United Nations
Economic Commission for Africa

ECA/SRO-NA/ICSOE/39/3[*]
ECA/SRO-WA/ICSOE/27/3[*]
Distr.: General
21 August 2024

Original: English

Subregional Office for North Africa
Intergovernmental Committee of Senior Officials and Experts for North Africa
Thirty-ninth session

Subregional Office for West Africa
Intergovernmental Committee of Senior Officials and Experts for West Africa
Twenty-seventh session

Third joint session
Rabat (hybrid), 19–21 November 2024
Item 5 of the provisional agenda[**]
Recent economic and social conditions in North and West Africa: review of subregional profiles

Socioeconomic development landscape: North Africa subregional profile

2023–2024

[*] Reissued for technical reasons on 8 November 2024.
[**] ECA/SRO-NA/ICSOE/39/1–ECA/SRO-WA/ICSOE/27/1.

A.24-00896 (E)

Introduction

1. Despite recovering in 2021, economic growth in North Africa has been in decline for two consecutive years, slowing from 4.3 per cent in 2022 to 2.1 per cent in 2023. The decline has been driven by lower oil production, tight policy settings and, most important, the numerous challenges that have beset the economies of the subregion. The ongoing conflict between the Russian Federation and Ukraine and the repercussions of the war in the Sudan have led to a marked decline in economic growth in the subregion overall in 2023, driven in particular by a contraction of 37.5 per cent of real gross domestic product (GDP) in the Sudan.[1]

2. Natural disasters, such as floods in Libya and an earthquake in Morocco, have had a significant impact on human and physical infrastructure. The impact of climate change, in particular drought, has further exacerbated the challenges, undermining efforts to control inflation. Morocco and Tunisia have faced consecutive years of low rainfall, which is undermining food security. Furthermore, the ongoing conflict in the Gaza Strip has directly affected Egypt economically, given its geographical proximity and historical trade relations.

3. Prior to those geopolitical tensions, North Africa was already facing substantial fiscal burdens caused by the global pandemic, which had resulted in increased debt levels across the subregion. The conflict between the Russian Federation and Ukraine has disrupted global supply chains, driving up food and energy prices, tightening financing conditions and heightening debt vulnerabilities in many North African countries. With an escalating civil war, the Sudan is caught in an unsustainable debt spiral and a multifaceted crisis. Egypt and Tunisia are facing severe financial difficulties, including the depreciation of local currency, dwindling foreign exchange reserves and mounting fiscal pressures, which are pushing the countries towards significant debt difficulty.

4. Libya, however, has recorded notable improvements in its liquidity and balance of payments, benefiting from increased oil production and stabilizing international oil prices in 2023. In addition, Mauritania has seen positive economic results, with its iron ore and gold exports benefiting from heightened demand and elevated global prices in 2023.

5. The economic outlook for North Africa remains uncertain in 2024, with the ongoing conflict in the Sudan and continued global geopolitical tensions exerting a significant influence. The present report is focused on the socioeconomic trends that will characterize the period 2023–2024 and includes an examination of the impact of fluctuations in commodity prices and global monetary tightening on North African economies. In addition, the report provides an overview of selected social indicators, with a focus on unemployment.

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[1] African Development Bank, *African Economic Outlook 2024: Driving Africa's Transformation – the Reform of the Global Financial Architecture* (Abidjan, 2024).

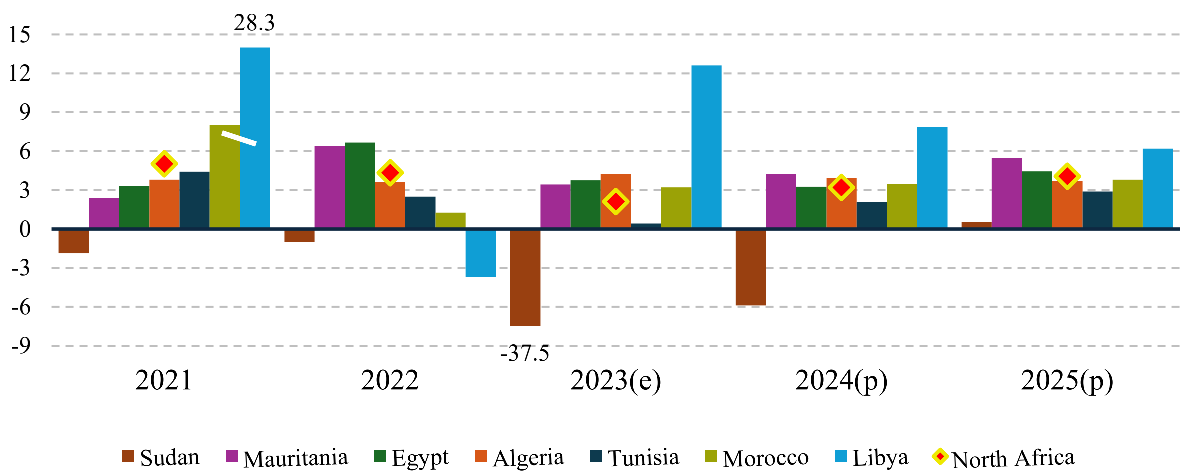
I. Macroeconoic performance and outlook

A. Growth potential constrained by ongoing conflicts

6. Economic growth in North Africa has been on a downward trend for two consecutive periods and will remain volatile in the coming years.[2]

7. Following a strong recovery in 2021 in the wake of the coronavirus disease (COVID-19) crisis, when it rose to 5 per cent, real economic growth in North Africa declined by around 2.9 percentage points between 2021 and 2023. Economic growth slowed from 4.3 per cent in 2022 to 2.1 per cent in 2023, as shown in figure I. The ongoing conflict in the Sudan continues to destabilize economic activity and has ramifications for the entire subregion. Growth estimates for North Africa excluding the Sudan fell from 4.6 per cent in 2022 to 4.1 per cent in 2023. Several factors have contributed to the slowdown in economic growth in the subregion, including: the enduring impact of the war between the Russian Federation and Ukraine; tightening global supply chains; high food and energy prices; weak global demand affecting exports; the conflict in the Sudan; the war in the Gaza Strip; and the effects of climate change on agriculture and power generation. In addition, the slowdown has been exacerbated by economic fragility, political instability and depreciating exchange rates.

