EGYPT

Highlights

- **The economic situation continued to strengthen.** Real gross domestic product (GDP) grew by 5.6 per cent in the fiscal year 2018-19, the highest rate in 11 years; inflation declined markedly to one-digit levels; the fiscal and current account deficits narrowed; and unemployment has declined to its lowest level in eight years.
- **Reforms under the Egypt Tourism Reform Programme were reflected in an increase in competitiveness and attractiveness.** Egypt had the fourth-highest performance improvement in the World Economic Forum's Travel and Tourism Competitiveness Index 2019, the World Travel and Tourism Council awarded Egypt the annual "2019 Global Champion Award" for promoting tourism resilience, the United Kingdom lifted flight restrictions to Sharm El Sheikh, and tourism revenues increased to US$ 12.5 billion in the fiscal year 2018-19; a record high.
- **Structural reforms have progressed strongly.** The government has taken effective steps towards reforming energy subsidies, widening social protection coverage, strengthening tax collection, and deepening the efficiency of financial markets, in addition to amending the investment law.

Key priorities for 2020

- **Measures to improve private investment should be prioritised.** The laws encouraging private participation in certain public-dominated sectors should be implemented, and interest rates – led by Central Bank of Egypt (CBE) policy rates – should continue to be lowered, in line with the decline in inflation.
- **Sustained and advanced implementation of structural and fiscal reforms is essential to consolidating the gains in macroeconomic stabilisation.** Expected reforms in the coming year include conducting a medium-term revenue strategy, promoting a comprehensive privatisation of state-owned enterprises, improving the availability of and access to industrial land, reforming competition policies, and implementing e-public procurement.
- **Implementation of the National Water Resources Plan is needed to develop solutions for water scarcity.** Egypt is already below the United Nations' water poverty threshold and is approaching a state of "absolute water crisis". There is an urgent need to develop non-renewable subterranean water extraction methods, desalinate water, manage wastewater and ration water usage.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019
GDP growth	4.4	4.3	4.2	5.3	5.6
Inflation (average)	11.0	10.2	23.5	20.9	13.9
Government balance/GDP	-11.4	-12.5	-10.9	-9.7	-8.2
Current account balance/GDP	-3.7	-6.0	-6.1	-2.4	-3.1
Net FDI/GDP [neg. sign = inflows]	-1.9	-2.0	-3.3	-3.0	-2.2
External debt/GDP	14.5	16.8	33.4	37.1	34.1
Gross reserves/GDP	5.9	5.1	13.0	17.4	14.5
Credit to private sector/GDP	25.5	26.3	28.3	24.4	22.9

* Data for Egypt corresponds to fiscal year, July to June, except for reserves and credit to the private sector.

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Macroeconomic performance

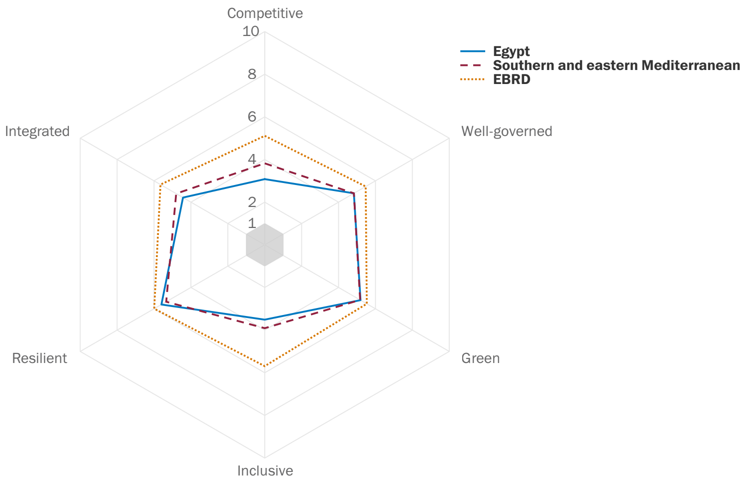
Real GDP growth continued to increase, reaching its highest level in 11 years. It reached 5.6 per cent in the fiscal year 2018-19, mainly driven by rising net exports and investments. The gas, tourism, trade and construction sectors were the main contributors to the strong growth. Meanwhile, unemployment dipped to 7.5 per cent in the second quarter of 2019, the lowest level since 2011, compared with its peak of 13.2 per cent in the fourth quarter of 2013. The continued contraction in the unemployment rate is mainly due to the sound implementation of economic and structural reforms – which resulted in a number of investment opportunities – and the implementation of major national development projects.

Inflation has decreased to its lowest rate in more than six years. Year-on-year inflation declined from its record high level of 33.0 per cent in July 2017 to 4.8 per cent in September 2019. The decline is mainly due to currency appreciation and a slowdown in food inflation. Following the moderation of underlying inflationary pressures, the CBE continued loosening its monetary stance by cutting its discount rate by 150 basis points in August and a further 100 basis points in September 2019, to 13.75 per cent.

The fiscal position continued to improve. In fiscal year 2018-19, the fiscal deficit narrowed to 8.2 per cent of GDP, from 9.7 per cent in the previous fiscal year, thanks to lower subsidies and lower interest payments (relative to GDP). The current account deficit widened slightly to 3.1 per cent of GDP in the fiscal year 2018-19, from 2.4 per cent in the fiscal year 2017-18. Lower remittances and non-oil exports – mainly gold – were only partially offset by a narrower oil trade deficit (due to Egypt's achievement of self-sufficiency in oil as of October 2018) and stronger tourism revenues. Inflows of foreign direct investment to Egypt are stable at US$ 10.2 billion in the fiscal year 2018-19, and are mainly in the oil sector. International reserves have increased to US$ 45.1 billion in September 2019, covering over eight months of imports.

