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1. Summary

1. North Africa's economy maintained a moderate growth rate of 3.15% in 2018, as against 3.19% in 2017, driven mainly by Egypt's growth (5.3%, against 4.2% a year earlier). Mauritania and Tunisia improved their growth to 3.6% and 2.5% respectively (compared to 3.1% and 1.9% in 2017), while Algeria experienced a stagnation in growth (1.5% compared to 1.4% in 2017). Morocco's growth declined from 4.3% in 2017 to 3% in 2018. Sudan went into recession with a rate of -2.3%.

2. The sub-region's public finances continue to be under pressure with a consolidated sub-regional budget deficit of -7.63% of GDP in 2018, due mainly to deficits in the economies of Egypt and Algeria. Although inflation is declining in most countries in the sub-region, it nevertheless continues to pose a significant challenge to their macroeconomic stability. It remains high in Egypt, Libya and Sudan due to the impact of major events in these countries in recent years.

3. The consolidated current account deficit fell by 31% in 2017 to USD 44.1 billion from USD 63.9 billion in 2016. The combined effects of increasing Libyan and Algerian hydrocarbon exports, the relative stability of other commodity prices and an improving regional security environment have helped improve the sub-region's external position. Only Sudan and Tunisia recorded a 14.2% and 10.4% increase in deficits respectively.

4. For 2019, the economic outlook is not favorable, with global growth not expected to exceed 2.6%, mainly due to heightened trade tensions in recent months. The ability of North African economies to respond to future shocks and finance growth-supporting investments will be hampered. Countries in the sub-region that are net exporters of hydrocarbons are likely to be impacted by the decline in prices that began in October 2018, while net oil-importing countries, including Tunisia and especially Morocco, continue to benefit from the downward trend in the price of oil per barrel.

From a socio-political point of view, three countries (Algeria, Libya and Sudan) have had to contend with unrest that has had adverse consequences on growth and investment in these countries. Two countries experienced political change in 2019 through presidential elections

2. International environment

5. The global economy' growth rate declined from 3.8% in 2017 to 3.6% in 2018, resulting from a deceleration from 2.4% to 2.2% in developed countries and from 4.8% to 4.5% in emerging and developing countries. This trend was driven by escalating trade tensions between the United States and China, uncertainties over Brexit and political difficulties in some developed countries. The hope born in 2017 for a new expansion era, following a decade plagued by crisis, was quick to fade.

6. The slowdown in global growth has been compounded by a significant decline in the growth rate of international trade, from 4.6% in 2017 to 3% in 2018, across a large number of countries, both developed and developing. Conversely, after two years of decline, foreign direct investment has recovered.

As regards the labor market, unemployment remained low in the United States at 3.9%, the lowest level in nearly 50 years, and continued to decline in the euro zone, although it still is high in some countries.

7. Energy commodity prices rose again (+27.8%), buoyed mainly by the renewed agreement on reducing production in OPEC member countries and some non-member countries. The increase also affected fertilizer prices and, to a lesser extent, those of metals and minerals. Developments in agricultural commodity prices have been divergent, with an increase in particular for cereals. In this context, inflation rose again to 3.7% from 3.2% in 2017, rising in both developing and emerging countries (4.9% from 4.3% in 2017) and advanced economies (2% from 1.7% in 2017).

8. With regard to monetary policy, the United States Federal Reserve (FED), reassured by both the economic performance and the labor market, stepped up the pace of its policy standardization by increasing the target range of its key rate four times in 2018 from 1.5% to 2.5% at the end of 2018 and by continuing to reduce the size of its balance sheet. The European Central Bank (ECB) pursued its efforts to reduce its asset acquisitions and maintained its key interest rate at 0.0%.

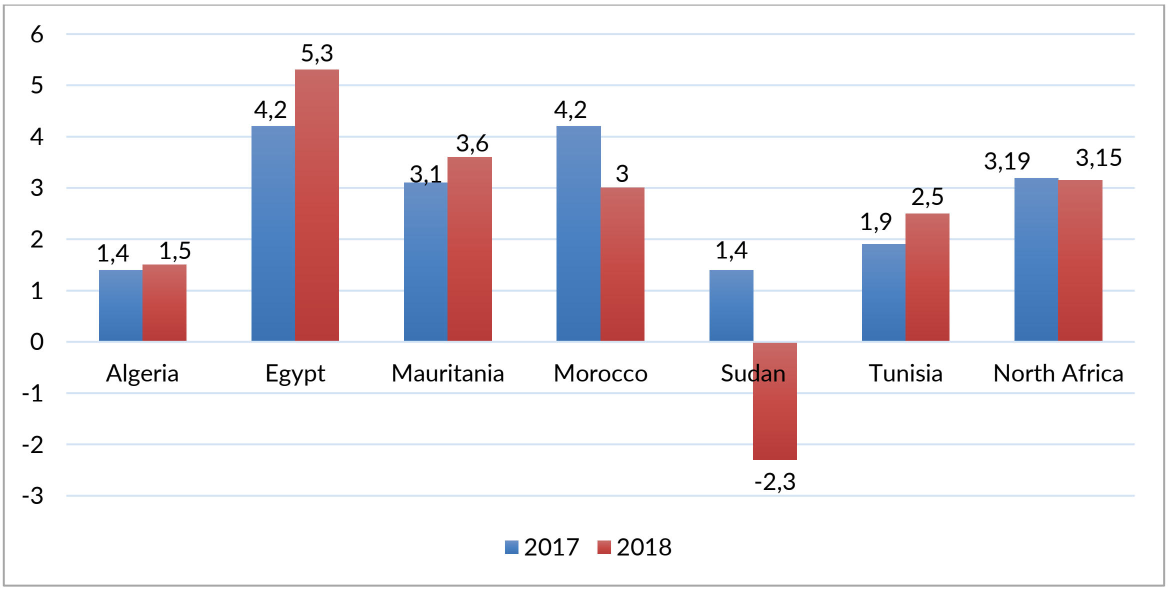
9. The financial markets recorded contrasting trends; while the US stock markets posted remarkable performances once again, those of the euro zone and the United Kingdom, impacted by the uncertainties associated with Brexit, declined. In terms of exchange rates, the euro and the currencies of the main emerging economies depreciated against the dollar, particularly the Turkish and Argentine currencies.