Figure I
Economic growth in North Africa, 2021–2025
(Percentage of annual gross domestic product)



Source: ECA, based on African Development Bank, *African Economic Outlook 2024*.
Note: Representation of growth rates in Libya and the Sudan for 2021 and 2023, respectively, is truncated.

[2] Unless otherwise indicated, the analysis in this section is based on African Development Bank, *African Economic Outlook 2024*, and African Development Bank, Statistical Data Portal, available at https://dataportal.opendataforafrica.org/mhuiccf/african-economic-outlook-2024.

8. Excluding the Sudan, the growth rate in North Africa declined from 4.6 per cent in 2022 to 4.1 per cent in 2023. The slowdown has been exacerbated by the tightening of monetary policies, the objective of which has been to reduce inflation. The real GDP growth rate in North Africa is projected to increase by 1.1 percentage points to 3.2 per cent in 2024, thanks to an expected reduction in the economic decline in the Sudan and to the recovery of growth in Egypt and Mauritania. The relative improvement is anticipated to continue in 2025, with a projected growth rate of 4.1 per cent. Despite the favourable outlook for the economies of the subregion, the growth in 2025 is expected to be below that of 2023, owing to the ongoing impact of the aforementioned factors. Despite the upward revision of the growth forecast for the near term, the evolving conflict in the Sudan is likely to exert a significant drag on average growth in North Africa.

9. In 2023, the economic performance of North African countries varied considerably. The Sudan experienced a severe economic contraction of 37.5 per cent, as result of the ongoing conflict in the country, which contrasts starkly to the contraction of 1.0 per cent in 2022. Growth decelerated in Mauritania from 6.4 per cent in 2022 to 3.4 per cent in 2023, primarily as a result of a reduction in public investment and a slowdown in exports. In Egypt, growth declined from 6.7 per cent in 2022 to 3.8 per cent in 2023, as a consequence of disruptions in global supply chains and regional conflicts. Tunisia recorded minimal growth of 0.4 per cent in 2023 compared with 2.4 per cent in 2022, reflecting a decrease in investment and exports amid tightened financial conditions. There was a robust recovery in Libya, where, following a recession in 2022, there was growth of 16.3 percentage points in 2023, driven by increased production and high oil prices. There was a notable acceleration in Morocco, where growth reached 3.2 per cent in 2023, compared with 1.3 per cent in 2022, which was attributed to a recovery in domestic demand and favourable rainfall. Algeria demonstrated resilience in maintaining growth at 4.2 per cent in 2023, which was an increase from 3.6 per cent in 2022, driven by the hydrocarbon sector, despite the impact of cuts to oil production quotas by the Organization of the Petroleum Exporting Countries (OPEC).

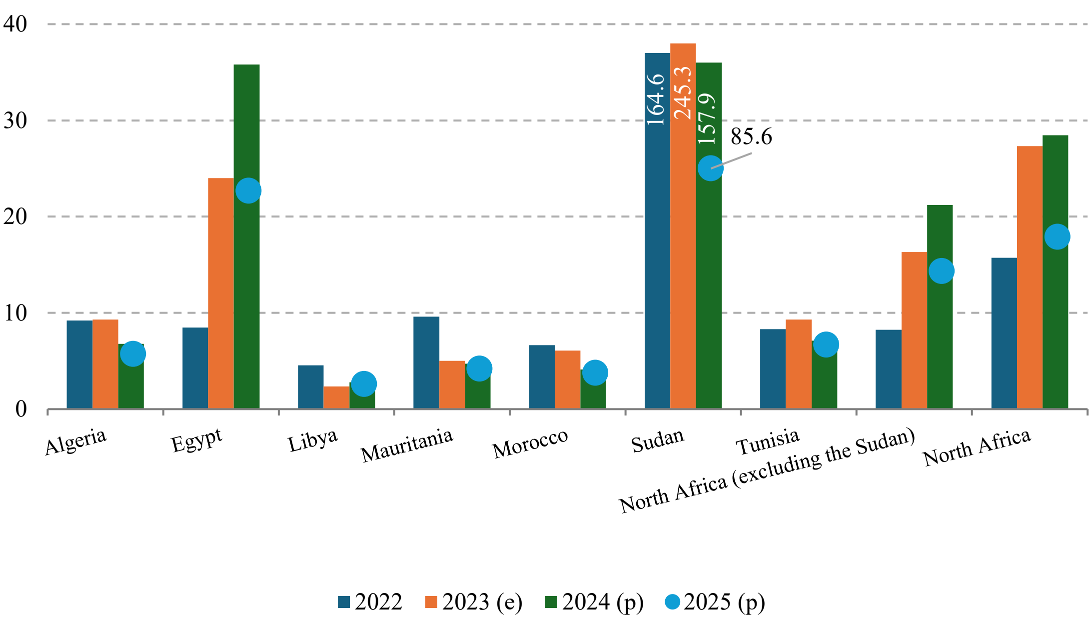
10. Looking ahead to 2024 and 2025, the Sudan is expected to recover significantly, with an improvement of 31.6 percentage points in 2024, reaching 0.5 per cent growth in 2025, contingent upon the resolution of internal conflicts and regional tensions. Growth in Mauritania is anticipated to average 4.2 per cent in 2024 and accelerate to 5.5 per cent in 2025, driven by gas production and increased investment. A gradual recovery is expected in Egypt, with growth rebounding to 4.5 per cent in 2025 supported by increased investment, consumption and exports. Growth of 2.1 per cent in 2024 and 2.9 per cent in 2025 is forecast in Tunisia as a result of anticipated economic reforms. Growth in Libya is expected to moderate to 7.9 per cent in 2024 and 6.2 per cent in 2025, owing to ongoing political instability. Stable growth is projected in Morocco, with GDP expected to reach 3.8 per cent in both 2024 and 2025. In Algeria, GDP growth is projected to slow to 4.0 per cent in 2024 and 3.7 per cent in 2025, supported by public spending initiatives amid adjustments to oil production quotas.

