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North Africa subregional profile review 2022:

Landscape of economic, social and climate conditions in North Africa

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***** ECA/SRO-NA/ICSOE/37/1

Executive Summary

1. North Africa embarked on a recovery path in 2021 albeit at uneven rates across countries. Most economies have not returned to pre-COVID-19 crisis growth levels. According to the World Economic Situations and Prospects (WESP) report of the United Nations (2022), the region's real GDP grew at 7. 6 % in 2021 following a 4.6% dip in 2020.

2. Looking ahead, the region faces a series of challenges in 2022 and beyond. The current negative spillovers of the Russia-Ukraine war, heightening geopolitical tensions and their impact on growth together with a series of climate shocks caused a serious setback to the economic outlook of North Africa, as countries are bearing the brunt of high public debt, elevated inflation and markedly reduced fiscal space to deal with these shocks. The region's growth has slowed to 4.9% in 2022 (WESP 2022) due to major impact of the crises affecting its biggest economies. The surge and volatility of the food and energy prices, the former driven in part by more frequent and severe drought occurrences, are threatening food security in the region and could undermine social and political stability.

3. Although Morocco performs relatively well on debt repayment, it was not spared the inflationary pressures of soaring global food prices, as food accounts for just under 40% of the CPI basket with a relatively heavy weighting towards wheat. Tunisia is negatively affected by its deteriorating balance of payments, further compounded by a rising import bill as the cost of food and fuel surges. In Egypt, the weaker domestic exchange rate against the dollar is driving headline inflation. Oil exporters (Algeria and Libya) have benefited from the windfall of rising oil prices and the increase in oil production in 2022, allowing them to replenish their buffers.

4. After North Africa rebounded in 2021, its governments should now build on the crisis response by investing in measures geared to increase resilience to shocks and create jobs in 2022 and beyond. North African countries also need to address debt sustainability and liquidity issues. They now need to design and implement policies to sustain the rebound and safeguard macroeconomic stability. Policies to reduce inflation are instrumental. This is possible by designing plans to accommodate any need for higher health spending or fiscal support measures (increase social safety nets) within the existing budget space.

5. As crises are becoming increasingly frequent, there is need to accelerate structural reforms in the region particularly for oil importing countries facing a two-fold impact (higher food and oil prices). Reforms are not only needed in the fiscal sphere, but countries also need reforms aimed at strengthening the role of the private sector for the creation of jobs and for an efficient economic transformation. Reforms aimed at climate change mitigation and adaption are critical.

6. Considering that NA is highly vulnerable to the effects of climate change, governments need to prioritize the shift towards low carbon technologies and renewables while strengthening adaptation. The role of the private sector in channeling additional finances to the transition to a green economy is critical as governments are currently fiscally constrained. Securing further climate financing, especially for adaptation, is therefore a top priority for the upcoming COP27 in Egypt.

7. The multiple crises are also attesting to the significance of digital technology. It is therefore necessary to develop a digital ecosystem for financial services, e-commerce and e-government. This can be done by improving the digital environment, policies, and regulations which lead to greater integration of the region and increased access to global value chains.

8. The opportunities provided by the African Continental Free Trade Area (AfCFTA will allow the region to increase production and value addition while also building climate-proof infrastructure and sustainable food systems to supply and grow local and regional agri-food markets. Therefore, the AfCFTA has the potential to not only reduce the region's exposure to global disruptions but also boost local agro-processing and manufacturing while speeding up the transition towards a green economy.

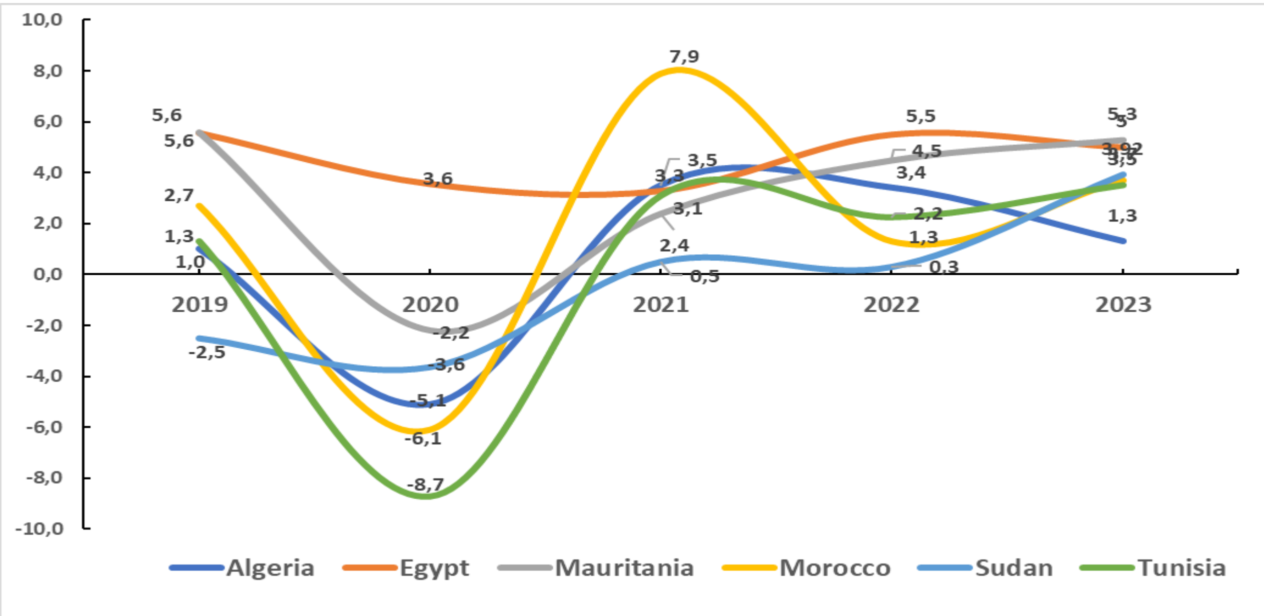
1. Growth prospects amid multiple crises

9. 2021 has been marked by a rebound in the global economy owing to shorter pandemic restrictions despite the November 2021 disruptions induced by the new Covid-19 variant, the Omicron. The rebound was driven by strong consumer spending and some upturn in investment. Inflationary pressures remained strong. In 2022, the global growth sagged in both advanced, developing and emerging market economies, as the war in Ukraine caused the disruption of business, investments, and global trade and sparked uncertainty.

