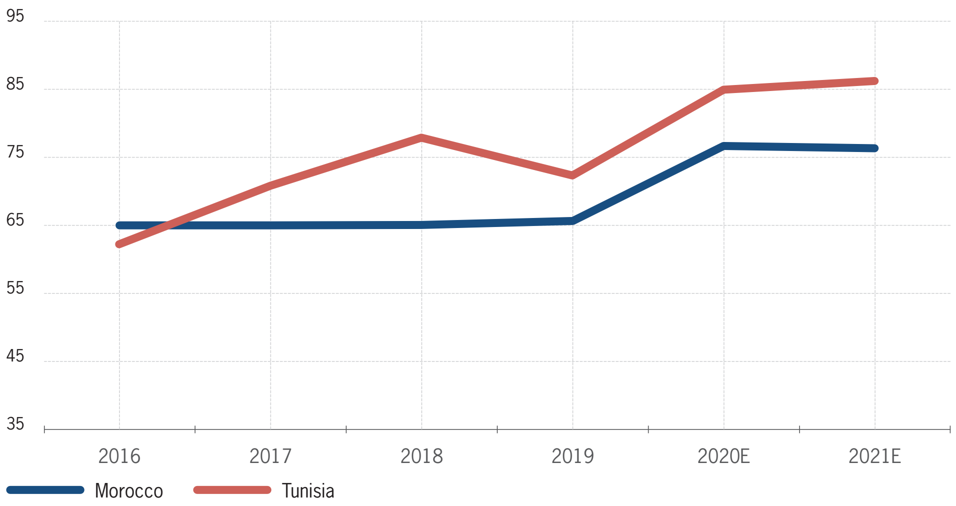
(in percentage points)



Source: Finance Bill for 2021, High Commission for Planning.

28 Data differs from the IMF October 2020 scenario.

Public debt
(% of GDP)



Source: IMF, World Economic Outlook 2020.

2. Leveraging Moroccan resources

Measurement details

Step 1 – Leveraging taxes in the fight against poverty

The same logic used for Tunisia can be followed again, with Moroccan taxation offering even greater margins. An increase in social contributions seems plausible.

In % GPD (2018)	Revenues and profits	Contributions	Goods and services
Morocco	8.7	5.5	11.8
Tunisia	8.5	9.3	12.8
OECD	11.8	12.8	10.9
Gap Tunisia	**-0.2**	**3.8**	**1.0**
OECD Gap	**3.1**	**7.3**	**-0.9**

Step 2 – Capital markets – sovereign foreign currency issuance and bank financing

Low scenario

Needs not financed by international public donors (Bn USD)	2020	2021	Total
Total coverage by Morocco	***n.a.***	***n.a.***	**5.2**
Increased need for public funding (October 2020 vs 2019) and current account	0.0	3.7	3.7
Investment needs - 2.5 GDP points shared with banking sector*	0.2	1.5	1.5
With external aid	***n.a.***	***n.a.***	**1.8**
Increased need for public funding	0.0	1.8	1.8
Investment needs – assumption 2.5 points GDP	0.0	0.0	0.0

Amount (Bn USD) – 12 year maturity	**1.8**	**5.2**
GDP points – 2021 IMF forecast (A)	1.5%	4.2%
Emission rates December	3%	3%
Funding cost (% GDP 2021) - (C)	0.04%	0.13%
Including investment plan	0.0%	0.04%
Net contribution to the public funding requirement 2020-21 = A - C	1.4%	4.1%

High scenario

Needs not financed by international public donors (Bn USD)	2020	2021	Total
Total coverage by Morocco	***n.a.***	***n.a.***	**8.6**
Increased need for public funding (October 2020 vs 2019) and current account	0.0	5.5	5.5
Investment needs - 5.0 GDP points shared with banking sector*	0.0	3.1	3.1
With external aid	***n.a.***	***n.a.***	**2.8**
Increased need for public funding	0.0	2.8	2.8
Investment needs – assumption 2.5 points GDP	0.0	0.0	0.0

Amount (Bn USD) – 12 year maturity	**2.8**	**8.6**
GDP points – 2021 IMF forecast (A)	2.2%	7.0%
Emission rates December	3%	3%
Funding cost (% GDP 2021) - (C)	0.1%	0.2%
Including investment plan	0.0%	0.08%
Net contribution to the public funding requirement 2020-21 = A - C	2.2%	6.7%

* Ratio between current spread on CDS and at the time of issue July 2019.

3. Algeria

Current GDP, Billions of dollars (2019):	169
GDP per capita, USD PPP (2018):	13,624
GDP growth (2019):	0.7%
Unemployment rate (May 2019):	11.4%
Inflation (average 2019):	2.0%
Public budget balance (2019):	-9.3% of GDP
Public debt (2019):	46.3% of GDP
External debt (2019):	1.7% of GDP
USD/DZD exchange rate (average 2019):	119.4
EUR/DZD exchange rate (average 2019):	133.7
Current account balance (2019):	-16.2% of GDP
Foreign exchange reserves (end 2019):	62

Source: IMF – World Economic Outlook Database – Latest data available.