Robust economic growth is expected to continue in the short term. In the fiscal years 2019-20 and 2020-21, we expect GDP to rise by 5.9 per cent. Growth will be supported by the continued strengthening of the tourism sector and of exports, large public construction projects including the building of the new administrative capital, natural gas production from the Zohr field and other new discoveries, the reengagement of private investors – both domestic and foreign – following the recent trend of interest rate cuts and the continued implementation of business environment reforms and prudent macroeconomic policies. The main risks to the outlook arise from a persistent wait-and-see approach taken by foreign investors, the erosion of competitiveness because of the recent appreciation of the pound, and the negative outlook for the economy of the European Union, Egypt's main trading partner. The risks are partially mitigated by the authorities' demonstrated commitment to the implementation of structural reforms.

Assessment of transition qualities (1-10)



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Major structural reform developments

The government continued to implement fuel and electricity subsidy reforms, and has increased metro ticket prices. In June 2019, the government hiked the ticket price on the third Cairo metro line after adding three new stations. Ticket prices had tripled in May 2018, which also saw the pricing scheme change to a tier system based on distance travelled. In July 2019, electricity tariffs for residential consumers increased by 14.9 per cent on average, and tariffs for commercial consumers rose by between 7.0 and 22.0 per cent. Electricity subsidies will be phased out fully by the middle of 2022. In July 2019, the government also raised fuel prices between 16.0 and 30.0 per cent in order to achieve cost-reflective prices, improve energy consumption efficiency and free up fiscal resources for development spending. The government will start applying the new fuel pricing indexation mechanism to all petroleum products in the fourth quarter of 2019.

The Central Bank of Egypt introduced the benchmark Cairo Overnight Index Average. The introduction of the risk-free interest rate benchmark in August 2019 will lay the foundation for the enhancement and improved efficiency of the market. The new benchmark was developed by the Egyptian Money Market Contact Group, which brings together the central bank, selected commercial banks and the EBRD.

Plans are advancing for a sharp increase in the minimum capital base requirements. Under a draft bill on banking and financial institutions, presented to the parliament in May 2019, the capital base of local banks will be raised tenfold to EGP 5 billion (around US$ 300 million), while the subsidiaries of foreign banks will face a threefold increase to US$ 150 million. The banks will have a three-year deadline to comply with the new regulations. The proposed bill aims to boost the banks' financial strength and ability to withstand competition from other banks in the region.

Social protection measures have been widened. The government has increased spending allocations to commodity goods – including bread – and pension funds, as well as the *Takaful* and *Karama* (solidarity and dignity) programmes, in addition to increasing salaries and pensions in the fiscal year 2019-20. Furthermore, the government has started the *Forsa* (chance) programme, which helps create job opportunities, the *Mastoura* (covered or guaranteed) programme, which helps with microcredit for women, and the *Sakan Karim* (decent accommodation) programme, which promotes access to clean drinking water and sanitation. Meanwhile, in July 2019 the Ministry of Health launched a new comprehensive healthcare insurance system for all segments of society.

The Ministry of Petroleum and Mineral Resources has proposed new terms and rules on mining gold and mineral resources. In July 2019, the parliament approved amendments to the law, which aim to attract reliable investments, especially in gold mining, by granting licences to investors and offering more flexible terms for exploring and bidding.

The Investment Law is being amended. The objective of the amendments, approved by the parliament in July 2019, is to attract more investments in the most economically disadvantaged provinces, improve the standard of living of citizens and diversify the sources of growth nationwide. The amendments also aim to grant incentives for the expansion of existing investment projects, set new conditions for establishing new production lines and create new business opportunities. In addition, the General Authority for Investment will monitor foreign inflows of direct investment in order to reach accurate figures on the volume of investment.

Credit ratings for SMEs are being enabled. In September 2019, the Egyptian Financial Regulatory Authority approved the offering of licences to credit rating companies specialising in SMEs. These licences will enable SMEs credit rating companies to practice their activities in the Egyptian market and provide SMEs with the required funds for their projects. This will be achieved through acquiring loans and issuing various kinds of bonds, including medium-term bonds for capital asset financing and short-term bonds for working capital financing.

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Tax laws are being consolidated. In June 2019, the cabinet approved a draft unified tax law, and committed to implementing a new tax system by June 2020. The unified tax law regulates the procedures for linking and collecting income tax, value added tax, the development of revenues, stamp duty, and other taxes of a similar nature. The law aims to consolidate the provisions governing these procedures and facilitate their application, depending on modern technical means. The Ministry of Finance is planning to issue a small and medium tax treatment law to create incentives for firms in the informal economy to register their businesses.

Significant progress has occurred in the tourism sector. In November 2018, the Ministry of Tourism launched the Egypt Tourism Reform Programme (E-TRP). The vision was to achieve a sustainable tourism sector through implementing structural reforms that strengthen the sector's competitiveness, in line with international best practices. Historically, tourism accounted for over 15 per cent of GDP, and was mainly driven by the private sector, which accounts for 98 per cent of the sector. Travel and tourism revenues contributed 51.5 per cent of total services exports in the fiscal year 2018-19. E-TRP was designed as a comprehensive, coherent and consistent policy framework, with structural reforms established on five reform pillars; institutional reforms, legislative reforms, promotion and marketing, infrastructure and tourism development, and global tourism trends. These efforts were reflected in Egypt being granted the fourth-highest performance improvement in the World Economic Forum's Travel and Tourism Competitiveness Index 2019. The World Travel and Tourism Council awarding Egypt the annual "2019 Global Champion Award" for promoting tourism resilience. Moreover, this has also been reflected strongly in tourism revenues increasing to US$ 12.5 billion in the fiscal year 2018-19; an all-time high.

