

Original: English

Subregional Office for North Africa
Intergovernmental Committee of Senior Officials
and Experts for North Africa

Fortieth session

Rabat (hybrid), 11–13 November 2025

Item 4 of the provisional agenda^{*}**Evolution of economic and social conditions**
in North Africa: review of the subregional profile**Socioeconomic development in North Africa: subregional profile**
2024–2026

^{*} ECA/SRO-NA/ICSOE/40/1.



Executive summary

1. In 2024, economic recovery among North African countries remained fragile and uneven, with regional gross domestic product (GDP) expanding by 1.9 per cent, up modestly from 1.0 per cent in 2023. This subdued growth was underpinned by improvements in non-oil sectors, agricultural rebounds in some countries and sustained public investment. However, structural imbalances, elevated inflation in several economies and geopolitical headwinds – in particular the ongoing conflict in the Sudan and escalating tensions in the Middle East – continued to weigh heavily on regional performance. Inflation eased to 15.5 per cent on average, down from 19.8 per cent in 2023, but remained high in Egypt and the Sudan, triggering aggressive monetary tightening, while Mauritania and Morocco began cautious policy easing. Fiscal pressures persisted, with deficits and debt burdens widening in Algeria and Egypt, while Libya, Mauritania and Morocco made relative progress in fiscal consolidation and external account stability.
2. The year 2025 is expected to mark a turning point, with regional GDP projected to accelerate to 3.6 per cent, supported by a cyclical rebound in oil-exporting countries, improved agricultural conditions and new investment inflows. However, this projected recovery remains uneven and conditional. Mauritania and Morocco are expected to sustain their momentum, backed by gas exports and manufacturing growth, respectively, while recovery in Libya depends heavily on oil production stability. Algeria and Egypt are forecast to experience modest gains, constrained by weak investor confidence, challenges in managing inflation and slow implementation of reforms. The Sudan remains in deep crisis, with minimal prospects for recovery unless conflict subsides.
3. Fiscal deficits are expected to remain sizable, averaging 6.5 per cent of GDP in 2025, but some improvement is anticipated in countries that are advancing revenue mobilization and maintaining spending discipline. At the same time, external balances are weakening after a small surplus in 2023. The regional current account shifted into a deficit of 2.4 per cent of GDP in 2024 and is projected to widen slightly to 2.5 per cent of GDP in 2025. This reflects weaker hydrocarbon revenue, rising import demand and persistent external imbalances in Egypt, Mauritania and Tunisia, although Libya and Morocco remain relatively more resilient. Inflation is projected to decline further in most countries, although disparities in monetary capacity and external vulnerabilities will shape national policy paths. Debt sustainability will remain a major concern, especially in Egypt and Tunisia, where high servicing costs and tightening financing conditions heighten rollover risks. Algeria and Mauritania maintain more stable debt dynamics, while the Sudan remains in debt distress with reserves that are nearly exhausted.
4. On the social front, labour market absorption is expected to remain weak in 2025, in particular in Algeria and the Sudan, where employment is concentrated in informal sectors. Multidimensional poverty continues to be widespread, especially in Mauritania and the Sudan, with insufficient education and low living standards as the dominant sources of deprivation. Even in countries with low monetary poverty, persistent gaps in access to high-quality education and services limit inclusive development.

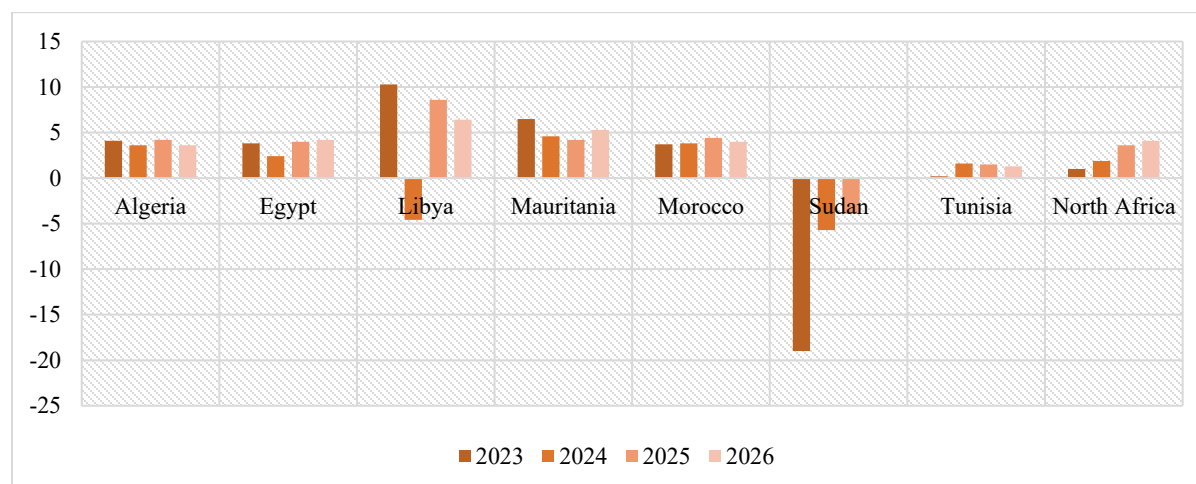
5. While 2025 offers an opportunity for North Africa to shift towards stronger recovery, progress remains heavily dependent on geopolitical stability, sustained reform momentum and regional cooperation. Addressing structural vulnerabilities – through economic diversification, targeted social investment, institutional strengthening and enhanced climate resilience – will be essential to transform short-term gains into durable, inclusive growth.

I. Navigating growth, reform and risk

6. Economic growth across North Africa remained fragile in 2024. Real gross domestic product (GDP) expanded by only 1.9 per cent, representing a marginal improvement over the previous year (1.0 per cent). This underscores the extent to which the subregion is grappling with persistent structural imbalances, exogenous shocks and geopolitical uncertainty. The subregion's tepid performance masks stark divergences across economies, from deep contractions in such conflict-affected countries as Libya and the Sudan, to pockets of resilience in Mauritania and relatively stable, if modest, recoveries in Algeria, Egypt, Morocco and Tunisia. Figure I illustrates the growth rates of North African countries and the annual average for the subregion.

7. The regional outlook has been deeply shaped by escalating geopolitical tensions, most notably the ongoing war in the Sudan, the widening conflict in the Middle East and the protracted war between the Russian Federation and Ukraine. The regional outlook for 2025 indicates that economic growth will accelerate slightly, to 3.6 per cent, underpinned by cyclical rebounds in oil-exporting economies, improved agricultural output in selected countries and the rise of new investment cycles, in particular in extractive and energy infrastructure. By 2026, growth is forecast to strengthen further to 4.1 per cent, assuming continued macroeconomic stabilization, the absence of major political shocks and favourable external demand conditions.