10. In North Africa, growth bounced back into positive territory in 2021. According to the 2022 World Economic Situation and Prospects (WESP) report of the United Nations, the region’s real GDP grew at 7.6 % in 2021 and is likely to slow down to 4.9% in 2022 despite North Africa's ongoing status as the fastest growing sub-region on the African continent.

11. In 2021, North Africa's growth was mainly supported by one-off factors such as the reopening of major oilfields in Libya amid rising oil prices, and an exceptional agricultural season in Morocco. In addition, vaccinations in the region allowed the easing of mobility restrictions. Morocco and Tunisia achieved the World Health Organization’s (WHO) vaccination objective of 40 per cent coverage by the end of 2021. All the countries in North Africa, except Sudan, have experienced an economic recovery in 2021, at without nevertheless reaching the pre-pandemic ***levels (Figure 1).*** The 2022 outlook for North Africa is skewed to the downside due to negative spillovers of the war in Ukraine and the imposition of sanctions on Russia.

Figure 1: Evolution of real GDP growth in North African countries



Source: National statistics and WB data. Note: Data for Libya are not presented due to large dispersion.

12. Like all the economies around the world, North African economies have been coping with many challenges in 2022. According to the World Economic Situation and Prospects (WESP) report of the United Nations, North Africa growth will maintain its downturn, but will, excluding Libya, remain at its 2021 growth level. Countries in the region are subject to the negative impacts of COVID-19, the Russia-Ukrainia conflict and climate change related issues. These three crises have heightened concerns over growth prospects, the need to create new investment linkages, elevated debt vulnerabilities, growing inflationary pressures, and increased risks of food and energy insecurity across North Africa. 2022 has also been characterized by a lesser need for disruptive pandemic-related restrictions (compared with

2021) despite the persistence of inequalities between countries in access to vaccines. Many countries have entered the endemic stage of the COVID-19 outbreak. However, pandemic-induced losses in both economic output and employment will still be significant at least until 2023. Furthermore, tighter global financial conditions have heightened concerns over liquidity pressures induced by high government gross financing needs (debt service and fiscal deficits) in North Africa. This is reflected in falling foreign reserves, rising inflation, and pressure on the currencies of the region.

13. The external shocks induced by the war and sanctions against Russia have disrupted North African countries across several channels of transmission, including supply chains and trade on account of Russia and Ukraine's significant market shares in energy. They are key providers of staple commodities, including wheat, maize and sunflower oil. Egypt, Libya, Tunisia, and Morocco rely on Russia and Ukraine for at least 30 % of their wheat imports. Russia is also the world's top exporter of fertilizers. Food and energy prices rose sharply during the first quarter of 2022, putting pressure on non-oil exporters' fiscal and current account balances and foreign exchange reserves.

14. Regarding the channel of foreign direct investment (FDI) and migrant remittances, the setback to global growth has led to an expected reduction in returns and so did uncertainties created by the conflict, both undermining investor confidence. This has caused a slowdown in FDI flows and a fall in remittances from Europe, due to the decline in activity caused by the crisis. In addition, central banks' rate hikes have contributed to tightened international financial conditions in response to accelerating global inflation. On the more positive side, by raising hydrocarbon prices, the conflict has helped improve the fiscal and external balances of North African energy exporting countries such as Algeria and Libya given their significant oil and gas reserves.

15. All these challenges have caused the economic growth in most countries in the region to slow down in 2022. Only Egypt, Mauritania and, to a lesser extent, Algeria have a particularly favorable outlook in 2022 (Figure 1). According to the Ministry of Finance of Algeria, the economy is expected to grow by 3.4 % in 2022 due to the increase in hydrocarbon prices which is likely to improve its fiscal and external balance despite the rise in food import prices. The shift toward more liberal economic policy will also aid in improving the attractiveness of the Algerian market to foreign investors. However, Algeria’s structural dependence on food imports have somewhat hampered the economic growth potential of 2022.

16. Tunisia’s pace of recovery is slowing down in 2022, reflecting the higher import bill driving up prices. The country’s service sector is facing weak private consumption in the face of rising inflation. The two-fold difficulty of attracting bilateral financing and investment and the high cost of borrowing on the financial markets induced by its weak sovereign rating are adding to Tunisia’s economic woes. The country's need for external financing is increasing further and negotiations with the IMF to secure a $4bn loan resumed in February. Tunisia is also grappling with a serious water crisis.

17. According to the Egyptian Ministry of Planning and Economic development, GDP is expected to grow by 5.5% in 2022, in line with the country's commitment to implement the second phase of structural reforms; the first phase, spanning the period 2016-2019, made it possible to restore the country's major macroeconomic balances. However, as a net importer, Egypt's import bill has been inflated by soaring global commodity prices, eventually prompting authorities to implement import regulations. Meanwhile, current Inflationary pressures, and monetary tightening are weighing on the country’s private consumption, while rising import bill and debt servicing costs are expected to force cuts in capital expenditure.

18. Mauritania's economy has been experiencing mixed effects from the Russia - Ukraine Conflict in 2022. The projected GDP growth rate of 5.0% for 2022 is based on prospects of higher commodity prices and global demand, including gold and iron, as well as improved private investor confidence following debt restructuring agreements in 2021 and 2022. Hence Mauritania's benefit from high demand for iron ore and gold will outweigh the negative effect from higher food and energy prices induced by the conflict.

19. Morocco's growth has slowed to 1.3 % in 2022, owing to a severe agricultural downturn induced by drought and weak export demand amid supply chain disruptions. Higher import bill due to the impact of the Russia-Ukraine conflict on global commodity prices also played a role. Morocco has maintained an accommodative stance to protect economic activity.