JORDAN

Highlights

- **The economic situation continues to be challenging.** Growth in 2018 – at 1.9 per cent – recorded its lowest level in 23 years, and remained around the same level in the first half of 2019, while unemployment is high and increasing.
- **The pace of fiscal consolidation progressed slightly.** Additional revenue and expenditure measures were adopted to reduce the fiscal deficit and contain high public debt levels.
- **Structural reforms continued to target inclusive growth and private sector participation.** Jordan was among the top 20 improvers in the World Bank's *Doing Business 2020* report. Recent reforms include: enforcing the new income tax and insolvency laws, implementing a financial inclusion strategy, promoting energy efficiency projects, enacting the long-delayed amendment to the secured lending law, and using movable assets as collateral for small and medium-sized enterprises (SMEs).

Key priorities for 2020

- **Trade needs further diversification in terms of destination, routes and products.** Jordan needs to increase the economic complexity of export products and to improve its integration into global value chains.
- **Addressing water scarcity is crucial for further economic growth**. Given that Jordan is one of the most water-scarce countries in the world, policies are needed to secure a sustainable use of water. This would contribute to attracting private investors in the agriculture and food-processing sectors.
- **Reducing unemployment and alleviating poverty should be achieved in collaboration with the private sector.** Efforts are required to continue simplifying business regulations, improving education and vocational training, addressing skills mismatches, and promoting women's participation in the labour force.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	2.4	2.0	2.1	1.9	2.1
Inflation (average)	-0.9	-0.8	3.3	4.5	2.0
Government balance/GDP	-8.5	-3.7	-3.7	-4.8	-3.4
Current account balance/GDP	-9.0	-9.4	-10.6	-7.0	-7.0
Net FDI/GDP [neg. sign = inflows]	-4.2	-4.0	-5.0	-2.3	-3.6
External debt/GDP	65.1	66.3	69.6	69.1	72.3
Gross reserves/GDP	43.6	39.6	38.2	34.5	37.2
Credit to private sector/GDP	72.1	76.5	80.6	82.3	n.a.

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Macroeconomic performance

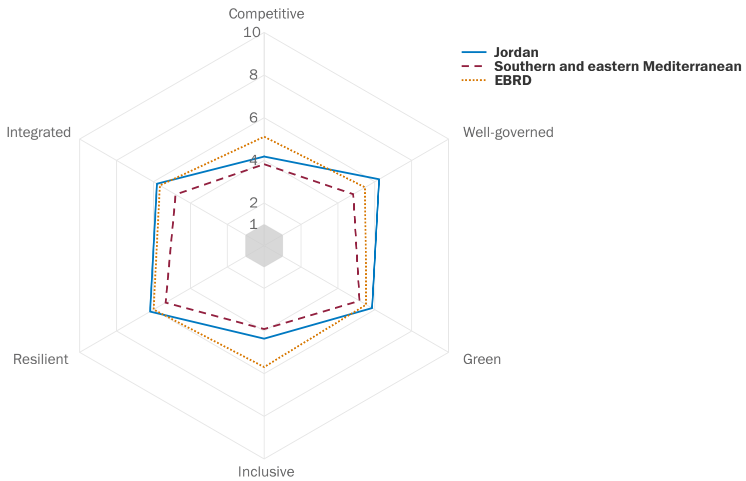
The pace of economic growth was restrained in 2018 and at the beginning of 2019. In the first half of 2019, growth remained sluggish at 1.9 per cent year-on-year. Financial services – including insurance, real estate and the business services sector – were the major drivers of growth, followed by the transport, storage and communications sectors, and manufacturing. Tourism arrivals continued to increase for the third consecutive year, but are still just 75 per cent of the record levels achieved in 2010. Inflation declined from its peak of 5.7 per cent in July 2018 to -0.3 per cent in September 2019. The unemployment rate increased to 19.2 per cent in the second quarter of 2019, and is particularly high for women (27.2 per cent) and young people (43.1 per cent).

The fiscal and external balances continued to improve. The overall fiscal deficit (excluding foreign grants) was reduced to 4.6 per cent of GDP in the first half of 2019, from 5.3 per cent in the same period of 2018, reflecting the increase in revenues and lower capital expenditures. Meanwhile, public debt remains elevated at 94.6 per cent of GDP. The current account deficit narrowed to 4.8 per cent of GDP in the first quarter of 2019, down from 9.3 per cent a year earlier. The reduction was driven by a decline in the trade deficit due to the decrease in imports of goods, and to the pick-up in exports. Gross official reserves have been decreasing since December 2017 and reached US$ 13.9 billion in July 2019, but are still covering more than seven months of imports.

The Central Bank of Jordan (CBJ) has lowered interest rates. There were three reductions in the key policy rate in 2019, in August, September and October; the first cuts in almost a decade. These were in line with interest rate changes in the United States of America and in regional markets, given the Jordanian dinar peg to the US dollar.