3. Economic performance

3.1. Economic growth

10. North Africa's real GDP grew by 3.15% in 2018, slightly down from the previous year (3.19%). This is explained by conflicting developments from different countries. Libya is a particular case due to the volatility of its national aggregates caused by instability in the country since the beginning of the decade. The Sudanese economy entered recession in 2018 in the wake of political instability in the country and despite the lifting of almost all US sanctions in 2017. In the rest of the sub-region, real GDP growth rates range from 1.5% for Algeria to 5.3% for Egypt.

Figure 1: Growth rates of North African countries in 2017 and 2018 (excluding Libya)



Source: ECA calculation using IMF data.

11. Algerian GDP recorded real growth of 1.5% in 2018, after rising by 1.4% in 2017. GDP growth was sustained, despite a sharp decline in hydrocarbon sector activity. GDP excluding hydrocarbons grew by 3.4%, compared to 2.2% in 2017, supported by growth in the agricultural sector (+6%, compared to only 1% in 2017). Agriculture contributed more than half of the growth in 2018. Industrial activity slowed down, with growth of 3.7%, compared with 4.5% in 2017.

12. The Egyptian economy has maintained a steady improvement in growth, with real GDP growing by 5.3% in 2018 compared to 4.2% in 2017. This upturn in growth was driven by public investment, private consumption and exports of goods and services.

13. Libya, whose growth is closely linked to oil production, saw its economy grow at a rate of 17.9% in 2018, compared to 64% in 2017. Oil production at around 1 million barrels per day remains below its pre-crisis annual average production of 1.7 million barrels per day.

14. Mauritania's real GDP grew by 3.6% in 2018 as compared to 3.1% in 2017, fueled mainly by strong performance in the primary and tertiary sectors. Excluding mining and quarrying, real GDP growth reached 6.3% in 2018 compared to 4.5% in 2017, mainly due to the momentum in agriculture (7.2%), an increase in fishing sector activity (12.7%) and improved transport and telecommunications activities (19.4%). On the other hand, real GDP in the secondary sector dropped by 8.6%, as a result of the decline in iron ore production and the interruption in oil production.

15. The Moroccan economy continued to grow at a moderate pace, with a rate of 3%, as against 4.2% in 2017. A good agricultural season as a result of propitious weather conditions for the second consecutive year made it possible to sustain an upward trend in agricultural value added, while non-agricultural sectors continued their slow recovery, with an increase limited to 2.6%. Despite slowing down, growth in processing industries and tourism remained steady. It was however sluggish in the construction industry.

16. The Sudanese economy entered recession in 2018. Major imbalances, linked to the loss of three-quarters of oil exports following South Sudan's independence in 2011, continue to weigh on the economy. GDP growth is estimated at -2.3% in 2018, against an increase of 1.4% in the previous year. The lack of investment in infrastructure, significant deficiencies in the business environment, persistent personal and food insecurity and tensions in the oil-producing regions of Darfur have significantly hampered the country's economy.

17. Tunisia's economic growth was 2.5% in 2018, as compared to 1.9% in 2017. Growth was mainly driven by the primary sector (agriculture and fisheries), which rose by 9.5%, thanks in particular to favorable weather and rainfall conditions, compared with 2% in 2017. The services sector, with a growth rate of 3.3% in 2018 compared to 4.5% in 2017, performed relatively well thanks to the hotel and restaurant sector. Industrial manufacturing is virtually stagnant with a growth rate of 0.5% in 2017 and 0.3%, as is the construction sector, growing by 0.8% in 2018 against a drop in value added of 1.7% in 2017.

3.2. Public finances

18. Public finances remain under pressure in 2018 with a consolidated budget deficit at 7.63% of sub-regional GDP, mainly as a result of deficits in the two largest economies: Egypt and Algeria.

19. Algerian public finances suffered from the slowdown in the hydrocarbon sector, despite a significant increase in the average price per barrel of oil for export. Oil taxes fell by 40% between 2017 and 2018, and its share in public income fell from 65% in 2017 to 37% in 2018. The widening budget deficit, however, was contained by a significant increase in regular sources, which grew by 51% in 2018. The budget deficit thus fell from -8.5% of GDP in 2017 to -9.6% in 2018.

20. Major fiscal reforms, both on the expenditure and income sides, have led to a gradual reduction in Egypt's budget deficit. Over the past three years, the overall budget deficit has declined by three percentage points to 9.7% of GDP in fiscal year 2018. The new value-added tax (VAT) system, introduced in September 2016, has boosted tax income, while energy subsidy reforms and measures to reduce payroll have lowered spending as a proportion of GDP.

21. Government income in Libya for 2018 was nearly 36 billion Libyan Dinars (LYD), over 90% of which came from oil revenues (33.5 billion LYD). Public spending nearly reached LYD 40 billion. The Central Bank of Libya estimated the budget deficit at 5.8% of GDP. Given the current state of tensions and conflicts, priority is given to current subsidy and payment expenditures as large-scale reconstruction work, started in mid-2018, is almost at a standstill.

22. With a total of MRU 56.7 billion in 2018, Mauritania's budget income increased by 15% as compared to 2017; it was mainly driven by a 12.1% increase in tax revenues. Public expenditure rose from MRU 49.4 billion in 2017 to MRU 50.6 billion in 2018, a slight rise of 2.5%. Thus, as a result, the overall balance recorded a surplus of MRU 6.1 billion, or 3.3% of GDP, compared with an overall deficit of MRU 0.1 billion in 2017, which accounted for 0.1% of GDP.