Annual growth in added values by business sector

Socio-economic indicators	2019	2020 (e)	2021 (e)
Unemployment rate (%)	11.4%	15.1%	13.9%

Note: (e) = Estimated data

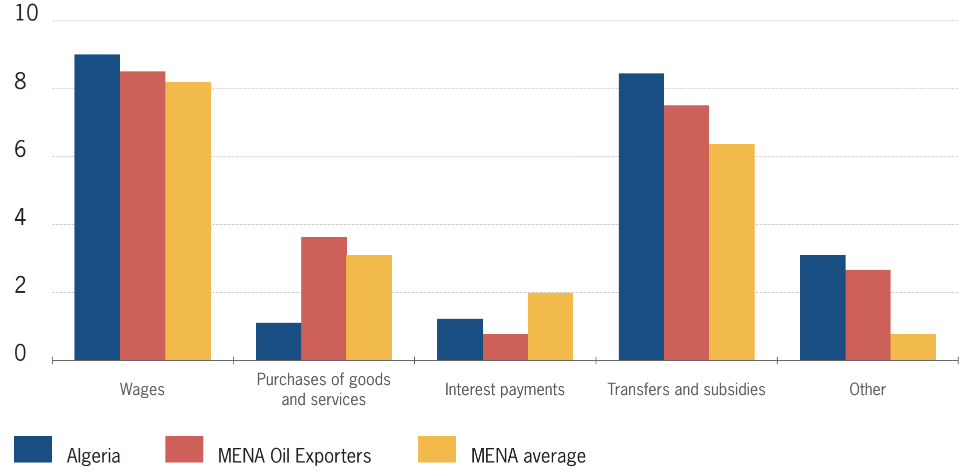
Source: IMF – World Economic Outlook Database – Latest data available.

Annual growth in added values by business sector

Monetary indicators	2014	2015	2016	2017	2018
Algerian Dinar (DZD) – Average annual exchange rate for 1 EUR	102.78	107.46	116.43	125.36	137.57

Composition of current spending

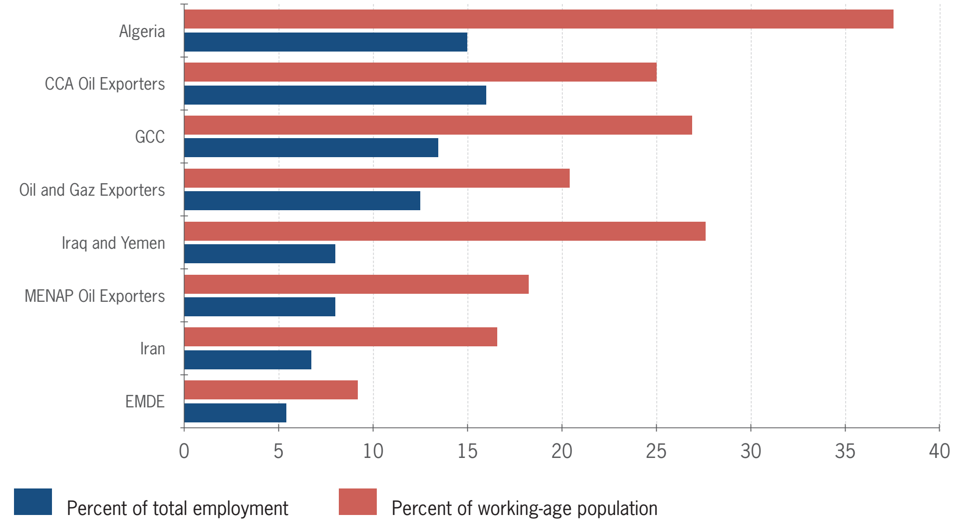
(Percent of GDP – 2000 - 2016 average)



Source: IMF WEO, REO October 2017.

Public sector employment, 2005-2016

(Percent – period average)



Source: IMF.

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THERE IS NO DESIRE MORE NATURAL THAN THE DESIRE FOR KNOWLEDGE

Stability in the Maghreb: an Imperative for Europe

While Europe and the Maghreb have both been hard hit by the Covid-19 crisis, they are facing different consequences. Europe is wealthy and united by a shared currency, whereas the Maghreb is a group of middle-income countries, they are not united and have limited monetary creation capacities due to their fragile economies. The crisis has exacerbated the structural fragility of the economies of Morocco, Algeria and Tunisia, which therefore need to be supported. But the European recovery plan, aimed at ensuring the stability of its members, does not attempt to benefit its "near-abroad" neighbors, including the Maghreb.

However, given the ties between peoples and economies, instability in the Maghreb is a risk for Europe. Destabilization in one of these countries as a result of the crisis would lead to known and undesirable chain reactions (uncontrolled migration, growing influence of powers hostile to Europe, or even the rise to power of more aggressive Islamist groups than those currently active in the three countries). For Europe, helping these three countries through the crisis is socially fair, morally necessary and politically useful. Let us act before it is too late.

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