The outlook remains broadly unchanged. GDP growth is expected to remain subdued in 2019 (2.1 per cent) and 2020 (2.3 per cent), supported by various factors. These include rising domestic and foreign investment, the lower cost of imported energy, increased finance provided to SMEs under various schemes from the CBJ, greater certainty and confidence stemming from the commitments of the London Conference in February 2019, and the increase in exports resulting from the re-opening of the border with Iraq. Risks to the outlook include the erosion of real competitiveness stemming from the strengthening of the dinar, slow progress in implementing reforms, and the regional instability. On the upside, significant fiscal and structural reform progress would raise the growth forecast, improving private sector-led growth. Given that parliamentary elections are scheduled to be held in late 2020, current spending is expected to be higher in 2019-20.

Assessment of transition qualities (1-10)



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Major structural reform developments

Jordan is working to diversify its export and import portfolio of products and destinations. A bilateral trade agreement with Iraq was signed in February 2019, providing customs duty exemptions on Jordanian exports to Iraq. Meanwhile, the agreement in November 2018 to relax rules-of-origin of the 2016 trade agreement with the EU should lead to an increase in exports to the EU for 52 Jordanian products, including textiles and garments, engineering and electrical products, chemicals and furniture. However, the impact is yet to be seen. Regarding energy imports, the government has made efforts to secure energy supplies from neighbouring countries. In February 2019, Jordan and Iraq agreed that the former would obtain oil at concessionary prices in exchange for lowering tariffs on Iraqi goods imported through Jordan's Aqaba port. The Jordanian authorities have also reached agreements with regional countries (for example, Egypt) relating to imports of natural gas.

A new Income Tax Law has become effective. The new law entered into force in January 2019. It includes changes to corporate income taxes, withholding taxes, personal income taxes, penalties, and taxation in the development zones and free zones. It also imposes a new national contribution tax, which will be levied on the income of corporations and certain high-earning individuals in conjunction with income taxes.

The government has launched a Social Protection and Poverty Alleviation Strategy for 2019–25. The strategy "Opportunities, Dignity and Empowerment", launched in May 2019, will be implemented across many sectors, supporting needy households with access to education and free health insurance. In addition, it will introduce job opportunities to the labour market, supply families with solar power system units, and guarantee good food supplies to schoolchildren. Moreover, the strategy seeks to increase female participation in the labour market, and to decrease the poverty rate to around 12.0 per cent from its current level of 15.7 per cent.

The government is making efforts to incentivise development. A two-year development plan was introduced in November 2018 with the aim of improving education and public services and creating more jobs. The new plan is based on maintaining the rule of law, boosting productivity and strengthening solidarity, in line with priorities identified by the King in a speech to parliament in October 2018. The newly established Jordan Entrepreneurship Fund is expected to support over 800 new projects, which will create additional jobs. Furthermore, the government launched the "One Million Jordanian Coders" project in June 2019, to offer free digital skills courses and information on jobs available to qualified graduates; an approach that could provide young Jordanians with job opportunities both locally and globally.

A draft law on the fees of work permits for non-Jordanian workers has been approved. The new law, adopted in September 2019, which aims at better controlling and regulating the labour market, stipulates a new fees system for work permits for non-Jordanian workers. It also organises the issuance of two new types of work permits: the daily work permit (free permit), and the permit of workers with specialised skills.

Jordan was among the top 20 improvers in the World Bank's *Doing Business 2020* report. The country improved in the areas of getting credit, paying taxes and resolving insolvency. Access to credit was expanded after the credit bureau began offering credit scores to banks and other financial institutions. Access to credit was strengthened by introducing a new secured transactions law that regulates functional equivalents to loans secured with movable property. Jordan made paying taxes easier by integrating labour taxes and other mandatory contributions into its electronic payment system. All of these improvements helped raise Jordan to 75th place (out of 190 countries) in the global rankings, up from 104th the previous year.

LEBANON

Highlights

- **The macroeconomic environment deteriorated in 2019.** As a result, credit ratings have been cut and credit default swaps spreads have reached record levels.
- **Energy reforms are advancing.** A new electricity sector reform plan has been approved by the parliament and reforms of the electricity, oil and gas sectors are under way, strengthened by public-private partnerships (PPPs).
- **Political instability and social uprisings undermined the timely implementation of crucial reforms.** The formation of a national unity government at the beginning of 2019 initially had provided an enabling governance framework to effectively attract investments and boost economic and structural reforms, which was diluted following the resignation of the government in October.

Key priorities for 2020

- **The authorities should boost the diversification of the financial sector.** Further efforts should be made to expand the non-bank financial sector, including microfinance, equity finance, leasing and insurance activities.
- **More labour market opportunities are needed for excluded groups.** Creating employment opportunities could be supported by the improvement of technical and vocational education and training (TVET), and the provision of equitable access to economic opportunities for women and young people.
- **A scaled-up National Poverty Targeting Programme should accompany fiscal tightening and reforms.** The government should widen the current social safety net and broaden coverage of healthcare programmes to the poor and most vulnerable segments of society, in order to protect them from the short-term impacts of austerity measures.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	0.4	1.6	0.6	0.2	0.2
Inflation (average)	-3.7	-0.8	4.5	6.1	3.1
Government balance/GDP	-7.5	-8.9	-8.6	-11.0	-9.8
Current account balance/GDP	-19.3	-23.1	-25.9	-25.6	-26.4
Net FDI/GDP [neg. sign = inflows]	-3.0	-3.1	-2.3	-2.4	-3.0
External debt/GDP	166.6	182.0	189.4	191.1	195.7
Gross reserves/GDP	73.5	78.5	76.1	64.7	54.1
Credit to private sector/GDP	100.5	103.8	106.9	97.8	n.a.