23. Morocco's budget deficit widened from 3.5% to 3.7% of GDP. In addition to a decline in donations from Gulf countries, this is due to higher costs of the subsidy mechanism. Capital expenditure declined. Tax revenues improved by 4.2%, including increases in VAT and income tax revenues, as well as a decline in corporate income tax revenues.

24. Reforms undertaken by the Sudanese authorities during the 2012-2014 period were aimed at improving Sudan's public finances after the partition of South Sudan. The general public deficit stands at 3.1% of GDP in 2018. As such, it remains at a level that requires central bank financing, which generates more inflation. As the country has no access to international markets, it should also use concessional loans.

25. The final execution of the State budget for 2018 shows a final budget of 37.746 billion dinars, compared to 37.666 billion dinars planned in the supplementary Finance Law for 2018, i.e. a surplus of 80 million dinars for both income and expenditure. The budget deficit is thus 5.050 billion dinars, against 5.214 billion expected, or 4.8% of GDP. This is mainly due to a sharp rise in debt service and increases in civil service wages and salaries as well as subsidies to needy families.

3.3. Monetary policy and inflation[1]

26. Price control is still a major challenge for some North African economies. Indeed, Egypt, Libya and Sudan have double-digit inflation rates, albeit lower than in 2017 for the first two countries mentioned, but they remain high.

27. Price increases in Algeria were down in 2018, with an inflation rate of 4.27%, compared to 5.59% in 2017. The slowdown in annual average inflation is mainly due to a drop in inflation for manufactured goods prices. At the moment, monetary creation induced by the introduction of unconventional financing of the budget deficit does not yet seem to have had any impact on price increases. The Bank of Algeria resumed its open market operations to contain inflationary pressures and also raised the reserve requirement rate twice, from 4% to 8% on 15 January and then to 10% in June 2018. Excluding debt buybacks by the Treasury, loans to the economy increased by 13.77%, compared with 12.27% in 2017.

28. Egypt managed to cut its inflation rate by almost 2.5 percentage points, from 23.5% in 2017 to 20.9% in 2018. To obtain support from the International Monetary Fund (IMF), Egypt was required to set a fixed exchange rate, raise taxes and reduce subsidies for electricity, fuel and food products. The Egyptian pound depreciated sharply (by about 50%) after the November 2016 floating. To support the currency and contain inflation, the Central Bank raised the benchmark interest rate significantly (currently at 16.75%).

29. average annual inflation was 14.7%. Consumer prices fell, particularly in the last quarter of 2018, due to lower food prices. In addition, better stock management and currency allocation has led to a stronger Libyan dinar on the black market and lower import costs. However, the resurgence of internal conflicts in April 2019 resulted in shortages and a disruption of supply chains leading to inflationary pressures.

30. Inflation in Mauritania stood at 3.1% in 2018 compared to 2.3% in 2017. This increase is attributed to the increase in food prices, mainly in bread and cereals. Monetary policy was shaped by the reduction in November 2018 of the BCM's key interest rate, which had remained unchanged

[1] The high divergence in inflation rates between North African countries undercuts the usefulness of an average for the sub-region. Averaging was not performed for this section.

since November 2009, from 9% to 6.5%. This measure aims to promote bank refinancing in order to support economic recovery in a context of moderate inflation and declining bank liquidity.

31. Inflation in Morocco went from 0.7% to 1.9% in 2018. Higher food prices are the main cause. With regard to monetary policy, Bank Al-Maghrib kept its key policy rate unchanged at a historically low level. The Central Bank also continued to increase the volume of its weekly injections to meet the growing liquidity needs of the banking sector, mainly in connection with a sharp increase in banknote circulation. Despite the decline in lending rates benefiting businesses, growth in bank loans was limited, mainly as a result of low demand.

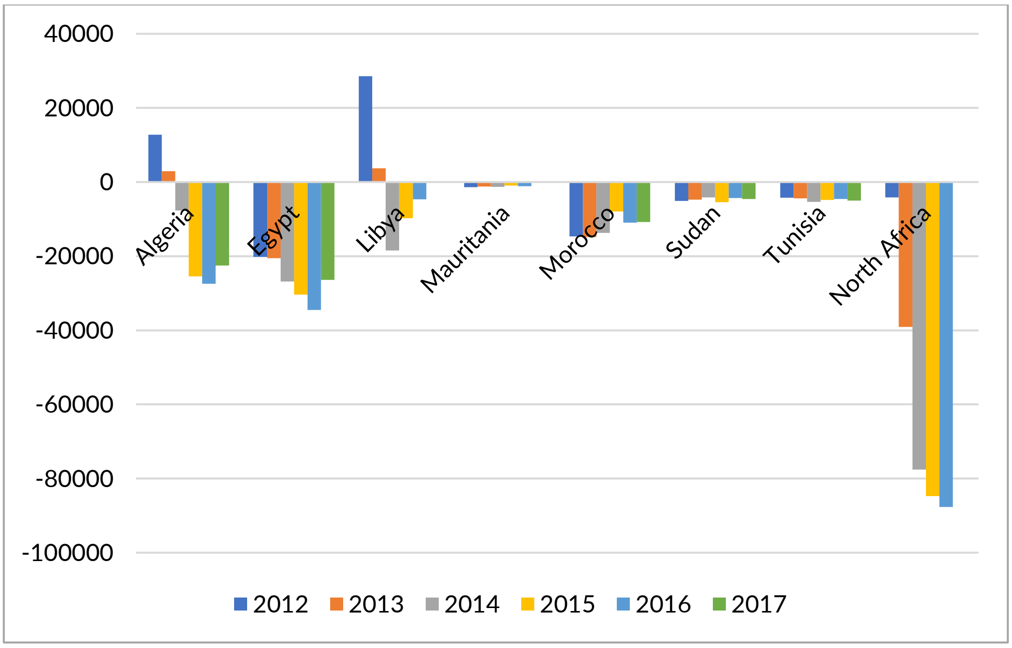
32. In Sudan, annual inflation increased to 61.8 per cent in 2018 from 32.4 per cent in 2017 due to policies aimed at stabilizing the local currency against foreign currencies and the policy to reduce subsidies. However, inadequate control of currency liquidity outside official channels and high levels of dollarization undermine the effectiveness of monetary policy. The government's financial needs and the current liquidity crisis will continue to require CBS to print money.