B. Persistently high inflation

11. Inflation remains very high and continues to weigh on the economies of North Africa, in particular in view of the persistence of price shocks and the continuing war in the Sudan.

12. As shown in figure II, in 2023, average consumer price inflation in North Africa surged by 11.6 percentage points to 27.3 per cent, up from 15.7 per cent in 2022, largely influenced by severe inflationary pressures in the Sudan. Excluding the Sudan, inflation reached 16.3 per cent in 2023, compared with 8.2 per cent in 2022. The rise reflects higher local food prices due to drought-induced supply shortages and currency depreciation against a robust United States dollar, which was driven by elevated interest rates in the United States of America. Over the period 2022–2023, inflation intensified in four countries, notably reaching double-digit rates in Egypt and the Sudan. In 2024, inflation is expected to remain high at 28.4 per cent (21.2 per cent excluding the Sudan), with continued upward pressure expected in Egypt and persistently high levels anticipated in the Sudan, owing to the ongoing conflict.

Figure II
Annual inflation rates in North Africa, 2022–2025
(Percentage)



Source: ECA, based on African Development Bank, *African Economic Outlook 2024*.

13. In 2023, inflation across North African countries varied and was influenced by local and global factors. The Sudan faced severe inflation of 245.3 per cent, exacerbated by ongoing conflict and currency depreciation. In Egypt, inflation surged to 24.0 per cent, driven by disruptions in the global cereal market, the energy crisis and the depreciation of the Egyptian pound. At 9.3 per cent, Algeria and Tunisia experienced moderate inflation. Mauritania and Morocco recorded declines to 5.0 and 6.1 per cent, respectively, supported by improved agricultural conditions, despite such challenges as drought. Libya maintained low inflation at 2.4 per cent, benefiting from stable domestic supply and prudent monetary policies.

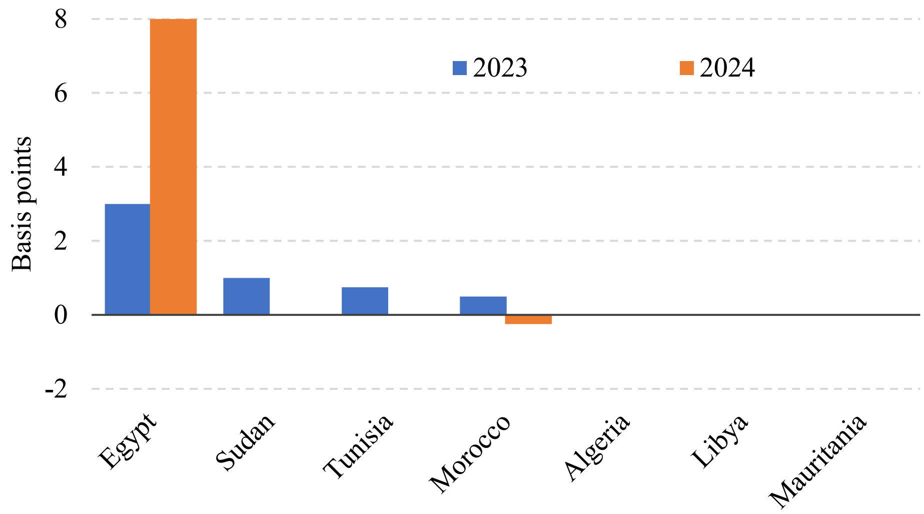
14. In 2024 and 2025, inflation is predicted to reduce significantly in the Sudan, to 157.9 and 85.6 per cent, respectively, depending on economic and political stabilization efforts. Inflation is expected to remain high in Egypt at 35.8 per cent in 2024, easing to 22.7 per cent in 2025, whereas declines are anticipated in Tunisia and Algeria, to 7.1 and 6.8 per cent in 2024, followed by 6.7 and 5.7 per cent in 2025, respectively. Stability is forecast in Mauritania, at 4.7 and 4.2 per cent in those two years, and a decrease is expected in Morocco, to 4.1 and 3.8 per cent, respectively. A stable inflation outlook is forecast in Libya, at around 2.8 per cent in 2024 and 2.6 per cent in 2025, supported by consistent monetary policies and global market conditions.

C. Monetary policy

15. The ongoing conflict between the Russian Federation and Ukraine continues to exert significant pressure on international financial conditions, leading to persistent inflationary pressures and currency depreciation across North Africa, which in turn affects debt servicing and weakens the economies in the subregion. These effects are shown in figures III and IV.