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Macroeconomic performance

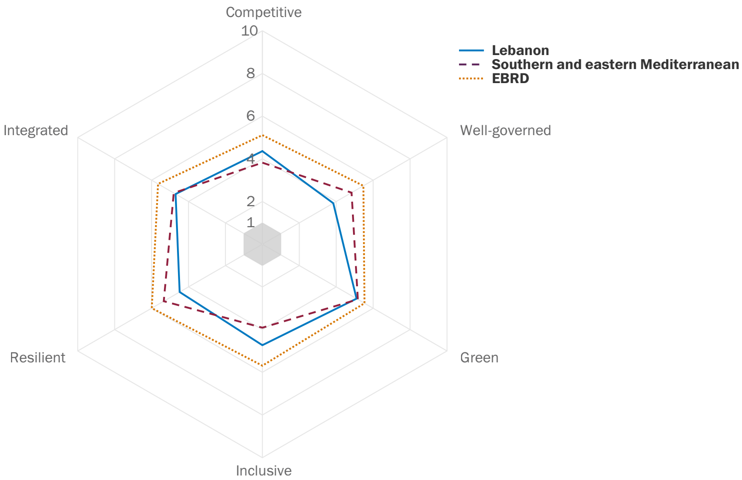
Economic growth remained sluggish in 2018. Gross domestic product (GDP) grew by a mere 0.2 per cent, mainly driven by private consumption, tourism and exports. The removal of the travel ban to Lebanon in a number of Gulf countries led to an improved performance in the tourism sector, which subsequently benefited private consumption. Furthermore, exports also rose, driven by the opening of land routes with Syria. Inflation moderated to 1.2 per cent year-on-year in August 2019, down from a peak of 7.6 per cent in June 2018, due to an easing in food-price inflation.

The fiscal situation is increasingly challenging. The fiscal deficit widened in 2018 to 11.0 per cent of GDP, as efforts to rein in spending were hindered by political opposition and post-election deadlock from the middle of 2018. Transfers to Electricité du Liban amounted to US$ 1.75 billion, or 3.1 per cent of GDP, mainly because of higher international oil prices. Interest payments also increased, amounting to one-third of total spending, leaving little room for other current or capital spending. The first half of 2019 witnessed an improvement in fiscal conditions, with the budget deficit narrowing by about 20.0 per cent. However, the target of a deficit of 7.0 to 8.0 per cent of GDP in 2019 will be difficult to achieve. Meanwhile, public debt is still the third-highest in the world, at more than 150.0 per cent of GDP as of the end of June 2019.

External imbalances have widened. The current account deficit remained exceptionally high in 2018, at an estimated 25.6 per cent of GDP, the third-highest in the world. This was due to the continued appreciation of the real effective exchange rate (4.4 per cent year-on-year in June 2019) and a large import bill (59.0 per cent of GDP), which was only partially compensated by exports of services (27.9 per cent of GDP) – mainly tourism and financial services. Tourist numbers increased by 7.6 per cent in the first eight months of 2019, mainly due to an increase in tourist arrivals from Gulf Cooperation Council countries, signalling the best tourism season since 2010. Non-resident deposits grew by 0.7 per cent in July, and the net foreign assets of the banking sector (excluding Banque du Liban and gold) declined by 8.7 per cent. Foreign exchange reserves stood at US$ 31.1 billion at the end of July 2019, a US$ 2.6 billion decline since the beginning of the year.

Growth is expected to remain subdued. Growth is expected to remain stagnant in 2019, before falling into negative territory in 2020. However, the outlook remains uncertain, with significant downward risks, given the political instability and social uprisings in the fourth quarter of 2019, which are undermining the timely implementation of crucial fiscal, energy and structural reforms.

Assessment of transition qualities (1-10)



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Major structural reform developments

The government has approved a new electricity-sector reform plan. Demands on the electricity network have risen markedly since 2012 because of the arrival of more than one million Syrian refugees, which put huge pressure on the electricity national grid. The 10-year plan, approved in April 2019, targets improved electricity generation, transmission and distribution, as well as the elimination of the deficit of Electricité du Liban by 2020. The intention is to reduce the current daily and prolonged blackouts by bridging the supply shortfall. The plan sets out a target of building six new gas-fired power plants over the next six years to cover demand and reduce dependence on temporary capacity, in addition to diversifying the sources of renewable energy. Meanwhile, a set of regulatory and electricity tariff reforms will be considered to attract private investments in energy infrastructure, which will help in addressing infrastructure gaps. Furthermore, the parliament approved a law in April 2019 allowing the government to grant licences for electricity production to private companies.

Plans for increasing renewable energy are advancing, alongside further oil and gas exploration. The government has a target of achieving 12.0 per cent of the energy mix from renewable energy by 2020 and 15.0 per cent by 2030. The government is working on increasing the share of wind and solar energy, alongside hydropower, through PPPs and technology transfers. The government has also launched several solar photovoltaic and wind farm projects under power purchasing agreements, in addition to improving electricity generation from renewable sources to secure a stable and adequate supply for the national grid. Meanwhile, the second licensing round for offshore oil and gas exploration and production was launched in April 2019, and a law for the creation of a sovereign fund for the oil and gas sector is currently awaiting approval.