20. Although an oil exporter, Libya will experience a contraction due to political instability in 2022 leading to oil production disruptions. Sudan's growth is expected to stand at 0.3% in 2022 due to global oil and food prices and the suspension of the financial assistance (since the October 2021 coup).

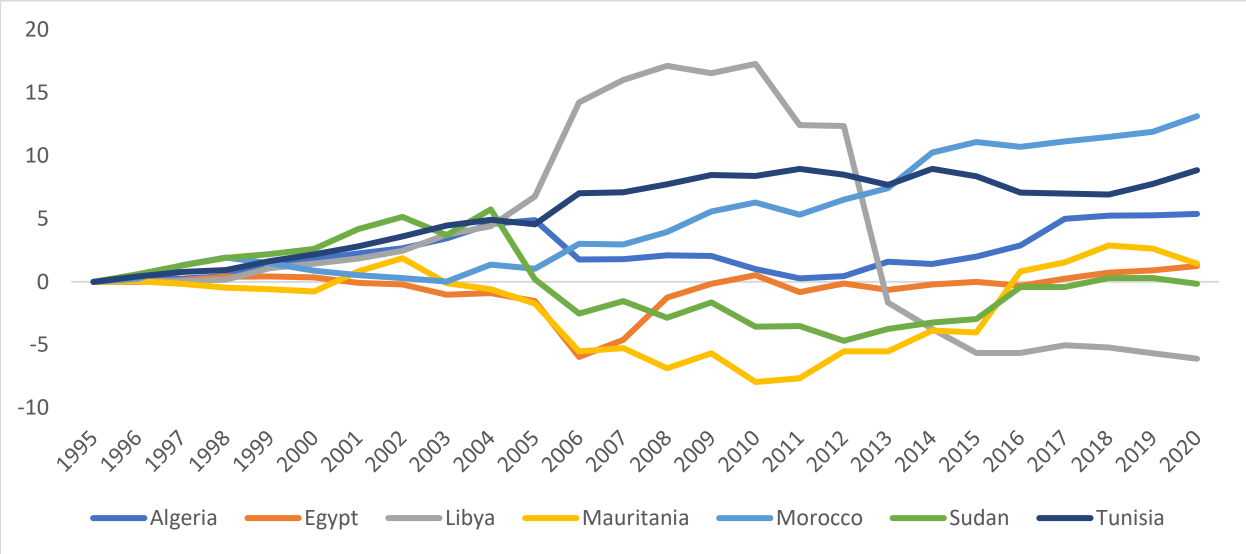
Climate change realities in North Africa ahead of the COP 27 Summit

21. Climate change is another key factor influencing the region's economic and social prospects. The climate crisis is accelerating, with more frequent and extreme weather conditions. In recent years, North African countries had to grapple with notably more weather-related disasters. Countries will need to adopt decisive actions to reach net-zero emissions.

22. For example, over the past years, Morocco's agriculture, accounting for 10% of GDP and 33% of total employment, has been severely impacted by drought Agriculture, fishing, and tourism, vital to the country's economic well-being, consume about 80% of Morocco's water resources, . A similar trend is occurring in Sudan, where droughts and floods have decimated 20 % of harvestable land and reduced biodiversity (AEO, 2022). According to World Bank (2021), the top five countries in Africa with the largest deterioration in water levels over 1997-2018 are located in North Africa (Libya, Algeria, Sudan, Egypt, and Tunisia), making the region the world's most water-stressed region with a high dependency on climate-sensitive agriculture.

23. The Notre Dame-Global Adaptation Index (ND-GAIN) which summarizes a country's vulnerability to climate change, shows that such vulnerability has fallen slightly during 1995-2020 in North Africa except for Mauritania, Libya, and Sudan (Figure 2). This is understandable given the periods of political instability that Libya and Sudan have experienced in recent years. In Mauritania, the frequency of bush fires caused by the rise in temperature has increased at an alarming rate thereby posing a serious threat to pastoralist refugees and host communities keeping large herds of livestock (World Meteorological Organization, 2021) while the Lake Mahmouda, a vital source of water and food for refugees and local communities, is threatened with depletion.

Figure 2: **ND-GAIN Vulnerability index to climate change variation by country in North Africa**



Source: ND-GAIN. Note: The index combines Vulnerability (exposure, sensitivity, and ability to adapt to the negative impact of climate change) and Readiness (ability to leverage investments and convert them to adaptation actions).

24. North African governments aim to achieve sustainable climatic conditions in line with the SDGs. Egypt and Morocco are leading the region in the switch to renewable energy sources. Egypt is committed to boosting its share of renewable energy to 42% by 2035 while Morocco aims to reach 80% of renewable energy use by 2050. Relatedly, Algeria wants to cut its GHG emissions by 7% by 2030 and has incorporated environmental viability into the 2020-24 Economic Recovery Plan, while Libya plans to generate 22% of its electricity from renewable sources by 2030. By implementing the Nationally Determined Contribution (NDC), which calls for an 11% reduction in GHG emissions by 2030, Mauritania aims to reduce its high vulnerability. The Tunisian government has unveiled the Tunisian Solar Plan, seeking to reach a 30% share of renewable energy in the country's energy mix by 2030 and lower carbon intensity by 41% compared to 2010.

25. However, North African countries remain very vulnerable to the effects of climate change. Therefore, enhanced efforts are still needed. According to the indicators used in the construction of the ND-GAIN Vulnerability index, the major common problems in North African countries in terms of vulnerability are limited agricultural technology capacity, the effect of climate change on cereal crop yields and the problem of water scarcity (water dependency ratio and water dam). In terms of readiness (response capacity to climate change of North African countries), the major obstacles identified are the lack of skills, the low level of innovation, corruption, and the lack of a sound regulatory framework. All these are areas of potential policy interventions.

26. Adding risk to North Africa is the fact that many of the governments, especially Tunisia and Egypt, are fiscally constrained. Therefore, transitioning from the current development pathways to green growth will require a paradigm shift in the way governments and the private sector make decisions and operate, including being environmentally and climate conscious. Governments are urged to find a way of catalyzing private sector capacity to mobilize additional resources, knowledge, and innovation to address climate change challenges. Efforts would include private sector investments in developing clean infrastructure, reducing energy and water use, improving the climate resilience of cities and communities, and supporting natural ecosystems.