Figure I
Growth rates in North Africa
(Percentage)



Source: Author calculations, based on national statistics for Algeria, Egypt, Mauritania, Morocco and Tunisia; *World Economic Situation and Prospects 2025* (United Nations publication, 2025); and United Nations, “World economic situation and prospects as of mid-2025”, 2025.

8. Real GDP in Algeria grew by 3.6 per cent in 2024, down from 4.1 per cent in 2023, driven by robust non-hydrocarbon activity in agrifood, pharmaceuticals and agriculture. The country's economy is expected to grow by 4.2 per cent in 2025 and 3.6 per cent in 2026, supported by a rebound in the hydrocarbon sector and continued strength in non-hydrocarbon activities, although subdued public spending and persistent structural constraints may weigh on overall performance. The economy in Egypt weakened in 2024, recording growth of only 2.4 per cent, down from 3.8 per cent in 2023. The downturn was driven by weak performance in the energy sector and a steep drop in revenue from the Suez Canal owing to shipping disruptions in the Red Sea. High inflation, exacerbated by subsidy reforms and exchange rate liberalization, dampened household consumption. However, a tentative recovery is expected as the adjustment programme supported by the International Monetary Fund (IMF) progresses. Growth is forecast to rise to 4.0 per cent in 2025 and 4.2 per cent in 2026, supported by improved investor sentiment, a rebound in tourism and better functioning of foreign exchange markets. The economy of Libya contracted by an estimated 4.6 per cent in 2024 owing to disruptions in the hydrocarbon sector, but is projected to rebound strongly in 2025, with growth estimated at 8.6 per cent, primarily driven by the recovery and expansion of oil production.

9. Mauritania represents the subregion's most dynamic frontier economy, with growth of 4.6 per cent in 2024 despite a challenging commodity environment. Although iron ore exports were dampened by global price declines, the country benefited from strong performances in the agricultural and fisheries sectors and a supportive public investment environment. Growth is projected to ease to 4.2 per cent in 2025, reflecting a downturn in the extractive sector, which had been a key driver of economic expansion in previous years. However, with the commencement of gas exports from the Greater Tortue Ahmeyim field, GDP growth is expected to reach 5.3 per cent in 2026, as mineral output stabilizes and initial gains from gas exports materialize.

10. The economy in Morocco expanded slightly to 3.8 per cent in 2024, up from 3.7 per cent in 2023, driven by strong domestic demand and a rebound in such non-agricultural sectors as mining and construction, despite a contraction in agricultural value added due to erratic rainfall. The secondary sector, including the automotive industry and aeronautics, remained robust, and inflation fell sharply to 1 per cent, enhancing real consumption. Growth is expected to improve to 4.4 per cent in 2025 and decrease only slightly back to 4.0 per cent in 2026, supported by rising domestic demand, increased public and private investment and anticipated recovery in agriculture. However, the export outlook could be undermined by rising trade protectionism, in particular in the markets of the European Union and the United States of America.

11. The Sudan remains the subregion's most fragile economy. GDP shrank by 5.7 per cent in 2024, following an even steeper collapse in 2023. Ongoing armed conflict has devastated agriculture, displaced millions and paralysed public institutions. In 2025, economic contraction is forecast to continue at 3.9 per cent, followed by a weak stabilization at 0.1 per cent in 2026, assuming that some kind of political resolution is reached. Even under optimistic scenarios, the Sudan faces a long, arduous path to recovery, requiring massive reconstruction, humanitarian assistance and institutional rebuilding.

12. Tunisia remains in a low-growth trap, with structural rigidities, political uncertainty and weak external financing limiting recovery. GDP grew by 1.6 per cent in 2024, supported by modest gains in agriculture, tourism and oil refining, but fiscal fragility and delayed reforms continue to hinder investment. Growth is expected to slow down to 1.5 per cent in 2025 and 1.3 per cent in

2026, leaving the country with persistently low growth levels that are unlikely to reduce unemployment or address deep-rooted socioeconomic vulnerabilities.

13. The growth outlook for 2025 and 2026 in North Africa is cautiously optimistic but remains uneven, with significant structural disparities undermining the subregion's ability to achieve broad-based recovery. While some economies show signs of momentum as a result of reform efforts and investment inflows, others remain constrained by conflict, macroeconomic imbalances and institutional weaknesses. This divergence is further shaped by sectoral fault lines: climate-vulnerable agriculture, volatile hydrocarbons and low-value-added manufacturing weigh on productivity and job creation, while excessive reliance on public spending constrains long-term fiscal space. To sustain recovery and avoid deepening intraregional gaps, the subregion must prioritize diversification, structural reform and greater policy coordination, in particular in addressing climate risks, trade integration and social vulnerability.

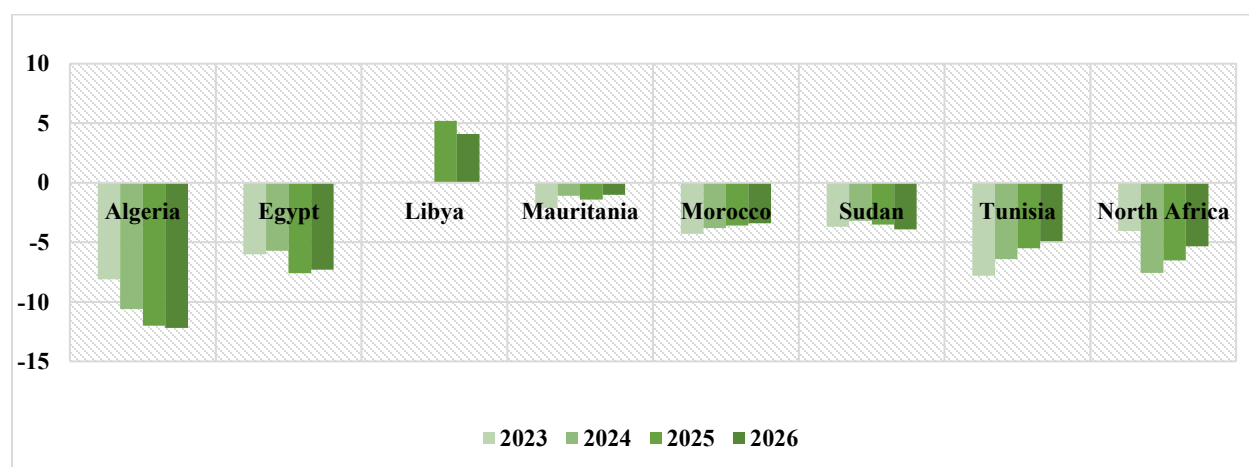
II. Fiscal strains, divergence and the path to sustainability

14. According to the Economic Commission for Africa,¹ the fiscal position of North Africa is expected to remain under significant pressure in 2025, with the regional fiscal deficit projected at 6.5 per cent of GDP when the Sudan is included, compared with 7.6 per cent in 2024. While this reflects a modest improvement, the deficit remains well above pre-crisis levels and underscores continued structural fiscal vulnerabilities. The fiscal balances of North African countries and the annual average for the subregion are shown in figure II.