The Capital Markets Authority has launched an Electronic Trading Platform (ETP). The platform, launched in June 2019, will start its operations within a year. It aims to provide the necessary equity and liquidity for small and medium-sized enterprises and facilitate access to the Lebanese financial markets. In that context, the ETP will contribute to boosting investments in the Lebanese knowledge economy. In addition, it will cooperate with other exchanges around the world, and will attempt to attract investments from the Lebanese diaspora, enabling them to trade and invest in Lebanon electronically.

The Code of Commerce has been amended. The new amendments were approved in March 2019 and entered into force in July 2019. They are intended to modernise the legal framework for companies and improve the business environment. The law also aims to ease the conditions for establishing a limited liability company in Lebanon by no longer requiring firms to have three partners in order to register.

A national statistic framework for TVET for 2018-22 has been launched. The framework articulates the key pillars for reforming the TVET system, with the aims of reducing the inclusion gap through improved employability of young people and helping businesses grow by ensuring the availability of a skilled workforce. Meanwhile, the role of the private sector in developing the TVET system is particularly important, given the market's inability to create enough jobs – and the right jobs – to accommodate highly skilled graduates, and given the scarcity of skilled labour due to migration.

The parliament has endorsed an e-transaction law. The law, enacted in January 2019, governs digital documents and contracts for individuals and businesses. It brings the country's e-transactions regulations in line with international best practices, and governs the legal rights and penal provisions for the misuse of data, privacy and modification. The new law also sets forth legal aspects for e-commerce, monetary guarantees and e-banking, with e-checks and digital checks being introduced under the supervision of the Bank of Lebanon.

A new Anti-Corruption Law has been adopted. The law was adopted in June 2019 and is part of the anti-corruption national strategy initiated in 2018, as part of the government's reform agenda prepared and presented at the CEDRE conference. It aims to address the widespread corruption in the public sector, and paves the way for establishing a National Anti-Corruption Commission.

MOROCCO

Highlights

- **Growth and fiscal consolidation are slowing down.** Gross domestic product (GDP) growth slowed to 2.6 per cent year-on-year in the first half of 2019, mainly due to a drop in agricultural production. Meanwhile, fiscal consolidation continued at a slower pace and unemployment remains high among young people and women, particularly in urban areas.
- **A multi-year privatisation programme is under way.** The privatisation programme aims to improve the performance of state-owned enterprises (SOEs) and governance in the public sector, thus leading to further incentives for public-private partnerships.
- **Structural reforms are advancing.** The authorities recently accelerated the implementation of business reforms, enhanced competition, lowered hiring costs, and boosted financial and gender inclusion.

Key priorities for 2020

- **Economic diversification is needed to boost economic growth and to promote employment.** It is essential to divert the triggers of growth away from dependence on agriculture and to decrease the impact of rainfall on economic growth.
- **Measures to enhance the efficiency of the labour market are needed.** The authorities should ease restrictive regulations, support labour mobility across highly productive sectors and tackle informality, as well as enhance the quality of the educational system and vocational training and address skills mismatches.
- **Commitment to structural reforms should continue.** Top priorities in the short term include developing regional transportation, modernising the irrigation system and introducing social programmes that efficiently target the most vulnerable households.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	4.5	1.1	4.2	3.0	2.7
Inflation (average)	1.5	1.6	0.8	1.9	0.6
Government balance/GDP	-4.2	-4.5	-3.5	-3.7	-3.7
Current account balance/GDP	-2.1	-4.0	-3.4	-5.4	-4.5
Net FDI/GDP [neg. sign = inflows]	-2.6	-1.5	-1.5	-2.5	-1.7
External debt/GDP	33.4	33.7	34.5	31.1	32.5
Gross reserves/GDP	22.5	24.3	23.9	20.6	21.0
Credit to private sector/GDP	62.4	62.5	61.6	60.5	n.a.

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Macroeconomic performance

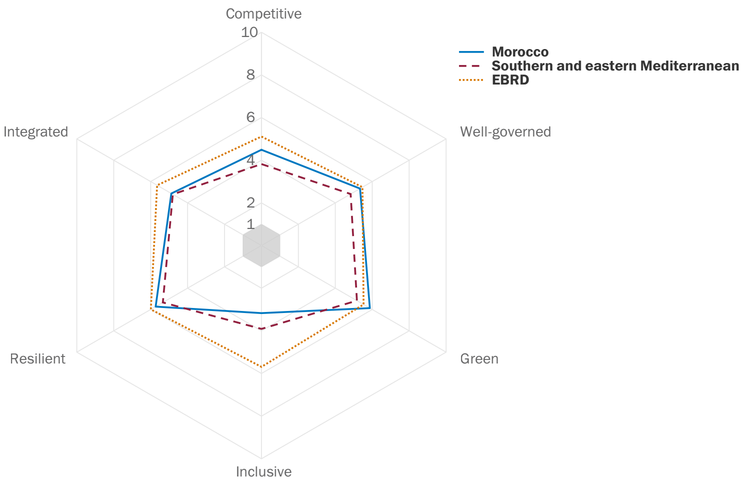
Economic growth slowed in 2018 and the first half of 2019. In 2018, the rate of GDP growth was 3.0 per cent, compared with 4.2 per cent in 2017, the slowdown being mainly due to falling agricultural output. This pattern continued in the first half of 2019, as growth decelerated to 2.6 per cent year-on-year, compared with 3.5 per cent over the same period in 2018, as a result of poor rainfall. Inflation remained low at 0.3 per cent in September 2019, due to lower prices of food, oil and lubricants, with average inflation in the first nine months of the year standing at only 0.2 per cent. Despite the poor harvest and substantial agricultural job losses, unemployment declined from 9.8 per cent in 2018 to 8.5 per cent in the second quarter of 2019, but a very high unemployment rate persists among young people in urban areas, at 40.3 per cent in mid-2019.