27. From 7 to 9 September, African leaders gathered in Sharm El Sheikh, Egypt, to discuss their agenda for the upcoming COP27 summit with a view to ensure a just climate transition, which would account for Africa's low contribution to climate issues and vast financing needs. Securing climate financing came out on top. A key expected outcome from COP27 is for advanced economies to expand on and fulfil the pledges made at COP26 to close the enormous funding gap needed by African countries to adapt to climate change. In that regard, pledges should translate into tangible finance agreements, capable of attracting and mobilizing private capital at scale. Other than specific finance-related recommendations, African leaders also call for further capacity development and institutional support through, inter alia, the creation of climate finance units, support for developing and institutionalizing Sustainable Budgeting Approaches, and investment in technical assistance and capacity building.

2. Fiscal positions and debt burdens

2.1. Fiscal positions beyond 2021

28. The fiscal position of North African countries has improved in 2021 on account of the increase in public resources **(Table 1).** In 2021, most of North African countries' public revenues were up from their level of 2020, in keeping with the economic recovery and the lifting of certain tax relief measures adopted by countries to cope with the effects of the COVID-19 crisis.

29. However, the fiscal situation in 2022 has proved unfavorable for some North African countries. It appears that all energy-importing countries widened their fiscal deficit further, in contrast to positive balances of Algeria (+0.7% of GDP) and Libya. In the case of these countries, a marked improvement in their public finances and current account has taken place, due to the positive short-term impact of the Russia-Ukraine crisis on hydrocarbon exports. Other countries in the region are running fiscal deficits in 2022. By way of illustration, Egypt's deficits come to 7.9%, while Morocco's primary fiscal deficit, at 3.9%, is the region's highest. It is likely that Tunisia's fiscal deficit will narrow slightly by year end as the country expects an increase in tourism revenues following the reopening of its borders with Algeria, effective on 15 July 2022, after a closure of more than two years due to the COVID-19 pandemic.

Table 1: fiscal situation of North African countries 2019-2022

Overall Fiscal Balance (% of GDP)					
	2019	**2020**	**2021**	**2022**	**2023**
Algeria	-9.6	-12	-3.3	0.7	-0.8
Egypt, Arab Rep.	-8.1	-7.9	-7.4	-7.9	-7.3
Libya	1.7	-64.4	10.6		
Mauritania	2	1.9	2.5	-0.5	-0.6
Morocco	-3.8	-7.6	-6	-6.2	-5.8
Tunisia	-2.9	-9.4	-7.7	-6.3	-5.6
Primary Fiscal Balance (% of GDP)					
	2019	**2020**	**2021**	**2022**	**2023**
Algeria	-9	-11	-2.9	1.3	0
Egypt, Arab Rep.	1.9	1.8	1.5	1.3	1.7
Mauritania	3	3.2	3.4	0.5	0.4
Morocco	-1.5	-5.1	-3.7	-3.9	-3.4
Tunisia	-0.4	-5.8	-4.7	-3.1	-2.5

Source: ECA, based on World Bank data.

2.3. Public debt burden in North African countries

30. In North Africa, public debt remains high with almost 100% of GDP in 2021 in many countries (Table 2). Broadly speaking, the COVID-19 pandemic has exacerbated the debt situation of African countries, causing a sharp increase in public financing needs. In 2021, with the exception of Mauritania, which has a debt ratio (54.7%) below the sustainability threshold of 60.0% of GDP set by the International Monetary Fund (IMF) for African economies, the countries of North Africa recorded relatively high debt-to-GDP ratios in 2021 (Table 2). The debt-to-GDP ratios for Egypt, Morocco, Tunisia, and Sudan are well above the benchmark of 70 percent of GDP for emerging markets. According to the debt sustainability analysis (DSA) of the IMF, Egypt and Morocco's public debts were deemed sustainable but subject to significant risks. Tunisia has lost public debt sustainability and needs urgent a strong fiscal consolidation and structural reform program to restore it. The two downgrades of Tunisia by Moody's in 2021, together with Fitch's downgrade, added to Tunisia's economic woes.

Table 2: Debt dynamics in North Africa (2019-2022)

General government debt (% of GDP)					
	2019	**2020**	**2021**	**2022f**	**2023f**
Algeria	45.6	52.1	61.2	51.8	50.5
Egypt	90.2	87	92.4	96.4	91.6
Mauritania	63.5	65.5	59.3	56.7	56.7
Morocco	64.8	76.4	75.6	79.8	79.5
Sudan	200.3	249.1	208.6	191.9	184
Tunisia	67.9	79.5	84.5	84.2	90.6
External public Debt (% of GDP)					
	2019	**2020**	**2021**	**2022**	
Algeria	0.8	0.8	0.7	0.5	
Egypt	36	34.1	36.3	32.3	
Mauritania	55.4	57.8	54.5	51.3	
Morocco	14	19.1	18.1	18.3	
Sudan	167.8	167.4	164	160.7	
Tunisia	47.8	52.4	53.1	53.8	
Interest payments (% GDP)					
	2019	**2020**	**2021**	**2022**	
Algeria	0.6	0.9	0.6	0.7	
Egypt	10	9.7	8.9	9.2	
Mauritania	0.9	1.2	0.9	1	
Morocco	2.3	2.5	2.3	2.4	
Tunisia	2.5	3.6	3	3.2	

Source: ECA, based on MPO World Bank data, 2022.

31. In 2021, total external public debt to GDP ratios decreased in Algeria, Mauritania, Morocco and Sudan while they increased slightly in Egypt and Tunisia (Table 2). The external debt levels remain high in 2022 due to the effects of the Russia-Ukraine conflict (Table 2). Sudan, Tunisia, and Mauritania, have external debt levels that are above 40% of their GDP. The high level of the public debt in foreign currencies poses a risk to financial stability through elevated foreign exchange and repayment risks, particularly in Tunisia. With higher interest rates, the cost of servicing future debt will rise, countries will have less options of growing out of debt. Higher interest rates also incentivize investors to divest from riskier assets in developing countries toward safer assets in advanced economies.