33. The inflation rate in Tunisia was 7.3% in 2018. The tightening of monetary policy in 2018, notably through an increase in the key interest rate, had an impact on lending to the economy. These measures were motivated by the resurgence of inflationary pressures and the widening current account deficit, which put more pressure on the country's foreign exchange assets and on the Dinar's exchange rate against key currencies. Nevertheless, the Central Bank has supported refinancing the economy through tenders, a return of banknotes and coins in circulation (BMC) to banks' cash registers and the repayment by the Treasury of short-term Treasury bills.

3.4. Current account

34. The sub-region's goods and services balance deficit expanded by 3.43% to US$87.6 billion in 2017, from US$84.7 billion in 2016[2].

Figure 2: Trade balance



Source: Author's calculation using UNCTAD database, UNCTADSTAT.

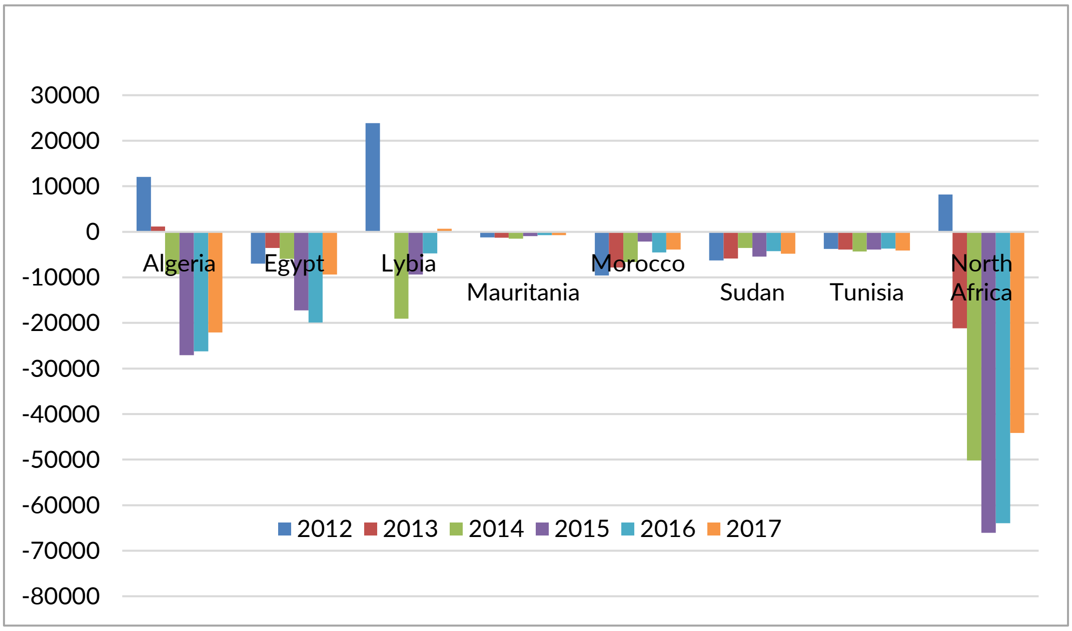
[2] The unavailability of data for Mauritania and Libya makes it impossible to calculate the consolidated trade balance of goods and services for the sub-region in 2018.

35. In 2018, North African countries, for which data are available, recorded negative trade balances with the rest of the world. Algeria, Egypt and Morocco experienced a relative improvement in their trade balances, with deficits falling by -17.8%, -23.3% and -1.8% respectively. The balances of Sudan and Tunisia showed a worsening of deficits (4.6% and 9.7% respectively) due to the effects of the political transition in Tunisia and the impact of the secession of South Sudan on the Sudanese economy.

36. The trend reversal observed in 2018 for hydrocarbon sales in net exporting countries as well as for food imports and the relative strength of trade in services did not substantially alter regional supply and demand fundamentals. These fundamentals remain largely dependent on trade in commodities (crude hydrocarbons, phosphates, iron, gold, copper, agricultural products). The persistent impact of ongoing political tensions since 2011 is proving to be a key factor in exacerbating the subregion's poor performance, given the results recorded for Libya, Egypt and, to a lesser extent, Tunisia.

37. In 2017, the deficit in the consolidated current account balance fell by 31% to USD 44.1 billion (from USD 63.9 billion in 2016). The combined effects of increasing Libyan and Algerian hydrocarbon exports, the relative stability of other commodity prices and improvements in the regional security environment in 2017 have helped to boost the sub-region's external position. Only Sudan and Tunisia experienced a 14.2% and 10.4% increase in deficits respectively.