Figure II

Fiscal balances in North Africa

(Percentage of gross domestic product)



Source: Author calculations, based on national statistics for Egypt, Mauritania, Morocco and Tunisia; African Development Bank, *African Economic Outlook 2025: Making Africa's Capital Work Better for Africa's Development* (2025); and Economic Commission for Africa, *Economic Report on Africa 2025: Advancing the Implementation of the Agreement Establishing the African Continental Free Trade Area – Proposing Transformative Strategic Actions* (Addis Ababa, 2025).

¹ See *Economic Report on Africa 2025: Advancing the Implementation of the Agreement Establishing the African Continental Free Trade Area – Proposing Transformative Strategic Actions* (Addis Ababa, 2025).

15. The fiscal deficit in Algeria is projected to widen to 12.0 per cent of GDP in 2025, up from 10.6 per cent in 2024 and 8.1 per cent in 2023. This deterioration reflects declining hydrocarbon revenue, increased redistributive and investment spending and slow progress in diversifying revenue sources. While hydrocarbon savings continue to finance the deficit, this approach is becoming unsustainable. Planned fiscal consolidations, such as investment rationalization and tax reforms, are expected to yield only gradual gains.

16. In Egypt, the fiscal deficit is projected to remain high, at 7.6 per cent of GDP in 2025, up from 5.7 per cent in 2024. Debt service absorbs a significant share of revenue, limiting fiscal flexibility. Despite reforms aimed at boosting efficiency and tax intake, the country's fiscal position remains burdened by persistent financing needs and weak revenue buoyancy.

17. Libya is set to record a fiscal surplus of 5.2 per cent of GDP in 2025, up from 0.1 per cent in the previous two years, as a result of strong oil production and favourable export prices. However, this positive outlook is vulnerable to global energy price swings and ongoing political instability. In Mauritania, the fiscal deficit is projected to widen to 1.4 per cent in 2025, despite improved tax revenue from the telecommunication and extractive sectors, as rising capital expenditure, in particular related to the Greater Tortue Ahmeyim gas project, continues to put pressure on fiscal balances.

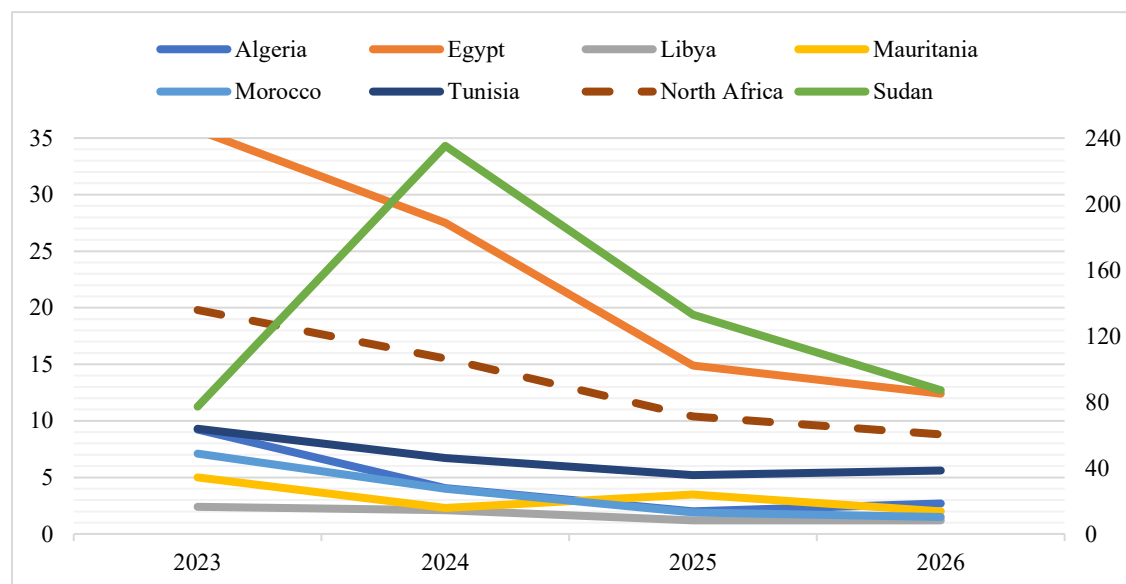
18. Morocco continues its gradual fiscal consolidation, with the deficit projected to narrow to 3.6 per cent of GDP in 2025. This is aided by rising tax revenue, lower energy subsidies and innovative financing tools. Nevertheless, social spending and infrastructure plans may temper further tightening. In Tunisia, the deficit is forecast to decline to 5.5 per cent in 2025, reflecting modest tax gains and spending restraint. However, limited progress in reform efforts hampers access to financing and raises doubts about the durability of improvements.

19. Across North Africa, fiscal outcomes vary widely. Libya, Morocco and Tunisia show improving positions, while Algeria, Egypt, Mauritania and the Sudan grapple with widening deficits. Elevated global interest rates and restricted external financing compound challenges. Achieving fiscal sustainability will require deeper reforms, broader tax bases, more efficient spending and stronger debt management across the subregion.

III. Tracking inflation dynamics and monetary adjustments

20. In 2024, the average inflation rate for North Africa stood at 15.5 per cent, down from 19.8 per cent in 2023, reflecting ongoing pressures from global commodity prices, currency depreciation and structural fiscal imbalances. While some economies experienced a slowdown in price growth, inflation remained well above historical norms across the subregion, driven by the continuation of post-pandemic disruptions and heightened geopolitical uncertainty. In response, most central banks adopted tighter monetary policies, raising or maintaining high interest rates to anchor inflation expectations and stabilize exchange rates. These actions were aimed at reining in demand-side pressures amid limited fiscal space, with monetary authorities often bearing the bulk of the adjustment burden. Changes in the inflation rate of North African countries and the annual average for the subregion can be seen in figure III.

Figure III
Inflation dynamics in North Africa
 (Percentage)



Source: Author calculations, based on national statistics for Algeria, Egypt, Libya, Mauritania, Morocco and Tunisia; *World Economic Situation and Prospects 2025* (United Nations publication, 2025); and United Nations, “World economic situation and prospects as of mid-2025”, 2025.

Note: The scale along the right-hand vertical axis is for the Sudan.

21. In 2025, regional inflation is projected to decline further to 10.4 per cent, supported by exchange rate stabilization, earlier monetary tightening and falling global food and energy prices. However, the pace of disinflation has varied, leading to divergent policy responses. Some central banks cautiously began easing cycles to support growth, while others held firm because of persistent inflation risks or institutional constraints. This divergence reflects growing macroeconomic heterogeneity, with monetary policy increasingly tailored to each country's inflation path, external vulnerabilities and policy credibility.