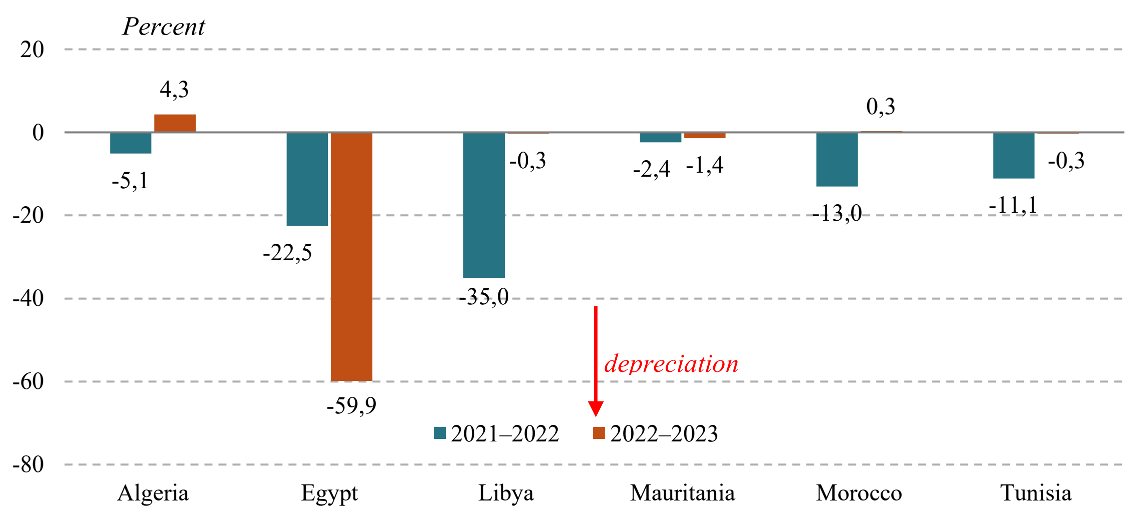
16. The Central Bank of Egypt raised its key rate by 3 percentage points from January to December 2023, reaching 19.25 per cent by the end of the year. Amid soaring prices and a depreciation of the Egyptian pound, the rate was further increased to 27.25 per cent by May 2024, a rise of 8 percentage points, which underscores the severity of the economic crisis in the country. The Egyptian pound depreciated by 59.67 per cent against the dollar in 2023. In the Sudan, however, after fluctuations in 2022, the policy rate increased marginally, by 1 percentage point between January and May 2023, stabilizing at 27.30 per cent. The country remains highly volatile, owing to ongoing internal conflict, with the Sudanese pound depreciating sharply, losing at least 50 per cent of its value, and inflation remaining persistently high.

Figure III
Change in monetary policy rate of North African countries in 2023 and 2024
(Basis points)



Source: 2023 data from FocusEconomics, policy interest rate data, available at https://www.focus-economics.com/economic-indicator/policy-interest-rate/; 2024 data from Trading Economics, available at https://tradingeconomics.com/.

Figure IV
Change in exchange rates of national currencies with the United States dollar, over the periods 2021–2022 and 2022–2023 (Percentage)



Source: ECA, based on African Development Bank socioeconomic database, available at https://dataportal.opendataforafrica.org/nbyenxf/afdb-socio-economic-database-1960-2022.

17. In Tunisia, the key interest rate rose slightly, from 7.25 per cent at the end of 2022 to 8 per cent by 31 January 2023, where it remained unchanged throughout the rest of the year. Despite such challenges as low rainfall, inflation was managed effectively, and the local currency depreciated by only 0.32 per cent against the dollar over the period 2022–2023. In Morocco, the central bank's key rate increased modestly, by 0.5 percentage points in early January 2023, reaching 3 per cent by May. Recognizing the lower levels of inflation in 2023 and appreciation of the local currency against the dollar by 0.3 per cent, the central bank subsequently reduced the key rate by 0.25 percentage points to 2.75 per cent in June 2024.

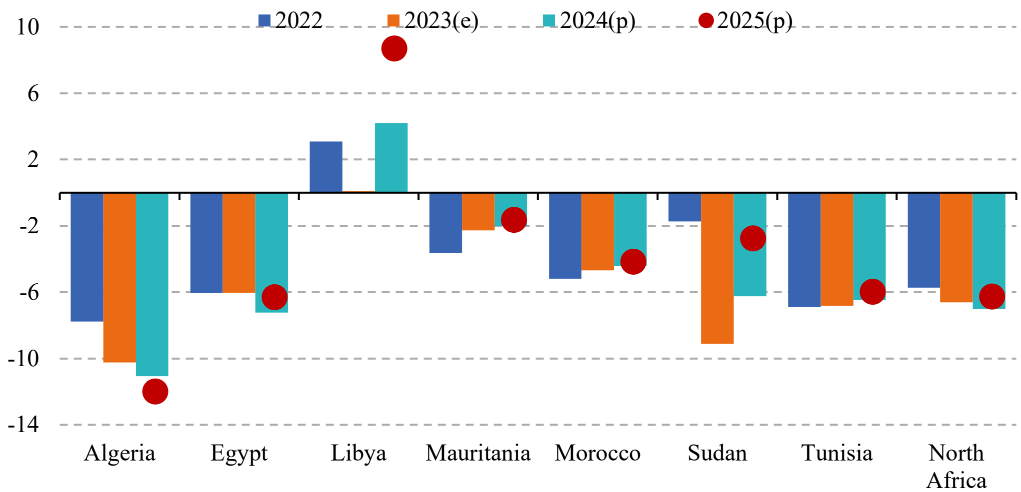
18. The central banks of Algeria, Libya and Mauritania kept their key interest rates unchanged throughout 2023, aiming to stimulate investment and economic activity in their respective countries. In 2023, the Algerian dinar depreciated by 4.3 per cent against the dollar, the Libyan dinar depreciated by 0.28 per cent and the ouguiya by 1.4 per cent, reflecting stable or minor currency devaluations.

D. Widening fiscal deficit

19. The fiscal deficit widened in 2023 in North Africa, given the persistence of shocks, but remains lower than the deterioration observed following the COVID-19 crisis.