Figure 3: Current account balances

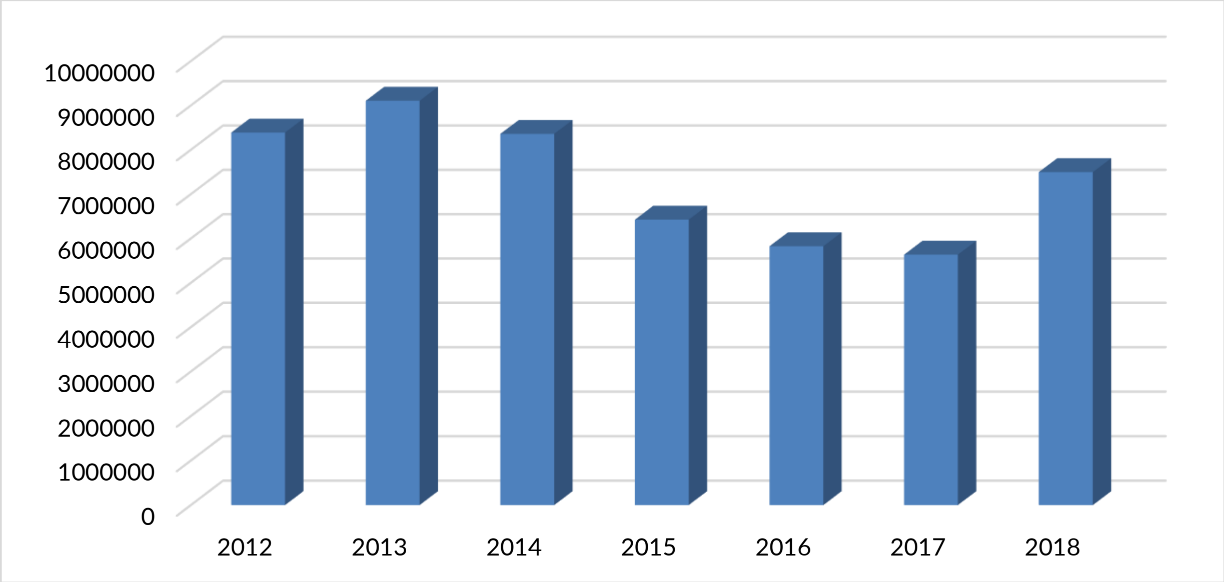


Source: National data; ECA/ACS; UNCTAD; EIU.

38. Intra-North African trade rebounded in absolute terms by more than 33% in 2018 compared to the previous year, from a volume of USD 5.63 billion to USD 7.50 billion. This good performance comes on the heels of four years of successive declines in intra-regional trade between 2013 and 2017. Trade between countries in the sub-region in 2017 was only 61% of its level in 2013 ($9 billion).

39. The surge in intra-North African trade has subsequently improved the sub-region's trade integration ratio, which rose from 5% in 2017 to 5.44% in 2018. Nevertheless, North Africa still remains one of the least integrated sub-regions of the continent.

Figure 4: Trends in intra-North African trade between 2012 and 2018



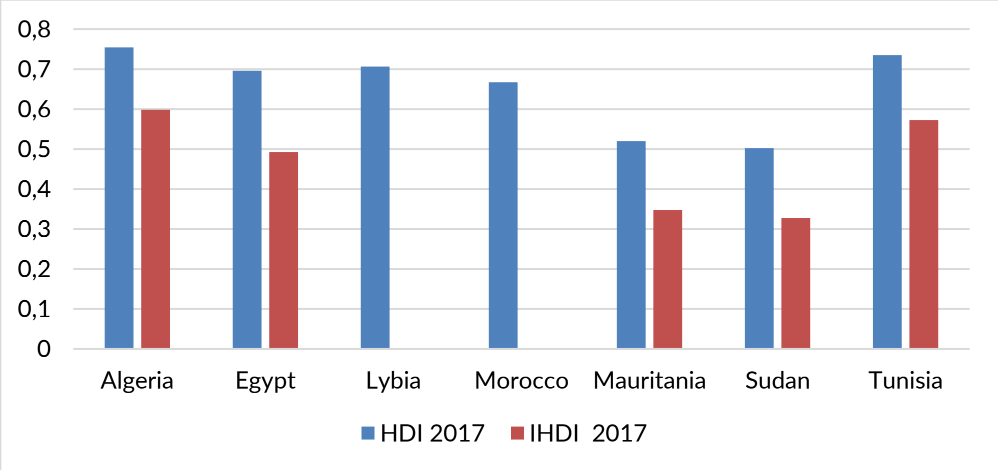
Source: UNCTAD.

4. Social and human development

4.1. Human development

40. The Human Development Index (HDI) shows that Algeria is the highest ranked country in North Africa (85th, HDI of 0.754) followed by Tunisia (95th HDI of 0.735). Libya's situation has deteriorated sharply since the 2011 unrest, from 64th place in the world in 2012 to 108th place in 2018. Next come Egypt (115th, HDI of 0.696) and Morocco (123rd, HDI of 0.667). Mauritania ranks 159th (HDI of 0.520) followed by Sudan 167th (HDI of 0.502).

Figure 5: Evolution of the HDI and IHDI in 2017



Source: Human Development Report, UNDP, 2018.

41. Inclusion of this Inequality Adjusted Human Development Index in three dimensions: health, education and standard of living points to a decline in all countries in the sub-region. This reflects a worrisome situation, especially with regard to economic inequalities, given that inequalities related to education and health have been significantly reduced over time.

4.2. The Gender Inequality Index (GII)

42. Another type of inequality that is detrimental to the sub-region's development is gender inequality reflected in the Gender Inequality Index (table below), which indicates women's disadvantage in three areas: health (maternal mortality), living standards and employment (the proportion of women in the workforce) and participation in decision-making (seats held by women in national parliaments). This index was created by the United Nations to assess the gender gap in the distribution of progress and to estimate the loss of human development due to unequal treatment of men and women.

Gender Inequality Index (GII)

	GII	Global ranking
Algeria	0,442	100
Egypt	0,449	101
Libya	0,170	38
Morocco	0,482	119
Mauritania	0,617	147
Sudan	0,564	139
Tunisia	0,298	63

Source: Human Development Report 2018, UNDP.