Table 1

Annual average of exchange rates in North African countries

(Local currency unit per United States dollar)

	2023	2024	2025
Algeria	135.8	136.7	144.8
Egypt	25.8	36.4	50.6
Libya	4.8	4.9	4.8
Mauritania	36.5	39.3	39.7
Morocco	10.1	9.9	9.8
Sudan	704.5	2	5
		173.3	132.5
Tunisia	3.1	3.1	3.2

Source: African Development Bank socioeconomic database. Available at <https://dataportal.opendataforafrica.org/ydixvvd> (accessed in January 2025).

Table 2

Key policy interest rates in North African countries

(Percentage)

Policy Interest rates	2020	2021	2022	2023	2024
Algeria	3	3	3	3	3
Egypt	8.25	8.25	16.25	19.25	27.25
Mauritania	5	5	7	7	8
Morocco	1.5	1.5	2.5	3	2.5
Sudan	30.6	28.2	41.78	..	..
Tunisia	6.25	6.2	7.25	8	8

Source: Focus Economics, “Policy interest rate”, 2025.

22. In Algeria, inflation decelerated substantially from 9.2 per cent in 2023 to 4.1 per cent in 2024, driven by declining food prices amid a return to regular conditions for supply chains and improved agricultural output. The stability of the dinar (see table 1), alongside increased subsidy expenditures and targeted transfer payments, supported household purchasing power, in particular among vulnerable groups. Despite these disinflationary pressures, the Bank of Algeria has maintained an accommodative stance, holding its benchmark policy rate at 3 per cent since May

2020 (see table 2).² Inflation is projected to fall further to 2.0 per cent in 2025 and 2.7 per cent in 2026, supported by continued declines in domestic food prices and sustained government subsidy programmes. The real policy rate remains slightly negative, reflecting the country's relatively subdued inflation and preference for administrative liquidity management over market-based monetary tools.

23. In Egypt, inflation declined to 27.5 per cent in 2024, primarily owing to a sharp depreciation of the Egyptian pound following the transition to a more flexible exchange rate regime, and the rise in fuel and electricity prices triggered by subsidy reforms. In response, the Central Bank of Egypt³ initiated its first monetary easing cycle since the aggressive hikes of 2022, 2023 and 2024 (see table 2), cutting rates by 225 basis points on 17 April 2025 – lowering the deposit and lending rates to 25 per cent and 26 per cent, respectively – followed by a further cut of 100 basis points on 22 May 2025, bringing the rates down to 24 per cent and 25 per cent. These moves followed a period of significant monetary tightening and marked a shift towards normalization. Inflation is expected to average 14.9 per cent in 2025 and 12.4 per cent in 2026. However, concerns persist over external liquidity, with net foreign assets of commercial banks remaining in negative territory for seven consecutive months, through February 2025.

24. Libya experienced a decline in inflation from 2.4 per cent in 2023 to 2.1 per cent in 2024, largely reflecting lower global food prices. In April 2025, the Central Bank of Libya devalued the dinar by 13.3 per cent to correct currency distortions.⁴ Inflation is projected to decline further to 1.2 per cent in both 2025 and 2026. Nevertheless, monetary policy remains largely inactive, with no operational policy rate and limited scope for effective transmission mechanisms owing to fiscal dominance and administrative monetary controls.

25. In Mauritania, inflation fell sharply from 5.0 per cent in 2023 to 2.3 per cent in 2024, driven by easing food and oil prices and supported by the tight monetary stance of the Central Bank of Mauritania. In October 2024, the Central Bank initiated a cautious easing cycle by reducing the policy rate to 7.25 per cent,⁵ reflecting soft inflation and the need to stimulate investment amid weak domestic demand. Inflation is projected to increase to 3.5 per cent in 2025 and decline to 2.0 per cent in 2026. The ouguiya depreciated against the United States dollar from 36.5 ouguiyas per United States dollar in 2023 to 39.3 ouguiyas in 2024, aided by the launch of a formal foreign exchange trading platform. It is expected to depreciate further to 39.7 ouguiyas in 2025 (see table 1).

26. In Morocco, inflation declined steeply from 7.1 per cent in 2023 to 4.0 per cent in 2024 as a result of lower food and non-food prices. In response, the central bank cut its policy rate twice

² See also www.bank-of-algeria.dz/statistiques-associees/.

³ See www.cbe.org.eg/en/; www.cbe.org.eg/-/media/project/cbe/listing/mpc-meetings/2025/english/eng_mpc-press-release-apr-17-2025.pdf; and www.cbe.org.eg/en/news-publications/news/2025/05/22/14/05/mpc-press-release-22-may-2025.

⁴ See <https://cbl.gov.ly/en/exchange-rate-policy/>.

⁵ IMF, *Islamic Republic of Mauritania: Staff Report for the 2024 Article IV Consultation, Third Review under the Arrangements under the Extended Credit Facility and Extended Fund Facility, Request for Modification of Quantitative Performance Criteria, and Second Review under the Resilience and Sustainability Facility Arrangement – Press Release; Staff Report; and Statement by the Executive Director for the Islamic Republic of Mauritania*, Country Report, No. 24/362 (Washington, D.C., 2024).

by 25 basis points in 2024, reaching 2.50 per cent by the end of the year (see table 2). A further reduction of 25 basis points in early 2025 brought the rate to 2.25 per cent, as inflation remained subdued.⁶ Inflation is expected to edge up to 1.9 per cent in 2025 and stabilize around 1.5 per cent in 2026, supported by improved agricultural output, moderate monetary easing, fiscal reforms, including subsidy adjustments, and external inflation through import channels. With inflation under control and the dirham stable, Morocco continues to maintain a slightly positive real interest rate, affording space for monetary policy aimed at fostering growth.

27. Tunisia maintained a tight monetary stance throughout 2024, with the Central Bank of Tunisia holding its key interest rate at 8.0 per cent (see table 2), which contributed to a reduction in inflation from 9.3 per cent in 2023 to 6.7 per cent in 2024. The dinar remained relatively stable against both the euro and the United States dollar (see table 1), aiding inflation management. A moderate policy easing brought the rate to 7.5 per cent in 2025,⁷ although inflation risks persist owing to fiscal monetization and constrained access to external financing.

28. The Sudan, however, continues to experience hyperinflation, with consumer prices rising 235.3 per cent year-on-year in 2024. The Sudanese pound has lost over two thirds of its value in official markets, with the average exchange rate deteriorating from 704.5 Sudanese pounds per United States dollar in 2023 to 2,173.3 Sudanese pounds in 2024, representing a threefold increase in the exchange rate or a loss of approximately 67.6 per cent of the currency's value (see table 1). Although inflation is expected to decelerate to 132.9 per cent in 2025 and 87.1 per cent in 2026, this outlook assumes a gradual phasing out of budget deficit monetization and improvements in supply capacity. In the current context, monetary policy remains largely ineffective, as institutional and operational frameworks for setting rates are virtually absent.

29. Looking ahead, the regional trend suggests gradual normalization of monetary policy in economies where inflation is easing and central bank credibility is intact. However, interest rate paths remain tightly bound to fiscal trajectories, external financing conditions and progress in structural reforms.