Fiscal consolidation continued, but at a slower pace. The fiscal deficit (including privatisation proceeds) narrowed slightly to 3.6 per cent of GDP in the first half of 2019 (compared with 3.7 per cent of GDP in 2018). The deficit was wider than the government's target of 3.0 per cent of GDP, mostly because of a sharp rise in oil prices and the subsequent increase in the cost of energy subsidies for liquefied petroleum gas, as well as lower-than-expected grants from the Gulf Cooperation Council. Meanwhile, public debt remained broadly stable at 64.9 per cent of GDP in 2018.

The current account deficit widened to 5.4 per cent of GDP in 2018. This was due to higher imports, mainly energy and capital goods, only partly balanced by increased exports of phosphate, aeronautics and cars. Tourism picked up in the first half of 2019 by 6.6 per cent compared with the same period in 2018. The flow of foreign direct investments declined by 19.6 per cent in the first half of 2019, compared with the same period in the previous year. International reserves increased to US$ 24.4 billion in July 2019, covering 5.3 months of imports.

Growth is expected to remain moderate in 2019-20. GDP is expected to grow at 2.7 per cent in 2019, improving gradually to 3.3 per cent in 2020. The increase in 2020 is expected to be driven by stronger non-agricultural growth, – particularly in mining and the automotive and aeronautics industries – a rebound in agriculture, continued recovery of tourist arrivals, improved fiscal management and an increase in foreign direct investment. Downside risks include falling growth in Europe, lower commodity prices, rising social discontent and the vulnerability of agricultural production to weather and price developments.

Assessment of transition qualities (1-10)



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Major structural reform developments

The government has initiated an overhaul of SOEs. The reform will result in the government withdrawing from sectors that could be covered by the private sector. A draft bill to expand the list of companies eligible for privatisation was adopted by the Government Council in November 2018. The intention is to raise up to MAD 6 billion (US$ 620 million) in privatisation proceeds. The government started implementing the privatisation programme in June 2019, with the sale of 8.0 per cent of its shares in Maroc Telecom.

The King has launched a new economic development model. The new model, launched in July 2019, is planned to be the driving force of inclusive growth, social equity and sustainable development. In this regard, it seeks to address the shortcomings of the former development plan and reduce social disparities through improving living conditions in rural areas, fostering private-sector investment in communal agricultural land and promoting vocational training.

Morocco continues to make significant progress in easing business conditions. The country rose to 53rd place in the World Bank's *Doing Business 2020* report, compared with 115th in 2011. Significant improvements have been made in dealing with construction permits, getting electricity, protecting minority investors, paying taxes, trading across borders, enforcing contracts and registering property. However, several obstacles continue to hinder Morocco's business environment. These include shortages of highly skilled labour, inefficient bureaucracy, regional disparities and non-inclusive economic growth.

Fiscal decentralisation has progressed. A draft law to reform the Regional Investment Centres was submitted to the parliament in October 2018. The law aims to strengthen the role of these centres in encouraging and promoting investments, as well as exploiting further investment opportunities. In addition, the decentralisation charter was implemented in late 2018 and transparent criteria for the transfer of public resources to regions were adopted.

New laws on access to information and digital platforms were introduced in 2019. They aim to reinforce public accountability and transparency, in addition to making the public sector more transparent and accountable, simplifying administrative procedures, promoting e-government and countering corruption.

Education reforms are advancing. The Ministry of National Education, Vocational Training, Higher Education and Scientific Research launched the national platform Maroc Université Numérique in July 2019. This platform, the first of its kind in Morocco, and indeed in Africa, aims to develop private online courses for small groups. It is intended to solve issues related to overcrowding in universities and to improve the quality of training. Parliament also approved a new framework law for education, which aims to promote access to equal education for all Moroccan citizens and allows technical subjects to be studied in foreign languages. The government has increased social spending for the education and health sectors in the 2019 budget to help move towards universal access to pre-school by 2027 and to finance the expansion of the Tayssir facilitation programme. This programme aims to increase student participation in primary schools and reduce the dropout rate, through providing conditional cash transfers to families with children aged six to 15.

A national strategy for financial inclusion is under way. The strategy, approved in March 2019, supports access to finance for small and medium-sized enterprises, as well as women and young people. In addition, it aims to increase financial literacy, expand electronic payment infrastructures and ease constraints on microcredit activities. Furthermore, in July 2019 the parliament approved a law governing Sharia-compliant insurance (*takaful*) to boost Islamic finance.

Universal subsidies are being replaced by targeted mechanisms. The government plans to replace across-the-board subsidies on all remaining products with a targeted compensation mechanism. The introduction of a unified social registry will be finalised in 2019 to address the vulnerability of middle and low-income households to the impact of reduced subsidies, higher property costs and expensive alternatives to poor-quality public services.

TUNISIA

Highlights

- **Economic growth rebounded at a slower pace and unemployment remains high.** The GDP growth rate reached just 1.2 per cent year-on-year in the first half of the year. Unemployment, one of the major challenges in Tunisia, has stabilised at an elevated level.
- **Some structural reforms have progressed.** The government has taken steps in the past year to improve the business climate, reform the financial system by opening a money exchange office, and implement energy subsidies reforms, supported by improved social protection programmes.
- **A new investment law may help attract foreign interest.** The new law is encouraging investors in various ways, including through the elimination of bottlenecks, enhanced access to finance for small and medium-sized enterprises (SMEs), and the enablement of public-private partnerships (PPPs) and concessions.