43. Significant progress has been made in gender-specific social indicators (especially girls' education and reproductive health), while progress on women's empowerment (including economic and political participation) has not followed a similar trend. Indeed, the significant progress made by women in education and fertility reduction has not been reflected in the marketplace and in the political and decision-making sphere. The two countries in which inequality reduction has been most significant are Libya and Tunisia, notably through significant investments in girls' education and reproductive health. It should be noted that Libya ranks first when it comes to reducing inequalities. Before 2011, the country had made major strides to improve the situation of women in the country. Nevertheless, the current crisis raises fears of a serious setback in this area.

4.3. The Multidimensional Poverty Index (MPI)

44. Income poverty in North Africa fell sharply between 1990 and 2015 from 14% to 5% in Algeria, from 15% to less than 5% in Morocco, from 51% to 31% in Mauritania, from 46.5% to 36.1% in Sudan and from 25% to 15.2% in Tunisia. In Libya, poverty, estimated at 1.4% of the total population in 2010, has been virtually eradicated but is now on the rise as a result of the security crisis that has been raging in the country since 2011.

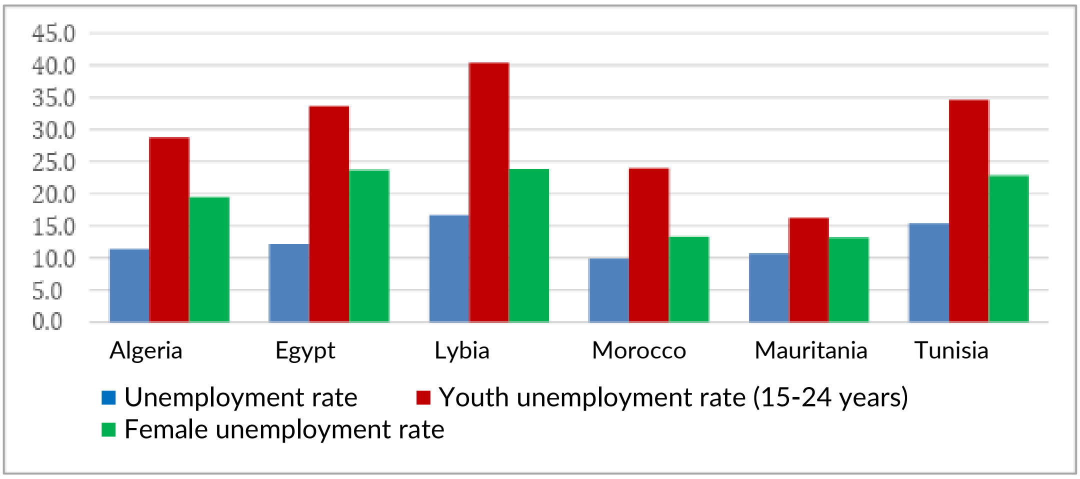
45. Beyond this income poverty, the Multidimensional Poverty Index (MPI), which also takes into account other human development dimensions (health, education, and standard of living) of poverty, reflects the overlap of deprivation at the household level based on 10 deprivation and inequality indicators, such as education and schooling, food, child mortality, goods and access to some basic services.

46. For a number of countries, the list of indicators is not complete and available data are from different surveys spread over time, which calls for caution when comparing countries. Nevertheless, taking into account the multidimensional scope of poverty based on household deprivation is a more appropriate approach to the concept of sustainable human development.

4.4. Employment trends

47. The issue of employment and in particular youth and women's unemployment continue to be a key concern of the development policies in the countries of the sub-region.

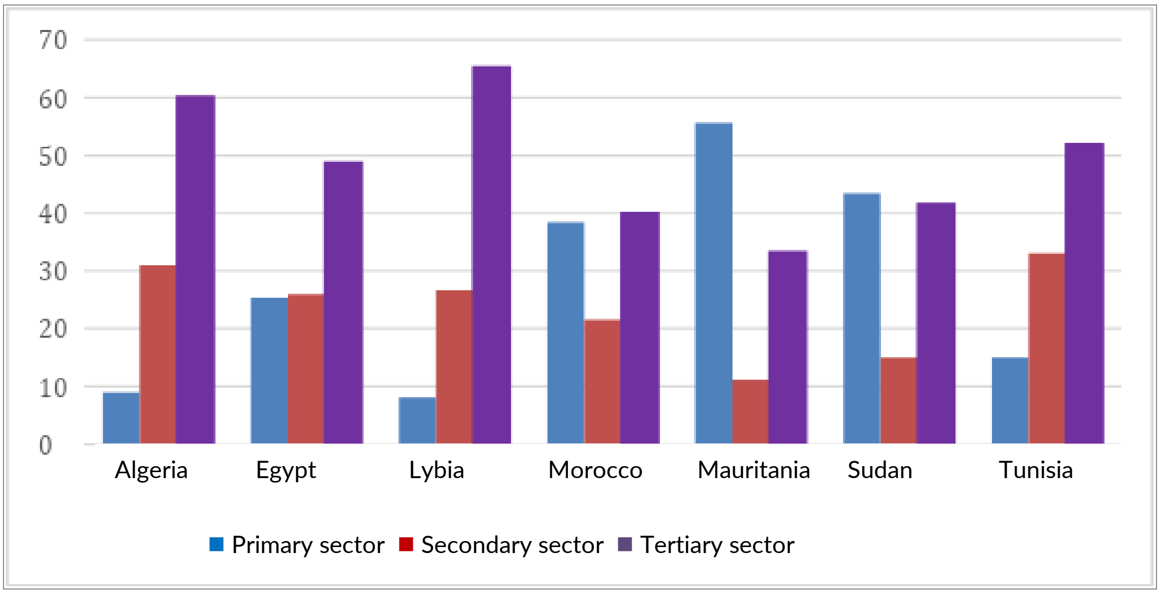
Figure 6: Average unemployment rate between 2015 and 2018



Source: ECA country profile, data from the National Statistical Offices and the ILO.