20. As shown in figure V, the average fiscal deficit in North Africa widened by 0.9 percentage points in 2023, increasing from 5.7 per cent of GDP in 2022 to 6.6 per cent of GDP. With economic uncertainties persisting, exacerbated by crises in Egypt, the Sudan and Tunisia, a further increase is anticipated in the fiscal deficit of North Africa to 7 per cent of GDP in 2024, before a slight reduction to 6.3 per cent in 2025. The projections indicate a higher deficit compared with 2022 levels, reflecting the ongoing fiscal pressures and economic instability across the subregion.

Figure V
Fiscal balances in North Africa, 2022–2025
(Percentage of gross domestic product)



Source: ECA, based on African Development Bank, *African Economic Outlook 2024*, and African Development Bank, Statistical Data Portal.

21. In 2023, North African countries faced significant fiscal challenges influenced by both internal and external factors. The fiscal deficit in Algeria widened to 10.2 per cent of GDP, driven by increased spending on civil service wages and pensions, despite modest revenue growth and slight declines in oil tax income. The Sudan experienced a sharp deterioration in its fiscal position, with the deficit expanding to 9.1 per cent of GDP from 1.7 per cent in 2022, amid lower tax revenues and high inflation, owing to the ongoing conflict in the country. Tunisia managed to stabilize its fiscal deficit at 6.8 per cent of GDP despite economic shocks, although risks remained from substantial public sector expenditures and consumer subsidies. Libya maintained a modest fiscal surplus of 0.1 per cent of GDP, down from 3.1 per cent in 2022, owing to lower global oil prices and the prioritization of current expenditures over public investments. By contrast, Mauritania narrowed its fiscal deficit to 2.3 per cent of GDP from 3.6 per cent in 2022, supported by higher tax revenues and reduced investment spending amid global economic uncertainties. Morocco reduced its fiscal deficit to 4.7 per cent of GDP, down from 5.2 per cent in 2022, through effective revenue management and subsidy adjustments, benefiting from economic recovery efforts. Egypt stabilized its fiscal deficit at 6.0 per cent of GDP, with a slight improvement from the previous year, supported by increased tax revenues and a higher primary surplus, although challenges persisted from rising debt service payments and inflationary pressures.

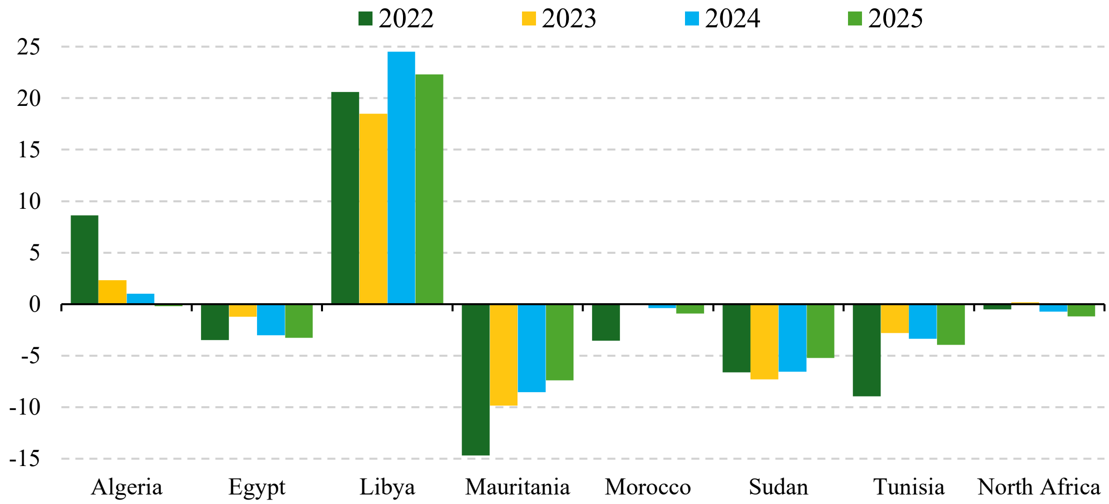
22. In 2024 and 2025, the fiscal balance outlook varies across North African countries. In Algeria, a further widening of the fiscal deficit to 11.1 per cent in 2024 and 12 per cent in 2025 is anticipated, driven by potential declines in hydrocarbon revenues amid stabilized oil prices and OPEC production cuts. In the Sudan, the fiscal deficit is expected to narrow gradually to 6.3 per cent in 2024 and 2.8 per cent in 2025, contingent on improved economic conditions and stabilization efforts amid ongoing political and economic challenges. A reduction is forecast in the fiscal deficit of Tunisia, to 6.5 per cent of GDP in 2024 and 6.0 per cent in 2025, focusing on fiscal consolidation measures despite persistent pressures from public sector wages and subsidies. A fiscal surplus of 4.2 per cent of GDP in 2024 and 8.7 per cent in 2025 is expected in Libya, driven by anticipated increases in hydrocarbon revenues following the stabilization of global oil prices and production. In Mauritania, the fiscal deficit is expected to improve to 2.0 per cent of GDP in 2024 and 1.6 per cent in 2025, benefiting from enhanced revenue streams and disciplined expenditure management. Gradual reductions in the fiscal deficit of Morocco are forecast, to 4.4 per cent of GDP in 2024 and 4.2 per cent in 2025, supported by ongoing economic recovery efforts and prudent fiscal policies. Egypt faces continued challenges, with a fiscal deficit expected to stabilize around current levels in 2024 and 2025, amid ongoing efforts to manage debt service obligations and inflationary pressures.

E. Notable external surplus with persisting uncertainties

23. North Africa posted an external surplus in 2023, but uncertainties persist, owing to falling global demand, the stabilization of oil cuts, and high food and energy prices weighing on commodity importers. The easing of energy prices is expected to reduce oil revenues for oil-exporting countries, such as Algeria and Egypt, posing risks to their fiscal positions.