32. All North African countries benefited in 2021 from the general allocations of Special Drawing Rights (SDRs) for a total 1.14% of global SDR allocation (650 billion SDRs). These resources have strengthened the foreign exchange reserves of central banks. SDR general allocations have, among other things, enabled these countries to finance their health crisis and economic recoveryrelated needs (**Table 3 in Appendix**). However, it is important to note that African countries did not receive their fair share of the total SDR issuance. Two thirds of the SDR allocation of US$ 650 billion implemented in August 2021 benefited the developed economies. It is therefore important to recycle some of the developed countries' SDRs to low and middle -income countries. The recycling will help the countries with already weak budgets and higher indebtedness to free up budgetary margins to cover additional expenditure and increase resilience to shocks. However, countries should also aim at strengthening the domestic collection of tax revenues and improve the management of public expenditure.

3. Food and energy price increases are fueling an already elevated headline inflation

33. In most North African countries, inflation increased in 2021 but remained in single digits with the exception of Sudan with an inflation of way over 100% (Table 4). North African currencies were under strain in 2021 (Table 5 in Appendix). The Sudanese pound depreciated sharply causing a rise in inflation to more than double. The Libyan dinar was devalued by 70% of its official exchange rate in 2021 as part of broader reforms. In 2022, currencies most at risk from sustained pressure are the Tunisian dinar and the Egyptian Pound. The latter was devalued by 16% in April 2022 following huge capital outflows and sharply falling foreign reserves

34. According to the World bank Commodity database, the price index for fertilizers increased by more than 150.0% between January and December 2021. In the international market, World Bank data for 2022 indicates that the food price index rose to 19.0% in the first half of 2022, compared to 8.4% and 6.3%, respectively, for energy price index and the non-energy price index for goods. In addition, in the first six months of 2022, the price of a barrel of oil has also risen by about 39.2%. As a result, inflation pressures rose in 2022 and cost of living pressures heightened in most countries of North Africa. In Algeria, food prices are the main driver of soaring inflation in the country despite food subsidies implemented by the Algerian State.

35. In 2022, Egypt has been subject to severe inflationary pressures, induced both by domestic and global developments, following rising fuel and wheat prices (cushioned in part by subsidies), a rush to safe-haven assets and the impact of currency devaluation in March. In 2022, Egypt posted a double-digit inflation (11%) (Table 3).

36. Morocco's inflationary pressures in 2022 have been driven by soaring commodity prices, as well as a weak Moroccan dirham-dollar exchange rate amid growing safe-haven demand and tightening US monetary policy.

37. Inflation in Tunisia continued its upward climb in 2022 as authorities partly monetized the deficit in early 2022 and the downward pressure exerted by a reduced fiscal deficit is offset by stronger demand and a depreciation of the dinar. Housing, water, gas, electricity, and other fuels subindex was the largest driver of inflationary pressures in Tunisia.

38. Mauritania's inflation remained high in 2022 due to a high reliance on food and fuel imports. It is worth noting that Mauritania is more reliant on imports of Russian products than most African countries. Imports from the Black Sea countries account for 60% of total imports in value terms.

Table 3: Inflation dynamics in North African countries

	2019	2020	2021	2022	2023
Algeria	2.0	2.4	7.2	8.7	8.2
Egypt	13.9	5.7	4.5	7.5	11.0
Libya	0.2	2.8	3.7	3.7	2.4
Mauritania	2.3	2.3	3.8	4.9	4.0
Morocco	0.2	0.6	1.4	4.4	2.3
Sudan	51.0	163.3	359.1	245.1	111.4
Tunisia	6.7	5.6	5.7	7.7	

Source: ECA, based on WEO data, April 2022

39. With increasing inflation coupled to capital flight, many central banks have raised their key interest rates. By way of illustration, the central banks of Egypt and Tunisia raised their key interest rates by 100 percentage points and 75 basis points respectively in 2022. Other countries such as Algeria and Morocco have decided to hold their interest rates unchanged.

4. Trade on the rebound but at risk

40. North Africa’s economy began to slowly recover from the trade shock induced by the COVID-19 pandemic, but this progress may well be compromised. Most notably, the surging oil and food prices in 2022 have strained the current account balance of countries like Egypt, Tunisia, and Morocco. A recovery in services exports could enable job creation and provide some reprieve for the external position.