IV. Current account balance dynamics

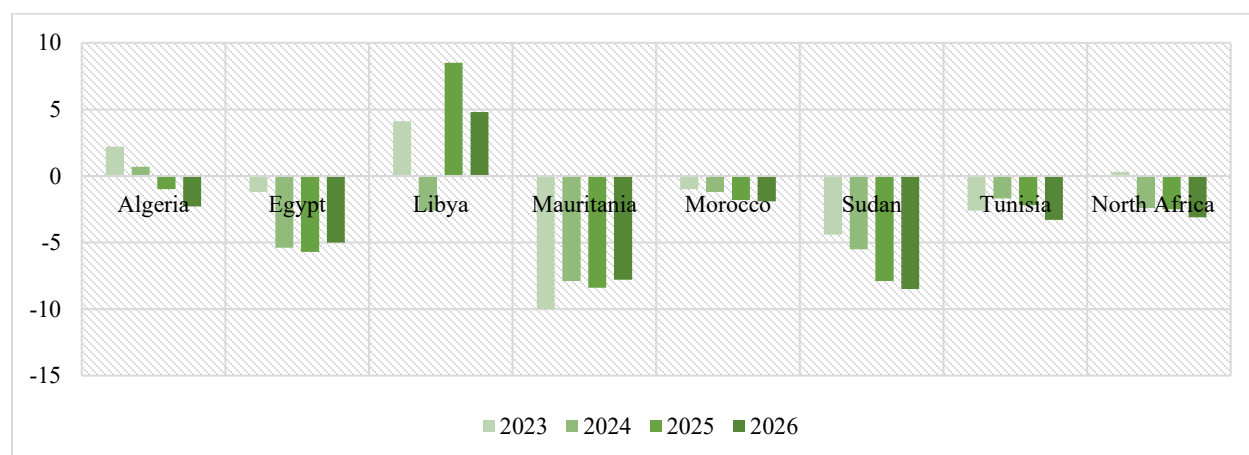
30. The external position of North Africa is weakening amid heightened global uncertainty, leading to tightened financial conditions and increasingly fragile trade flows. After posting a mild current account surplus of 0.3 per cent of GDP in 2023, the subregion's balance shifted into deficit territory, reaching a deficit of 2.4 per cent in 2024, and is projected to deteriorate slightly to a deficit of 2.5 per cent in 2025. These developments reflect lower hydrocarbon export revenue, rising import demand and persistent external imbalances in several economies. While the aggregate figure suggests moderate stress, underlying country-level dynamics reveal deeper vulnerabilities and widening disparities. Figure IV illustrates the current account balances of North African countries and the annual average for the subregion.

⁶ See www.bkam.ma/Politique-monetaire/Cadre-strategique/Decision-de-la-politique-monetaire/Historique-des-decisions.

⁷ World Bank, "Improved connectivity offers a path to stronger growth in Tunisia", 14 May 2025.

Figure IV

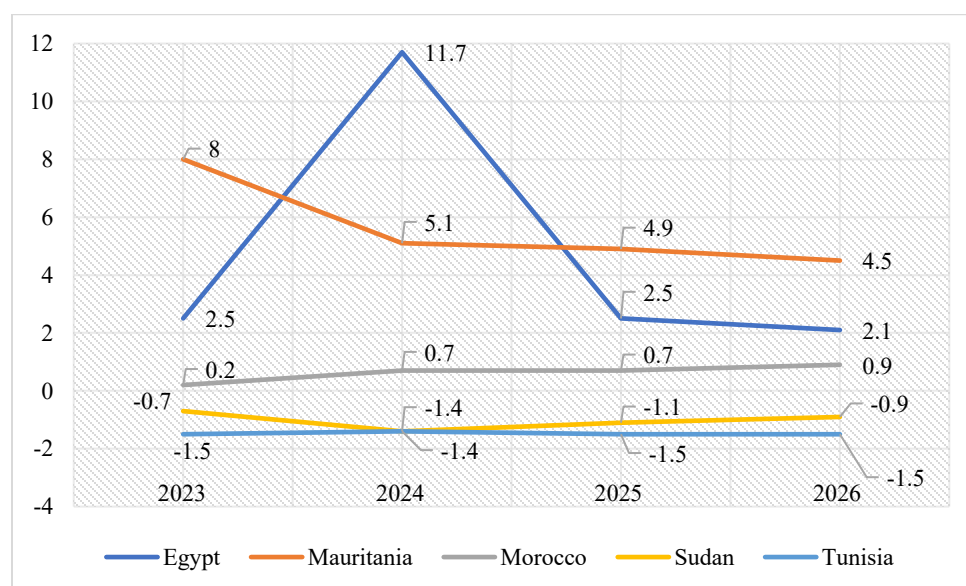
Current account balances in North Africa
(Percentage of gross domestic product)



Source: Author calculations, based on national statistics for Egypt, Mauritania and Morocco; and African Development Bank, *African Economic Outlook 2025: Making Africa's Capital Work Better for Africa's Development* (2025).

Figure V

Net foreign direct investment inflows in North African countries
(Percentage of gross domestic product)



Source: Author calculations, based on World Bank, *Macro Poverty Outlook: Country-by-Country Analysis and Projections for the Developing World – Middle East and North Africa* (Washington, D.C., April 2025).

31. The current account balance of Algeria continued its descent, shifting from a surplus of 2.2 per cent of GDP in 2023 to a projected deficit of 1.0 per cent in 2025 and 2.3 per cent in 2026. This decline reflects growing exposure to hydrocarbon market volatility, as falling revenue from energy exports coincides with surging imports driven by investment activity and consumption. While official reserves still cover more than a year of imports, the narrowing external buffer highlights the limitations of a hydrocarbon-dependent growth model.

32. The external account of Egypt remains under pressure, with the current account deficit expected to widen to 5.7 per cent of GDP in 2025. Continued reliance on food and energy imports, weak revenue from the Suez Canal and large external debt repayments weigh heavily. Despite steady tourism and remittance inflows, in addition to a temporary surge in foreign direct investment in 2024 owing to the deal between Egypt and the United Arab Emirates to develop the Ras El Hekma region, investment inflows are expected to fall back in 2025 (see figure V). This reinforces the urgency of export diversification and exchange rate flexibility.

33. The external position of Libya is projected to rebound after a deficit of 2.6 per cent of GDP in 2024, returning to a surplus of 8.5 per cent in 2025, as a result of recovering oil exports and constrained imports. However, the outlook remains vulnerable to political instability and disruptions in oil infrastructure. The current account deficit of Mauritania is expected to remain wide at 8.4 per cent in 2025, as gains from gold and fisheries exports are offset by delayed gas production and such external risks as climate shocks and regional instability.