24. The current account of the subregion is estimated to have been in a surplus of 0.2 per cent of GDP in 2023, which is a turnaround from the deficit of 0.5 per cent recorded in the previous year. The surplus was driven by the gains from net oil exports in Algeria and Libya, and corrective measures aimed at restoring external balances following the severe contractions during the peak of the COVID-19 pandemic and the war between the Russian Federation and Ukraine. Despite improvements in 2023 in the current account deficits in four of the seven countries of the subregion – Egypt, Mauritania, Morocco and Tunisia – North Africa had an external surplus of 0.2 per cent of GDP, which is expected to decline to deficits of 0.7 per cent in 2024 and 1.2 per cent in 2025, respectively. The deficits stem from ongoing economic uncertainties, the prolonged war between the Russian Federation and Ukraine, crises in specific countries of the subregion and downward trends in oil prices, which affect several countries that rely on oil exports. Trends in countries' current accounts are shown in figure VI.

Figure VI
Current accounts in North Africa, 2022–2025
(Percentage of gross domestic product)



Source: ECA, based on African Development Bank, *African Economic Outlook 2024*, and African Development Bank, Statistical Data Portal.

25. In 2023, Libya maintained a strong external position, despite a slight decline to 18.5 per cent of GDP from 20.6 per cent in 2022, influenced primarily by lower oil prices. The current account surplus in Algeria decreased to 2.3 per cent of GDP from 8.6 per cent in 2022, reflecting reduced hydrocarbon export volumes. The current account in Morocco improved slightly to a surplus of 0.1 per cent of GDP,[3] benefiting from increased tourism and remittances. Tunisia made significant progress by reducing its current account deficit by 6.1 percentage points, driven by lower imports and resilient exports. The deficit in Mauritania narrowed to 9.8 per cent of GDP, owing to higher export values and reduced imports. In Egypt, the deficit improved to 1.2 per cent of GDP, with boosts from tourism and revenues from the Suez Canal. The Sudan faced challenges with a widened current account deficit of 7.3 per cent of GDP, exacerbated by political instability affecting exports.

26. In 2024 and 2025, Libya anticipates a strengthened external position of 24.5 and 22.3 per cent GDP, respectively, supported by stabilized oil prices and increased production. Algeria expects a surplus of 1.0 per cent of GDP in 2024 but foresees a slight deficit of 0.2 per cent of GDP by 2025 as export challenges persist. Morocco and Tunisia are projected to face widening deficits, owing to trade imbalances and external pressures. Mauritania aims to continue improving its deficit, to 8.5 per cent and 7.4 per cent of GDP, respectively, driven by new gas production and stabilized energy prices. The deficit in Egypt is expected to rise to 3.0 per cent in 2024 and 3.2 per

[3] African Development Bank, Statistical Data Portal.

cent in 2025, influenced by regional crises impacting trade. The Sudan anticipates gradual improvements, with deficits shrinking to 6.5 per cent and 5.2 per cent of GDP, contingent on stabilizing political conditions and global economic recovery efforts. The projections highlight the diverse economic challenges and opportunities across North African countries, which are shaped by a reliance on commodities, tourism and external trade dynamics.

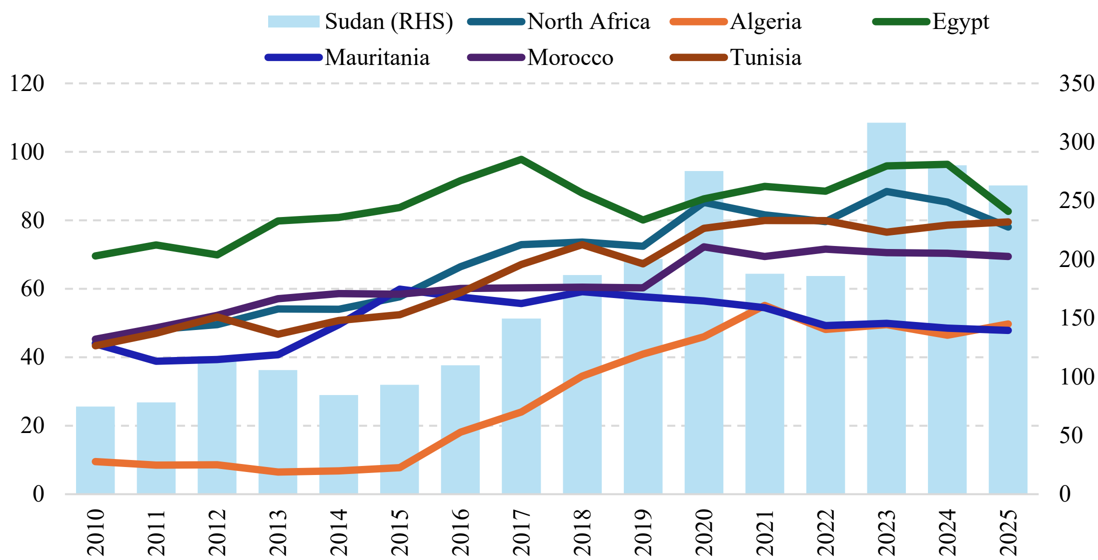
F. Concern caused by sovereign debt dynamics

27. Total sovereign debt dynamics remain a cause for concern in several North African countries, given the persistent vulnerabilities of the subregion.[4]

28. The gross debt of North Africa escalated by 8.8 percentage points in 2023, climbing from 79.7 to 88.4 per cent of GDP. The increase reflects expanded fiscal spending aimed at mitigating economic shocks, which were compounded by geopolitical tensions that drove up food and energy prices. A gradual decline in the average debt ratio is projected in 2024 and 2025, with forecasts indicating a decrease to 85.3 per cent and 78.0 per cent of GDP, respectively. That improvement hinges on enhanced domestic economic conditions, including reduced fiscal deficits, and a stabilization of international economic uncertainties. Debt dynamics in the subregion, as illustrated in figure VII, will remain volatile until the conflict in the Sudan is resolved, international tensions are eased, high debt servicing costs caused by exchange rate depreciations can be managed and refinancing risks are addressed.