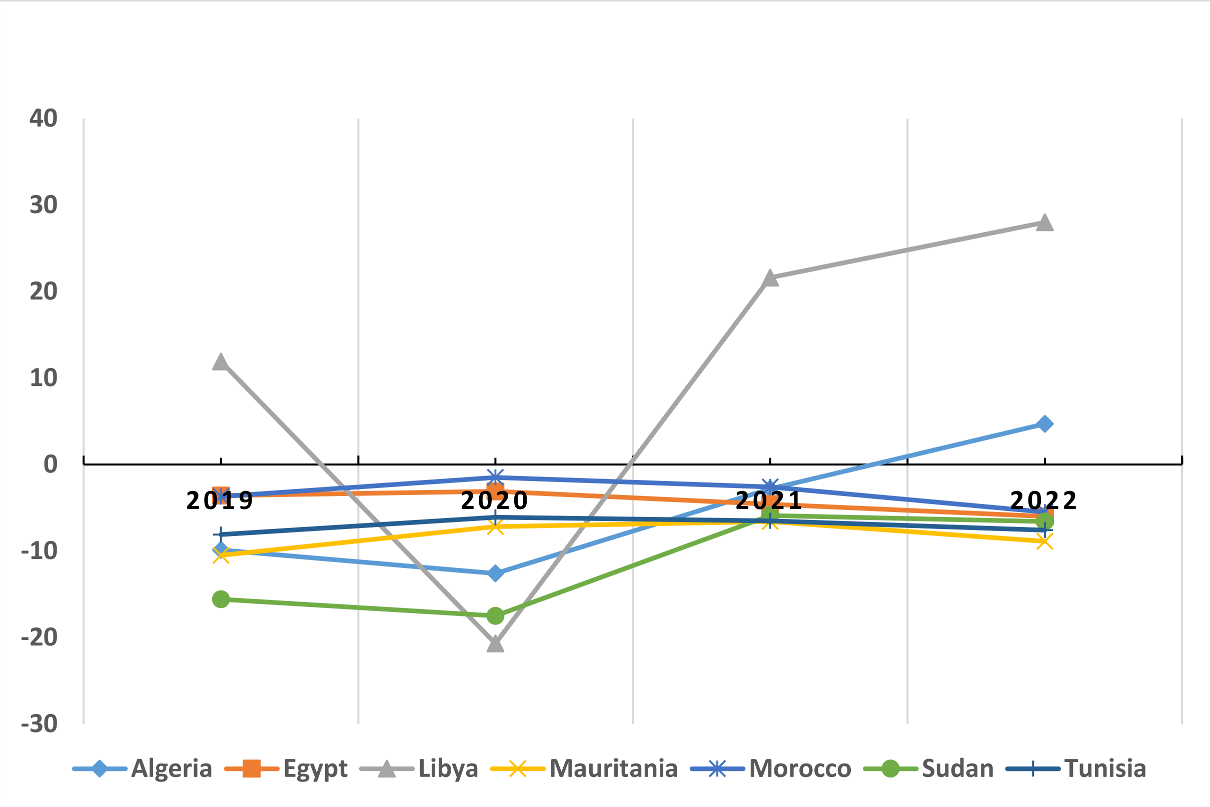
41. In Egypt, the current account deficit widened to 6% of GDP in 2022 from 3.1% of GDP in 2020 and will widen further by end of 2022. Against the backdrop of a widening current account deficit, and weak FDI and capital inflows, the outlook for foreign reserves is showing sign of significant deterioration.

42. For Morocco, the current account deficit widened to 5.5% of GDP from 2.6% of GDP in 2021, reflecting the swelling trade deficit, slow recovery in tourism receipts and weaker remittance inflows. Conversely, Morocco is well-positioned to address the challenges posed by an inflated import bill thanks to the decent foreign reserves buffer.

43. In Tunisia, the current account deficit was reduced and stood at 6.5% of GDP in 2021 compared to 4.6 % of GDP in 2020, as fuel and food prices continue to strain Tunisia’s external position. The BCT also reported that, despite an upturn in tourist activity, the external position remained weak, and the government is still finding it hard to meet external debt servicing requirements.

44. However, spurred by the positive external sector performance of oil exporting countries, Algeria's and Libya's current account surpluses rose respectively to 4.7 % and 28 % of GDP in 2022, from -2.8% and 21.6 % of GDP in 2021, and several trade-opening measures and policies are due to be initiated to allow North Africa's trade to bounce back into positive territory (figure 3).

Figure 3: Current account balance (% of GDP) (2019-2022)



Source: World Bank data, MPO, 2022.

45. Given the current situation around the globe, trade risks and shocks still exist, and are likely to undermine performance and overall economic growth. The US and Europe may well be at high risk of recession. Climate change and extreme weather are also among the most serious global threats in the next decade (World Economic Forum, 2022). High temperature, droughts, and changes in rainfall and groundwater levels are all predicted, particularly in North Africa. Agricultural output, GDP growth, and livelihoods have also borne the full brunt of negative impacts of worsening climate conditions and irregular rainfall.

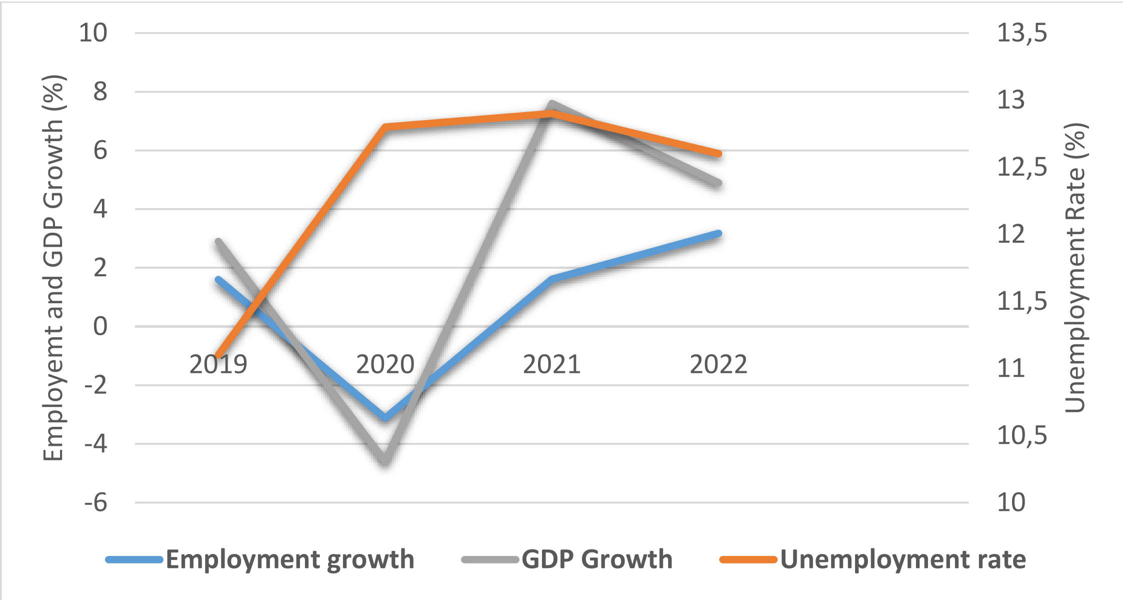
5. Labor market recovery is delaying output recovery

46. Growth, however, has not translated into improved labor market outcomes—with unemployment rates still well above pre-pandemic levels in many countries. In some countries, the relationship between trade and labor markets seems to have been severed. For instance, the World Bank (2021) found no significant relationship between rising exports and wages, informality, or female labor force participation in Egypt (para stopped in mid-sentence apparently).