48. The unemployment rate is structurally high in all countries of the sub-region, averaging more than 10% between 2015 and 2018, with peaks at 16.7% in Libya and 15.4% in Tunisia. Young people aged 15 to 24 and women are particularly hard hit by unemployment with rates almost double, sometimes triple the national level.

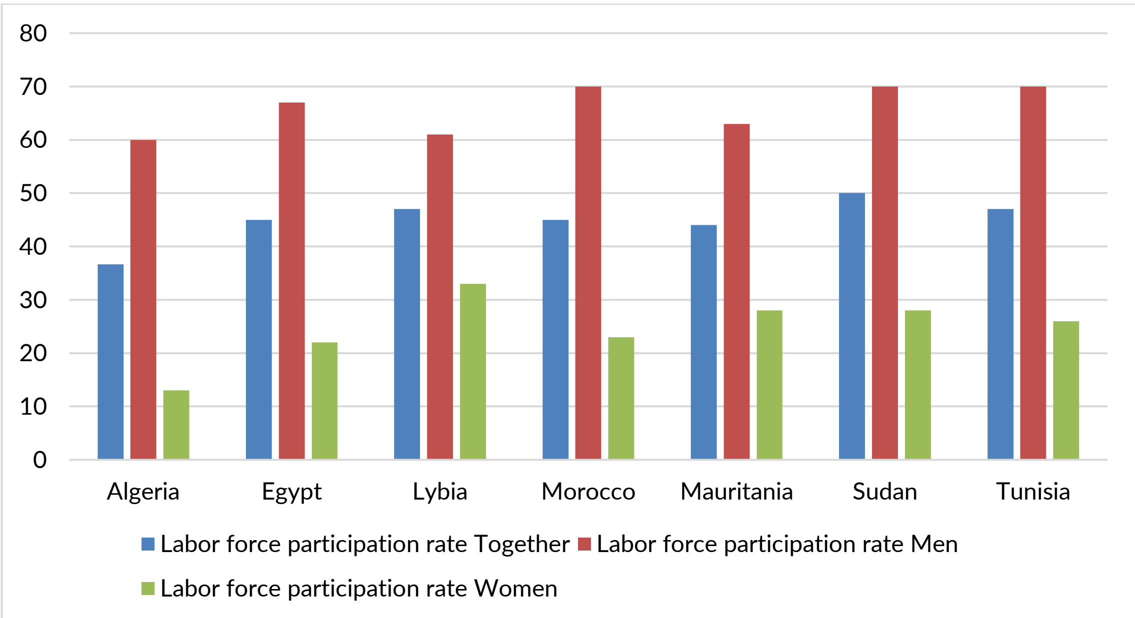
Figure 7: Distribution of employment by sector (Average 2015-2018)



Source: Data from the National Statistical Offices and the ILO.

49. As to the distribution of employment by sector of activity, the tertiary sector is clearly the largest provider of work in Algeria, Egypt, Libya and Tunisia. In Morocco and Sudan, the tertiary sector is in competition with the primary sector. While in Mauritania, the primary sector is clearly ahead of other sectors. In terms of employment prospects, agricultural processing and modernization and resource-based industrialization are sectors that can significantly contribute to the creation of value added and employment opportunities in countries.

Figure 8: Labor force participation rate



Source: Data from the National Statistical Offices and the ILO.

50. Labor force participation rate is relatively low in the sub-region, under 50%, as compared to a global average of 61%. This low participation rate combined with the onset of population ageing poses a number of challenges for a number of countries in the sub-region. This notably involves work organization and the allocation of resources through existing pension systems, which will be put to a severe test. Indeed, declining fertility and longer life expectancy are expected

to increase the share of the population aged 60 and over (of retirement age) in the dependency ratio compared to the working population (24 to 49 years) and thus threaten the financial balance of pension funds.

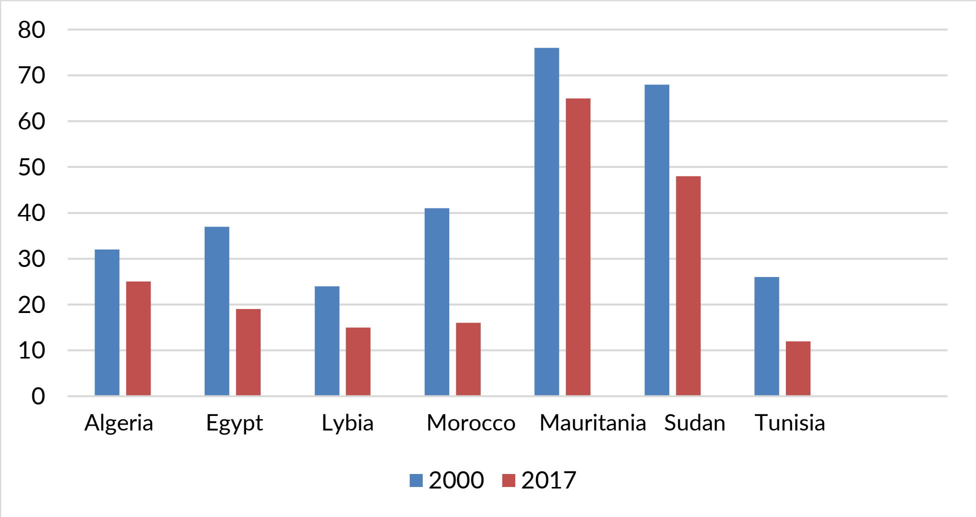
51. In addition, North African countries have the lowest female labor force participation rates, while girls are increasingly educated. Among the many explanatory factors, three are of particular relevance: cultural constraints and the patriarchal structure of society; the predominance of public jobs and limited employment in the private sector; and a business environment that excludes women because of a traditionalist view of their role in society. Promoting young women's participation in the formal sector can be an additional means of contributing in the short term to increasing the value created in countries, but also to promoting contributions to pension funds.