[4] Unless otherwise indicated, the analysis in this section is based on International Monetary Fund, World Economic Outlook Database, April 2024 Edition, available at www.imf.org/en/Publications/WEO/weo-database/2024/April (accessed on 17 May 2024), and International Monetary Fund, IMF Datamapper, "General government gross debt", 2024, available at https://www.imf.org/external/datamapper/GGXWDG_NGDP@WEO/DZA/EGY/MAR/MUS/SDN/TUN.

Figure VII
Debt dynamics in North Africa, 2010–2025
(Percentage of gross domestic product)



Source: ECA, based on International Monetary Fund, World Economic Outlook Database.

Note: The figures for the Sudan, which are much higher than those for the other countries, are presented in bar chart form on the compressed scale provided on the right.

29. Total sovereign debt in the Sudan, which is grappling with a prolonged economic crisis exacerbated by internal conflict, surged by 70 per cent in 2023, rising sharply from 185.8 per cent of GDP in 2022 to 316.5 per cent. Despite projections for a slowdown in growth rates by 2024 and 2025, total public debt in the Sudan remains alarmingly high, estimated at 280.3 per cent and 262.9 per cent of GDP, in those two years, respectively. Egypt experienced an increase of 7.4 percentage points in its debt as a percentage of GDP in 2023, owing largely to economic challenges compounded by the devaluation of the Egyptian pound. The debt level is expected to rise further, to 96.4 per cent of GDP in 2024, before marginally decreasing to 82.9 per cent in 2025. Conversely, total debt as a percentage of GDP in Tunisia has declined modestly, dropping from 79.9 per cent in 2022 to 76.5 per cent of GDP in 2023. The debt burden remains significant, with approximately $2.8 billion allocated to debt servicing in 2023, a figure expected to rise to $3.9 billion in 2024, posing challenges to long-term debt sustainability.[5] The International Monetary Fund (IMF) indicates that debt in Tunisia as a percentage of GDP will increase to 78.6 per cent in 2024 and 79.5 per cent in 2025. Total public debt in Algeria, which is predominantly domestic, increased slightly between 2022 and 2023, from 48.1 to 49.5 per cent of GDP in 2023. The outlook in the

[5] International Crisis Group, "Tunisia's challenge: avoiding default and preserving peace", Report No. 243 (Tunis; Brussels, 2023).

country remains stable, although worsening fiscal deficits are expected to affect debt levels, which are projected to reach 49.7 per cent of GDP in 2025. Public debt in Mauritania grew marginally, from 49.2 per cent in 2022 to 49.9 per cent of GDP in 2023, remaining moderate according to IMF classifications as of March 2024.[6] The debt level is expected to stabilize at an average of 48.1 per cent of GDP over the period 2024–2025. In Morocco, after a significant increase in 2020 as a result of the COVID-19 pandemic, total public debt stabilized at around 70 per cent, rising from 71.6 per cent of GDP in 2022 to 70.6 per cent in 2023. That trend is set to continue with forecasted debt levels of 70.4 per cent in 2024 and 69.4 per cent in 2025.

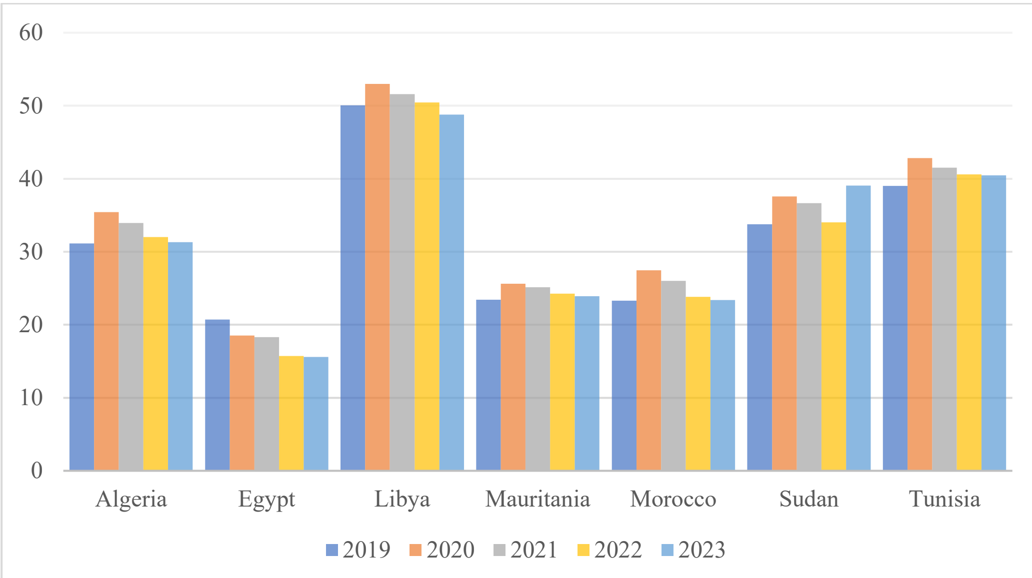
II. Selected social trends

30. One of the core challenges in North Africa is high unemployment, in particular among young people. According to the International Labour Organization,[7] the total unemployment rate rose to 11.3 per cent in 2023 from 10.9 per cent in 2022. Despite year-to-year fluctuations, there have been slight decreases in overall unemployment in most North African countries from 2020 to 2023, which is nearing the levels recorded prior to the COVID-19 pandemic.