47. In 2021, the labor-force participation rate of females aged 15 and older and females aged 15 to 24 in North Africa nudged up to 19.8% and 11.6 %, respectively from 19.6% and 11.1% in 2020. However, these figures remain relatively low compared to the global average of 46 and 32 percent and the African average of 53 and 40 percent, respectively **(Table 6).** The figures also suggest that while some women quit working after they lost their jobs, others returned to work to compensate for the lost household income. A case in point is Morocco, where the labour market recovery has been predominantly driven by more women entering the labour force (ILO, 2022).

48. The COVID-19 crisis slowed down global economic growth, but the impact on labour markets varied greatly across regions and countries and demographic groups. Overall, the pandemic, combined with unexpected inflation, had a significant impact on North African labour markets with unemployment rate up to 12.9% from 12.8% and 11.6% in 2021 and 2020, respectively. There is risk that cyclical unemployment will become structural. Therefore, North Africa experienced an economic recovery accompanied with an increase in unemployment rate and low employment growth (Figure 4). This suggests a delayed recovery in labour force participation, with the implied corollary being that discouraged or laid-off workers may be slow to re-enter the labour market. North Africa will continue to see modest employment growth to 2022. This demonstrates that North Africa's labour market revival is stalling economic growth.

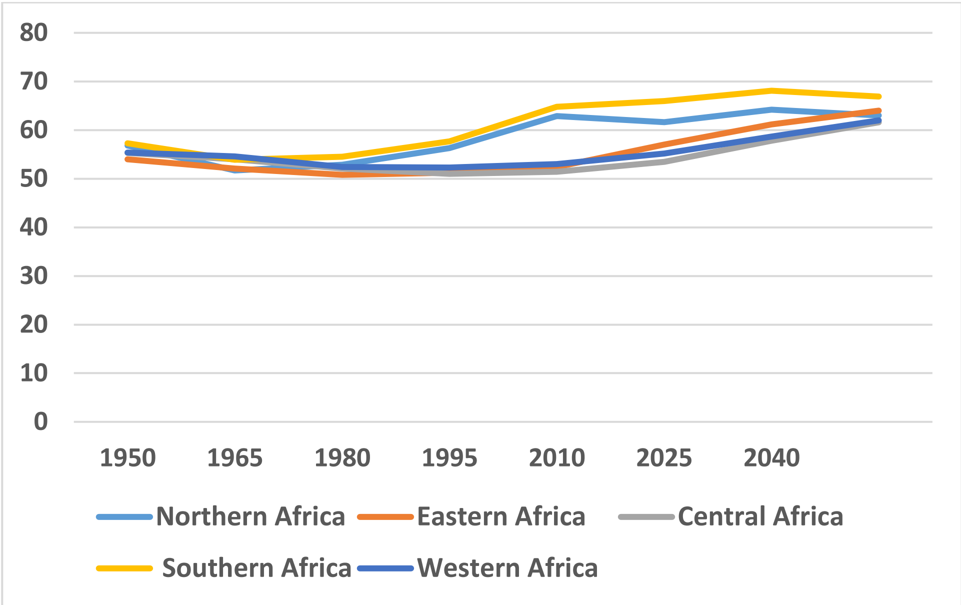
Figure 4: Labour market indicators in North Africa



Source: Data from the International Labour Organization (2022) and GDP growth data from WESP (2022).

49. North Africa has one of the highest proportions of working-age population on the African continent (Figure 5). This should normally lead to increased savings and investment as the average age of the working-age population increases (Scope Ratings, 2021). However, like the Southern African region, the North African region has one of the highest proportions of unemployed youth. Hence, North Africa is missing an opportunity to use this critical mass to improve the productivity of the formal sector, which is key to structural transformation. As is well known, most young people work in the informal sector, where they generally hold precarious jobs.

Figure 5: Working-age population by region in Africa (as a share of the total population)



Source: UN Population Division.

50. Furthermore, North African countries are relatively mature in terms of demographics. The United Nation Population forecasts show that the proportion of older age groups is increasing while that of younger age groups is declining. This indicates a lengthening of the life span, generally associated with a later retirement age, hence additional savings.

51. For North African countries to leverage these advantages, policies geared to facilitate employment, entrepreneurship and promote gender equality must be implemented. These policies must also include investments to ensure the quality of workforce, especially in the education and health sectors. Last but not least, financial markets development is crucial for household savings

6. Conclusions and Policy Recommendations

52. The war in Ukraine has added yet another layer of risks, causing a huge ripple effect. Inequalities have been compounded not only by the pandemic but also by the new global markets uncertainties. Price pressures have intensified, magnified by persisting distortions and the emergence of tensions on the financial markets in 2022. The debt sustainability, liquidity pressures, and the widening spreads are preventing countries like Tunisia and Egypt to access financial markets.

53. Oil exporting countries in the region, namely Algeria and Libya, have gained a great deal from the windfall of rising oil prices and increasing oil production in 2022 thereby replenishing their buffers, while oil importers (Egypt, Mauritania, Morocco, Sudan and Tunisia) saw higher oil and food prices boost their import bills and widen their fiscal deficits owing to their general subsidy system and high debt levels. Headline inflation is dominating the region because most increase in prices comes from basic commodities, mainly food

54. The tightening by key central banks (FED and ECB) and higher interest rates caused countries with currencies pegged to the dollar to lack monetary independence, leaving them no alternative than to adopt the same measures. Accordingly, Tunisia and Egypt have raised their interest rates while Algeria and Egypt have seen their currencies depreciate, leading to increases in public debt-to-GDP ratio. Therefore, the rise in interest rates with combined high levels of indebtedness in the region, and particularly in Egypt, led to a rise in risk premiums and hence greater capital outflows.

55. North African countries are therefore advised to design and implement policies geared to sustain the recovery and safeguard macroeconomic stability. Policies to reduce inflation are of primordial importance in this context. This can be done by developing plans geared to accommodate any need for higher health spending or fiscal support measures (greater social safety nets) within the existing budget space as well as direct subsidies for the poor and most vulnerable families. Over the medium term, countries need to implement gradual fiscal consolidation supported by monetary tightening and exchange rate flexibility.