34. The current account deficit of Morocco is set to widen moderately to 1.8 per cent in 2025, driven by rising imports of capital goods despite strong remittance and tourism inflows and resilient exports. Nevertheless, the country's financing outlook remains solid, underpinned by robust institutions and access to global capital. The current account deficit of Tunisia is expected to reach 2.2 per cent in 2025, constrained by energy imports and a narrow export base. Net foreign direct investment remains negative (see figure V), indicating persistent capital flight and weak investor confidence. The external position of the Sudan is in crisis, with the deficit projected to rise to 7.9 per cent in 2025 and 8.5 per cent in 2026. Conflict has devastated trade and remittances, while foreign direct investment remains negative (see figure V) and reserves are still perilously low, covering less than two months of imports.

35. The subregion faces a crossroads: Algeria, Libya and Morocco have some financial room to pursue reforms, while Egypt, Tunisia and Mauritania must urgently boost competitiveness and resilience. For the Sudan, the challenge is existential. Ultimately, the subregion's path to external stability hinges not on temporary buffers but on structural transformation: diversified exports, stronger regional integration and trade-enabling investment. Without this, the subregion risks being subjected to recurring external crises.

V. Debt dynamics

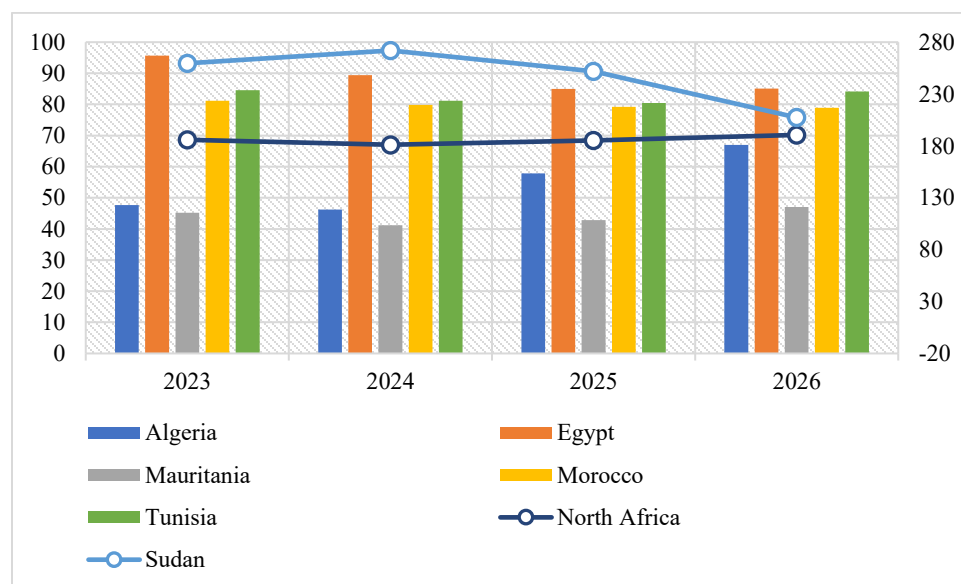
36. In 2025, the debt profile of North Africa reflects a precarious balance between short-term fiscal stabilization and mounting structural vulnerabilities. As can be seen in figure VI, while the average public debt-to-GDP ratio for the subregion, excluding Libya and the Sudan, is projected to rise modestly to 68.4 per cent in 2025, up from 67.0 per cent in 2024 and 68.6 per cent in 2023,

this headline figure masks deepening asymmetries in debt trajectories, financing conditions and macroeconomic resilience.

Figure VI

Debt dynamics in North Africa

(Percentage of gross domestic product)



Source: Author calculations, based on national statistics for Egypt, Mauritania, Morocco and Tunisia; and International Monetary Fund, *World Economic Outlook: A Critical Juncture amid Policy Shifts* (Washington, D.C., 2025).

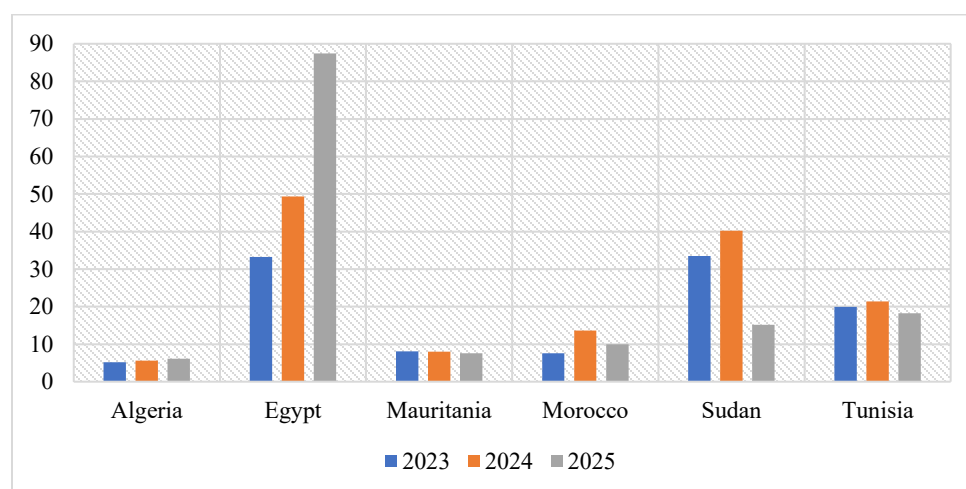
Note: The scale along the right-hand vertical axis is for the Sudan. The data for North Africa exclude Libya and the Sudan.

37. The most acute stress point lies in debt servicing capacity, where differences are stark. Egypt is projected to spend an extraordinary 87.4 per cent of its export revenue on debt service in 2025, nearly doubling from 49.3 per cent in 2024 and up from 33.2 per cent in 2023 (see figure VII). This staggering figure reflects a confluence of vulnerabilities: a large stock of public debt, rising interest payments and maturing obligations exceeding \$11.1 billion⁸ in the fourth quarter of the 2025 fiscal year alone. Despite a modest improvement in headline debt, projected to decline from 89.4 per cent of GDP in 2024 to 85.0 per cent in 2025 (see figure VI), the country's debt service burden remains unsustainably high because export earnings have not grown fast enough to cushion external liabilities. In parallel, contingent liabilities related to publicly guaranteed debt (4.698 trillion Egyptian pounds as at June 2024)⁹ pose significant medium-term risks, in particular in the context of rising off-budget borrowing in the energy sector.

⁸ World Bank, *Macro Poverty Outlook: Country-by-Country Analysis and Projections for the Developing World – Middle East and North Africa* (Washington, D.C., April 2025).