4.5. Health

4.5.1. Trends in infant and child mortality

52. One area in which all countries in the sub-region have made significant efforts is health, resulting in a decrease in the number of deaths of children under five years of age. Between 1990 and 2018, child mortality was halved in Algeria, reduced by a factor of 4.5 in Egypt, 2.8 in Libya, 3.5 in Morocco, 2 in Mauritania and Sudan and 4.3 in Tunisia.

Figure 9: Number of deaths of children under five years of age per 1000 births



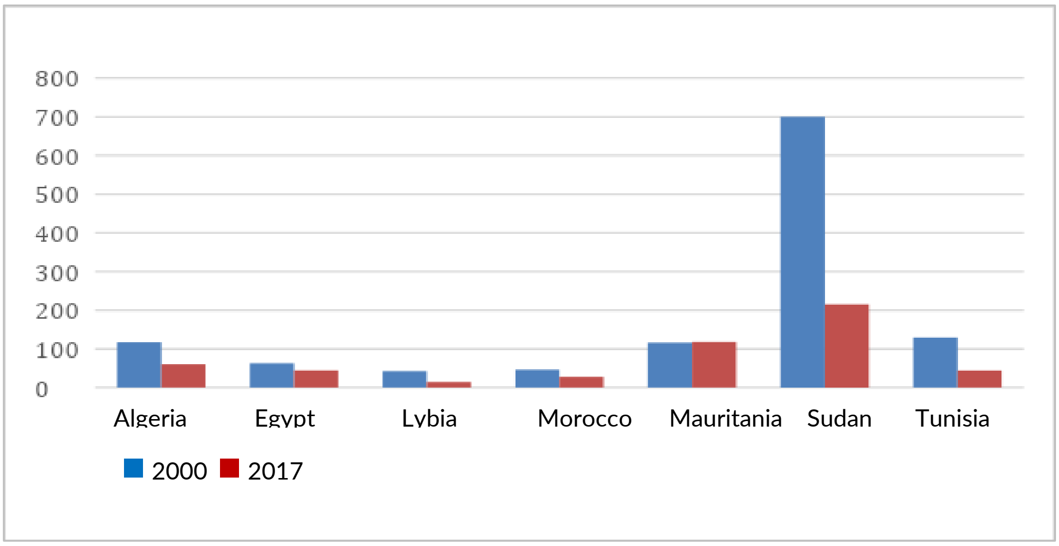
Source: Data from national statistical offices, UNICEF, WHO.

53. The leading cause of death among children under 5 years of age remains infectious diseases such as diarrhea and acute respiratory infections.

4.5.2. Trends in maternal mortality

54. Although countries have made significant efforts to promote maternal health and births are increasingly taking place in assisted settings, maternal mortality remains a major health sector concern in some countries in the sub-region. Maternal mortality is also characterized by large territorial disparities at the country level. Deaths are higher in rural areas, which generally suffer from insufficient availability of maternal health services compared to urban areas.

Figure 10: Number of deaths per 100,000 live births

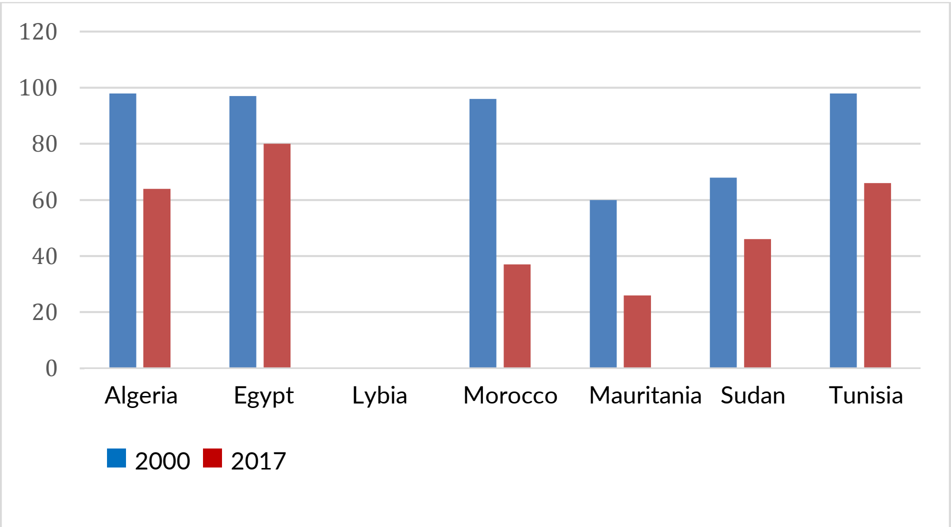


Source: WHO, UNICEF, data from national statistical institutes.

4.6. Education

55. All countries in the sub-region have significantly improved the quantitative aspects of their education systems, such as enrollment rates at the primary, secondary and higher levels. However, these quantitative advances have not been associated with an improvement in the quality of education, particularly with regard to the relevance of training to the needs of the job market.

Figure 11: Net enrollment rates



Sources: UNICEF and UNECSCO - Data not available for Libya.

56. Recognizing this problem, countries are now placing reforming their education systems at the heart of their development policies. For example, the Vision 2030 Sustainable Development Strategy in Egypt; the 2016-2030 Accelerated Growth and Shared Prosperity Strategy in Mauritania; the 2015-2030 Education Reform in the 2015-2030 Strategic Vision in Morocco; the 3rd Development Plan (2017-2020) in Sudan; and the White Paper on the Reform of the Tunisian Education System. These all aim to improve the quality of training to better match the needs of the economy. Apart from a weak economic fabric in terms of job creation, the other factor explaining youth unemployment, particularly at university level, is the inadequacy of university training in relation to labor market demand ■