31. Youth unemployment remains a significant issue in North Africa, as shown in figure VIII, with rates exceeding 20 per cent across the subregion, highlighting challenges in integrating young people into the labour market.[8] In Egypt, youth unemployment decreased from 20.7 per cent in 2019 to 15.6 per cent in 2023, indicating the potential effectiveness of youth employment policies and economic recovery. In Morocco, the level of youth unemployment peaked at 27.4 per cent in 2020 and decreased to 23.4 per cent in 2023. Although the reduction is promising, the level remains high, suggesting that there are ongoing economic and policy challenges. From 2019 to 2023, youth unemployment increased in Mauritania, the Sudan and Tunisia, from 23.4, 33.8 and 39.0 to 23.9 , 39.0 and 40.5 per cent, respectively, indicating worsening economic conditions and instability affecting youth employment opportunities.[9]

[6] International Monetary Fund, "Islamic Republic of Mauritania: first reviews under the arrangements under the Extended Credit Facility and the Extended Fund Facility, requests for modification of performance criteria and a waiver of nonobservance of performance criterion, and request for an arrangement under the Resilience and Sustainability Facility", IMF eLibrary, vol. 2023, No. 444 (Washington, D.C., 2023)
[7] International Labour Organization, *World Employment and Social Outlook Trends 2024* (Geneva, 2024).
[8] Ibid.
[9] International Labour Organization, ILO Modelled Estimates (ILOEST) Database, available at ilostat.ilo.org/data (accessed 18 June 2024), and World Bank, "World Development Indicators", DataBank, available at https://databank.worldbank.org/source/world-development-indicators# (accessed on 22 May 2024).

Figure VIII
Youth unemployment rate in North Africa, 2019–2023
(Percentage of the total labour force)



Source: ECA, based on data from the International Labour Organization, ILO Modelled Estimates (ILOEST) Database.

32. In terms of economic policies and reforms, the varying trends in unemployment rates across North African countries may reflect the various economic policies and reforms that each country has introduced. For instance, there has been a more substantial decline in unemployment rates in Egypt, suggesting that the country's economic policies and labour market interventions have been effective. Conversely, countries where there is greater political instability, such as Libya and the Sudan, tend to experience higher and more volatile unemployment rates, which underscores the significant impact of political conditions on economic stability and job creation. Sustained economic reforms, political stability and improved governance are crucial to addressing unemployment in the long term, in particular for women and young people.

III. Conclusion and policy recommendations

33. The ongoing conflict between the Russian Federation and Ukraine has resulted in a second consecutive year of economic uncertainty across the world. In North Africa, the uncertainty has been exacerbated by the ongoing wars that erupted in 2023 in the Sudan and the Gaza Strip. The situation in the Sudan is characterized by an intensifying humanitarian crisis and significant damage to infrastructure and resulted in a 37.5 per cent contraction of the real GDP growth rate in the country in 2023. Egypt, in particular, is vulnerable to the disruptions in the Red Sea region. Furthermore, there is an expectation that global food prices will increase, which could prolong quantitative tightening policies initiated by developed countries in 2022. The policies entail a

reduction in the money supply and an increase in interest rates, which will lead to higher borrowing costs for North African countries and limited access to financial markets, posing a threat to debt sustainability and the recovery from the pandemic.

34. Economic growth in North Africa has declined over two consecutive periods. Of the countries in the subregion, in 2023 real GDP grew only in Algeria, Libya and Morocco. Real GDP growth within the subregion, however, is projected to climb to a rate of 3.2 per cent in 2024, from 2.1 per cent recorded in 2023, attributed to a potential improvement in the political situation in the Sudan and a favourable global and regional economic outlook. Nevertheless, a high rate of inflation has persisted within North Africa, and inflationary pressures have been reflected in food imports and accommodative fiscal and monetary policies in Algeria and in foreign exchange shortages in Egypt. The Sudan has been experiencing particularly high levels of inflation and food insecurity remains a widespread concern.

35. Monetary policy tightening has been halted broadly in the subregion. In 2023, only the central banks of Egypt and the Sudan implemented restrictive monetary policies by raising key interest rates to combat inflation and stabilize their currencies. Although North Africa posted an external surplus in 2023, external vulnerabilities remain elevated.

36. A number of policy recommendations are therefore pertinent, given the impending uncertainty arising from the confluence of crises and pre-existing vulnerabilities. Their applicability, however, is contingent upon specific features of the macroeconomic landscape of each country and the challenges posed by inflation. Across North Africa, countries should aim:

(a) To strengthen their resilience by consolidating their financial and fiscal positions to reduce debt levels in a gradual process that should be underpinned by the mobilization of additional financing, the implementation of tax reforms and the restructuring of subsidy systems;

(b) To make sufficient progress in implementing structural reforms to overcome long-standing structural weaknesses, such as persistently high unemployment rates, weak productivity growth, a large State footprint and a heavy dependence on commodities, in order to achieve medium-term growth prospects.

37. At the national level:

(a) Algeria should increase non-hydrocarbon private sector investment;

(b) Egypt should maintain a flexible exchange rate regime and a credible framework to target inflation, in order to restore confidence and achieve macroeconomic stability;

(c) Libya should address the underlying pressures on the exchange rate, avoid pro-cyclical spending and ensure macroeconomic resilience;

(d) Mauritania should improve the efficiency of public spending, engage the private sector in climate change adaptation strategies, diversify the economy and promote strong, sustainable and inclusive growth;

(e) Morocco should continue its fiscal consolidation, in order to reduce the fiscal deficit and keep the public debt ratio on a sustainable path;

(f) The Sudan should restore peace and support efforts to rebuild and repair conflict-damaged infrastructure;

(g) Tunisia should significantly increase external financing, in view of its high debt repayment schedule, address fiscal imbalances in order that monetary policy can become a more effective tool for stabilizing inflation and, more broadly, preserve the independence of the central bank and its balance sheet.