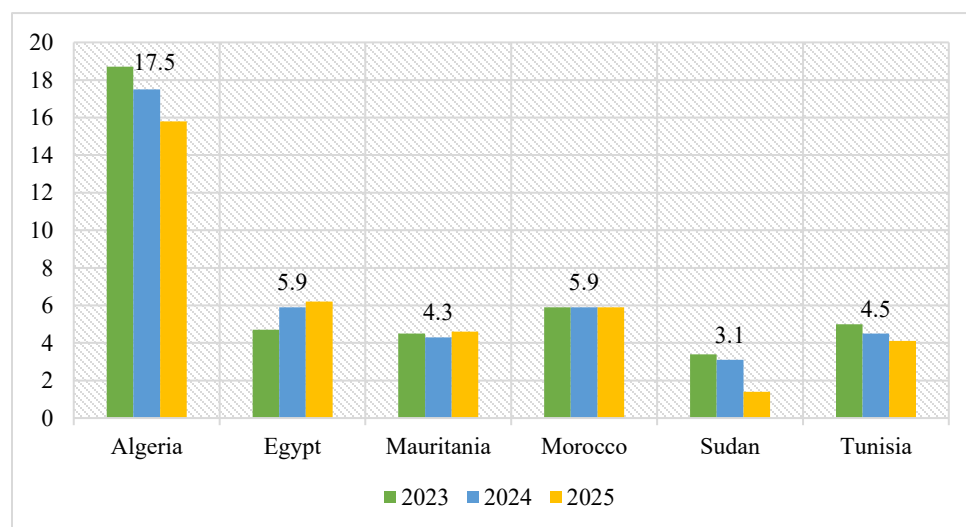
⁹ IMF, *Arab Republic of Egypt: 2025 Article IV Consultation, Fourth Review under the Extended Arrangement under the Extended Fund Facility, Requests for Waivers of Nonobservance and Modification of Performance Criteria, and*

Figure VII
Debt service in North African countries
 (Percentage of total exports)



Source: Author calculations, based on African Development Bank socioeconomic database. Available at <https://dataportal.opendataforafrica.org/ydixvvd> (accessed in January 2025).

Figure VIII
External reserves of North African countries
 (Number of months of imports covered)



Source: Author calculations, based on African Development Bank socioeconomic database. Available at <https://dataportal.opendataforafrica.org/ydixvvd> (accessed in January 2025).

38. The external reserve position of Egypt has improved incrementally, with reserves projected to reach coverage for 6.2 months of imports in 2025, up from 5.9 months in 2024 and 4.7 months in 2023 (see figure VIII). While this may reflect short-term stabilization, reserve adequacy remains modest relative to external financing needs and heightened volatility in exchange rates.

39. Tunisia faces similarly elevated risk, with debt service consuming 18.2 per cent of export revenue in 2025 (see figure VII). Although its debt-to-GDP ratio is expected to stabilize around 80.5 per cent in 2025 (see figure VI), limited access to concessional finance and a growing reliance on short-term domestic borrowing – over 52 per cent of debt is now domestic¹⁰ – have driven up interest costs. Like in Egypt, sovereign borrowing in Tunisia is increasingly crowding out private sector credit, compounding macrofinancial risks. The reserve position of Tunisia is projected to weaken further, with import coverage falling from 5.0 months in 2023 to 4.1 months in 2025 (see figure VIII), reflecting ongoing strain in its balance of payments and constrained external inflows.

40. By contrast, some economies are stabilizing or improving their fiscal outlooks. The debt-to-GDP ratio of Algeria is expected to rise from 46.2 per cent in 2024 to 57.8 per cent in 2025 (see figure VI), financed mostly through long-term domestic instruments at low interest rates. Debt service remains modest at 6.1 per cent of exports in 2025 (see figure VII), underpinned by hydrocarbon revenue. However, fiscal buffers are being eroded. The country's foreign reserves – still the subregion's largest in relative terms – are projected to decline from 18.7 months of import coverage in 2023 to 15.8 months in 2025 (see figure VIII), signalling reduced capacity to absorb external shocks in the absence of reform.

41. Morocco presents a case of gradual consolidation. Debt is forecast to decline from 79.8 to 79.2 per cent of GDP between 2024 and 2025 (see figure VI). The country finances roughly more than 45 per cent of its needs domestically,¹¹ and while debt service remains at 10 per cent of exports in 2025 (see figure VII), the risk profile is contained by stronger institutions and credible fiscal frameworks. Foreign reserves are projected to remain stable at 5.9 months of import coverage through 2025 (see figure VIII), reflecting consistent external balance and prudent macroeconomic management.

42. This debt landscape underscores a growing structural bifurcation in the subregion. On the one hand, such countries as Algeria, Mauritania and Morocco are managing or reducing their debt risks through disciplined policy and retained buffers. On the other hand, such countries as Egypt and Tunisia face narrowing fiscal space, mounting external vulnerabilities and elevated rollover risks. While the regional average debt profile may still appear manageable, it increasingly conceals concentrated vulnerabilities.

VI. Social realities and human development

43. Social dynamics in North Africa in 2025 continue to reflect persistent structural challenges, as early signs of economic stabilization have yet to produce widespread improvements in employment or poverty reduction. Labour market absorption remains weak across the subregion,

¹⁰ World Bank, “Tunisia economic monitor: better connectivity to grow”, 2025.

¹¹ Morocco, High Commission for Planning, “Budget économique exploratoire 2026: perspectives économiques pour les années 2025 et 2026” (2026 budget assessment: economic outlook for 2025 and 2026), July 2025.

with the share of persons who are employed as a percentage of the total working-age population (employment-to-population ratio) still falling short of the global benchmark of 57.9 per cent for 2025.¹² Preliminary estimates suggest modest progress in some countries, but broad-based gains remain elusive.

44. Egypt is expected to show the strongest performance, with its employment ratio rising from 40.4 per cent in 2023 to an estimated 41.0 per cent in 2025 (see table 3), supported by limited but steady growth in formal sector hiring, especially in construction and services. Morocco follows with a slight increase from 39.7 to 39.9 per cent between 2024 and 2025, with projections indicating that the ratio may reach 40.0 per cent by 2026 if current trends continue. Tunisia appears to be experiencing a sharper recovery, with its employment rate anticipated to increase from 38.5 per cent in 2023 to 39.9 per cent in 2025, although some backsliding to 39.0 per cent is projected in 2026 owing to persistent structural constraints.

45. In contrast, the employment situation in Algeria is expected to deteriorate further, with estimates showing a decline from 37.1 per cent in 2023 to 36.6 per cent in 2025, reflecting continued labour market stagnation despite ongoing public investment efforts. The Sudan remains mired in conflict and economic instability, with no expected change in its employment rate, which has held at 37.7 per cent since 2023, signalling deep-rooted challenges tied to informality, institutional fragility and conflict.