56. Governments must pursue public expenditure efficiency, thus creating space for poverty reducing expenditure, and intensify their efforts towards mobilizing domestic revenue, as higher inflation and rising global interest rates are set to undermine the current momentum. Digitized tax collection can improve revenue collection through streamlining and reduced room for tax evasion. In addition Public-Private Partnerships (PPPs) can help attract new funds to finance infrastructures and public services for socially optimal outcomes (UNECA, 2021).

57. International financial institutions (IFIs) have a key role to play in debt restructuring and relief to generate liquidity and fiscal space for governments to pursue counter-cyclical fiscal policies, and in some cases avoid default. Multilateral frameworks for debt restructuring and for development finance need to be simultaneously strengthened (IMF, 2022). There is urgency to make the G20 Common framework deliver on its potential and also to extend its application to all middle-income countries.

58. Crises have increased both in intensity and frequency. North African countries thus need to accelerate structural reforms; this is especially the case for oil importing countries, facing a double impact (higher food and oil prices). Besides the reforms needed in the fiscal sphere, countries also need reforms to improve the business climate, upgrade the education system to reduce the skills gap, enhance effective national and regional value chains and strengthen the role of digitalization for productive transformation of the economy. This is possible by scaling up the reach of the private sector to promote innovation, competitiveness, economic growth, and job creation in North Africa.

59. The impact of the current crises was hard felt in North Africa, partly owing to its weak integration into the region and the rest of the African continent. Moreover, the ongoing multiple global crises have showcased the importance of digital technology in integrating global and regional value chains. Therefore, North African countries have much to gain from strengthened digital environment, policies, and regulations. Easing regulatory and administrative barriers to international transactions (goods, services) through digitalization and accelerating the take up of digital financial services to speed up the integration of value chains and energy industry in the region are other key areas (AUC/OECD ,2022).

60. Harnessing the African Continental Free Trade Area (AfCFTA), which effective since January 1, 2021, is another lever to transform North Africa's agricultural systems and trade relations more broadly. The AfCFTA will increase production and value addition while providing enough infrastructure and food safety standards to supply and grow local and regional agri-food markets. The AfCFTA has the potential both to reduce the region’s exposure to global disruptions and, particularly, boost local manufacturing and productivity.

61. Another important and ongoing disruption to North African economies is the climate change shock. Some of its most serious manifestations are increasing food insecurity, leading to hunger and sickness, a high level of poverty, high inflation of food prices and an over-reliance on imports, unemployment and income loss, trade disruptions, and possibly massive loss of lives. It is imperative that nations step up the transition to green economy. Regional cooperation may assist in the national efforts of adaptation to climate change, emissions reduction, and management of transition risks, thereby promoting green investments and job development. Considering the current budget constraints of the public sector, the private sector has a critical role to play in generating and channeling additional finance towards the green transition. Private sector involvement in green investments continues to come up against several challenges in North Africa. It is therefore vital that IFIs and other actors provide advisory services and suitable financial solutions to help countries attract investment, and assist local firms in creating green jobs.

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Appendix

Table 3: General SDR Allocations Received by North African Countries in 2021

Country	Millions of SDRs	Share of Global Allocation
Algeria	1 879,0	0.29
Egypt	1 952,5	0.3
Libya	1 507,8	0.23
Mauritania	123,4	0.018
Morocco	857,0	0.13
Sudan	604,0	0.09
Tunisia	523,0	0.08
North Africa	**7 446,7**	**1.14**

Source: ECA, based on IMF data

Table 5: Evolution of Exchange rate in North African Countries (local currency/US$, annual average)

	2020	2021	2022
Algeria	126.8	135.1	143.6.0
Egypt	16	15.7	16.5
Libya	1.4	4.4	4.4
Mauritania	36.3	36.4	36.8
Morocco	9.5	9.3	9.3
Sudan	190.7	422.7	557.3
Tunisia	2.8	2.9	3.0

Source: World Bank data, 2022

Table 6: Labour Force and Employment Analysis in North Africa (2015-2023)

Variable	Region	Sex	2015	2016	2017	2018	2019	2020	2021	2022	2023
Labour Force Participation Rate	15+ North Africa	Male	40.3	39.4	37.5	36.6	35.8	33.7	34.5	34.8	34.9
		Female	17.5	17.0	16.3	13.2	11.9	11.1	11.6	11.7	11.7
	15-24 North Africa	Male	69.8	69.2	67.8	67.9	68.0	66.1	66.4	66.8	67.0
		Female	23.4	23.5	23.1	21.6	20.6	19.6	19.8	20.1	20.2
	15+ Africa	Male	72.3	72.2	71.9	71.8	71.8	70.3	70.7	71.1	71.2
		Female	54.3	54.4	54.4	54.1	54.0	52.4	53.0	53.7	54.1
	15-24 Africa	Male	48.2	48.1	47.7	47.5	47.3	45.3	46.3	46.9	47.2
		Female	41.2	41.3	41.4	41.0	41.0	39.0	40.4	40.9	41.1
	15+ World	Male	74.3	74.0	73.7	73.4	73.3	71.3	71.7	72.0	72.0
		Female	47.9	47.9	47.8	47.7	47.8	46.0	46.4	46.6	46.7
	15-24 World	Male	50.6	50.1	49.6	49.2	49.0	46.0	47.1	47.5	47.6
		Female	34.2	33.8	33.5	33.1	33.0	30.7	31.8	32.1	32.1
Labour Force (ml)	15+ North Africa ml)	Male	52.5	52.9	52.9	54.0	55.1	54.5	55.8	57.3	58.6
		Female	17.8	18.2	18.2	17.3	16.8	16.4	16.8	17.4	17.8
Employment to-population ratio	15-24 North Africa	Male	28.7	28.5	27.2	28.2	28.3	25.7	26.2	26.7	26.9
		Female	10.7	10.3	9.9	7.4	6.8	5.9	6.0	6.2	6.3
	25+ North Africa	Male	75.2	74.8	73.6	73.6	74.2	71.2	71.2	71.8	72.2
		Female	21.0	21.2	20.9	20.2	19.3	18.0	17.9	18.2	18.4

Source: Data from the International Labour Organization (2022).