Table 3

Employment rate in North African countries

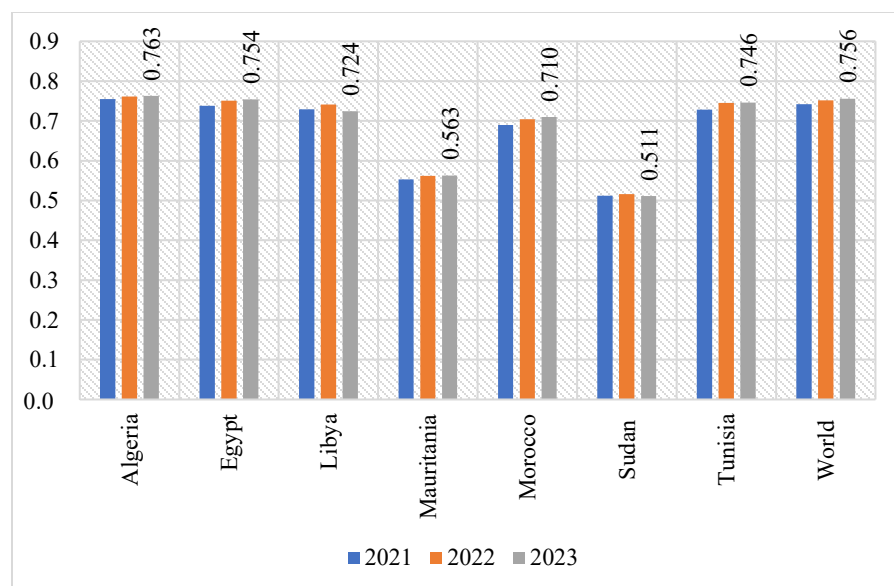
(Percentage of working-age population, 15 years and older)

Country	2023	2024	2025	2026
Algeria	37.1	36.7	36.6	36.5
Egypt	40.4	40.4	41	41.6
Morocco	39.7	39.7	39.9	40
Sudan	37.7	37.7	37.7	37.7
Tunisia	38.5	38.8	39.9	39

Source: World Bank, *Macro Poverty Outlook: Country-by-Country Analysis and Projections for the Developing World – Middle East and North Africa* (Washington, D.C., April 2025).

¹² International Labour Organization, “Employment-to-population ratio”, ILOSTAT database. Available at <https://ilo-stat.ilo.org/data/snapshots/employment-to-population-ratio/> (accessed in June 2025).

Figure IX

Human development index of North African countries

Source: Author calculations, based on United Nations Development Programme human development index. Available at <https://hdr.undp.org/data-center/human-developmentindex#/indicies/HDI> (accessed in June 2025).

46. A comparison of the human development index of North African countries (see figure IX) illustrates that Algeria, Egypt, Morocco and Tunisia have all made steady progress, securing their positions within the high human development category. Morocco stands out as the leading performer, recording the highest relative growth, largely driven by substantial improvements in life expectancy, education and income. Egypt also shows remarkable advancement, in particular through a significant rise in gross national income per capita, alongside notable gains in both schooling and life expectancy. Libya, while classified in the high human development category, demonstrates only limited progress, with stagnation in life expectancy and a decline in expected years of schooling constraining its overall development. Mauritania, despite remaining in the medium human development category, has made important strides in longevity and education, although income growth has been comparatively modest. The Sudan, however, continues to fall within the low human development category, reflecting persistent challenges in both economic and social development.

47. In 2025, social progress in the subregion remains uneven, as modest gains in the human development index rating contrast with weak labour market performance. While some countries show slight improvements in employment, structural barriers and informality continue to limit inclusive growth and poverty reduction across the subregion.

VII. Strategic policy directions: building resilience and prosperity

48. Economic recovery in North Africa remains precarious, shaped by global uncertainties, geopolitical tensions, regional conflicts, climate shocks and deep-rooted structural weaknesses. To

chart a path towards sustainable and inclusive growth, countries in the subregion must pursue a comprehensive and coordinated reform strategy anchored in macroeconomic stability, structural transformation, improved competitiveness, climate resilience and institutional strength. While national contexts differ, the shared challenges across the subregion, such as overdependence on hydrocarbons resulting in fiscal pressures and high unemployment, require urgent and cohesive policy responses. Strengthening resilience to climate change, including by investing in renewable energy, managing water resources and developing climate-smart infrastructure, must be integrated into fiscal, sectoral and investment planning to safeguard long-term growth and stability.

49. In Algeria, economic prospects are still heavily tied to volatile hydrocarbon markets and water-stressed agriculture. To mitigate these risks, the country must accelerate economic diversification by investing in such high-value-added non-oil sectors as manufacturing and renewables, improving the investment climate and unlocking the potential of its human capital.

50. Egypt, meanwhile, faces compounded external shocks, from disruptions to the collection of revenue from the Suez Canal to growing fiscal strain from refugee inflows and inflation. The country must continue to strengthen foreign exchange earnings through export promotion, rationalize public spending and ensure flexible yet credible monetary policy anchored by central bank independence. Libya, despite vast oil reserves, remains exposed to fiscal and political volatility. The private sector is constrained by legal complexity and weak governance. Broadening the tax base, improving oil revenue transparency and expanding infrastructure investment are vital to building resilience and fostering inclusive development.

51. The economic outlook of Mauritania is clouded by the potential decline in aid, security risks in the Sahel, climate change and falling revenue from the extractive sector. Strengthening natural capital governance, accelerating implementation of gas projects and crowding in private investment through structural reforms will be critical. Morocco has made significant advances in institutional reform, governance and digitalization, but faces persistent inequality, labour market stagnation and water scarcity. Ongoing efforts to enhance social protection, tax mobilization and public-private partnerships are vital to addressing rising socioeconomic vulnerabilities. Tunisia, burdened by high public debt, slow reforms and climate-related pressures, must restructure State-owned enterprises, improve debt sustainability and create a more attractive investment environment through streamlined regulation and digitalized public services.

52. At the regional level, North African Governments must embrace a shared reform agenda centred on efficient fiscal consolidation, coordinated monetary frameworks and export-led growth. Fiscal policy should shift from a focus on austerity towards smarter allocation, curbing untargeted subsidies, prioritizing productive infrastructure and expanding green investment. Such countries as Egypt need to realign capital spending and broaden their tax bases, especially in informal and rentier sectors. Monetary policy must be transparent and rule-based to anchor inflation expectations and restore investor confidence, with enhanced regional monetary cooperation providing further shock absorption.

53. To enhance external resilience, targeted sectoral investment and trade integration are essential. Mauritania and Morocco show the benefits of investing in strategic sectors such as mining, energy and automotive manufacturing. Algeria and Libya must use hydrocarbon revenue to build sovereign wealth funds and invest in long-term diversification. Harmonizing standards

and improving cross-border infrastructure under the African Continental Free Trade Area can unlock significant trade and amplify the benefits thereof.

54. Inclusive growth must be placed at the centre of policy design. Tackling high youth unemployment, especially among graduates, requires deep labour market reform, increased vocational education and the provision of support for entrepreneurship. Expanding access to digital infrastructure, financial services and business development tools will empower small and medium-sized enterprises. Finally, human capital development, social cohesion and environmental sustainability, including access to climate finance and regional participation in carbon markets, are not only moral imperatives but strategic necessities for long-term peace, prosperity and resilience.