Key priorities for 2020

- **Structural reforms need to be reinforced.** Key short-term priorities include energy-sector reform, adopting the law on excessive lending rates and implementing the strategy to support green tourism and to provide incentives to encourage domestic and foreign tourism.
- **The authorities should accelerate the pace of fiscal consolidation and maintain monetary tightening.** Measures are needed in order to keep a lid on current expenditures, and a tight monetary stance, supported by continued exchange rate flexibility, would help contain inflationary pressures.
- **Obstacles to private-sector participation in the economy should be removed.** Priority areas to be tackled are clarifying the ownership of land properties, ensuring the good governance of state-owned enterprises and countering corruption.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019 proj.
GDP growth	1.2	1.3	1.9	2.5	1.5
Inflation (average)	4.4	3.6	5.3	7.3	6.6
Government balance/GDP	-5.3	-6.2	-5.9	-4.6	-3.7
Current account balance/GDP	-9.7	-9.3	-10.2	-11.1	-10.4
Net FDI/GDP [neg. sign = inflows]	-2.2	-1.7	-2.0	-2.5	-2.2
External debt/GDP	63.2	66.9	82.0	86.0	92.8
Gross reserves/GDP	17.2	14.2	14.0	13.0	14.8
Credit to private sector/GDP	73.2	76.0	80.1	79.3	n.a.

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Macroeconomic performance

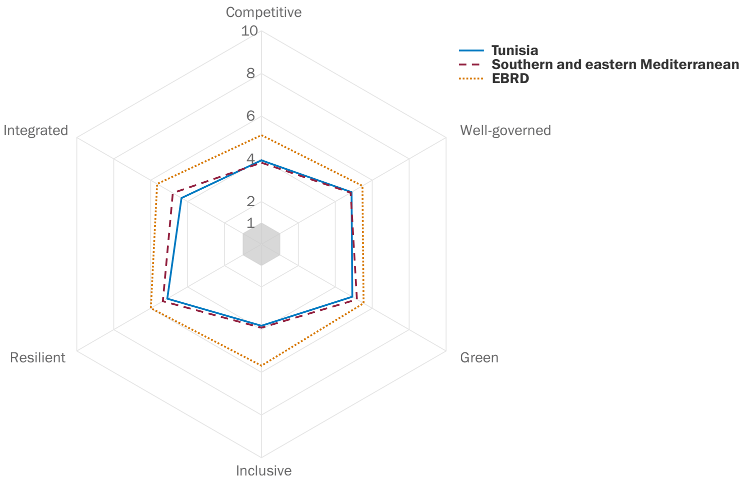
The economy grew at a slower pace in the first half of 2019. The 1.2 per cent growth year-on-year in this period, down from 2.7 per cent in 2018, was mainly driven by the fall in manufacturing industries and the decline in extraction industries, although there was an expansion in commercial services – mainly in tourism, communication and financial services – and agriculture. Unemployment remained high at 15.3 per cent in the second quarter of 2019, and especially so among young people (34.4 per cent), women (22.6 per cent) and graduates (28.2 per cent).

Inflation slowed down, but remains high. In September 2019, the inflation rate remained high at 6.7 per cent year-on-year, compared with a peak of 7.7 per cent in June 2018. Food and tobacco prices remain the main drivers of inflation, while the appreciation of the Tunisian dinar and monetary tightening by the Central Bank of Tunisia – the key interest rate was increased by 100 basis points to 7.75 per cent in February 2019 – helped keep inflationary pressures in check.

Fiscal and external deficits have fallen. The fiscal deficit declined to 4.6 per cent of GDP in 2018, from 6.0 per cent in 2017, on the back of improved tax collection. This, in turn, allowed for an increase in spending on job-creating public investment and social spending. Meanwhile, public debt (external and domestic) increased to 77.1 per cent of GDP in 2018, driven mainly by the depreciation of the Tunisian dinar, as two-thirds of the debt is denominated in foreign currency. The current account deficit narrowed to 5.7 per cent of GDP in the first seven months of 2019, compared with 6.1 per cent of GDP in the same period of 2018. This reduction was mainly due to the increase in tourism receipts and labour income, in addition to a rebound in phosphate exports and the sound performance of exports of the manufacturing industries sector, combined with a slowdown of imports. Tourism increased by 16.7 per cent year-on-year in the first six months of 2019. Meanwhile, reserves increased but remained low, covering just over three months of imports in September 2019.

The outlook remains mixed in 2019-20. In 2019, growth is expected to slow to 1.5 per cent, impeded by the delay in the implementation of structural reforms, notably due to uncertainty in the run-up to the presidential and parliamentary elections in September and October 2019, respectively. In 2020, we expect a recovery in foreign investors' confidence and in the reform momentum in Tunisia once the elections are over. This will result in significant improvements in both domestic and foreign investment, pushing growth to 2.6 per cent. Risks stem from the possibility that socioeconomic protests will disrupt production and slow progress on reforms, given the new political structure and falling growth in Europe. Upsides include improvements in tourism and investment and the restoration of confidence following the successful democratic transition, which should be reflected in an increase in productivity and growth.

Assessment of transition qualities (1-10)



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Major structural reform developments

Pension reform has advanced. A new reform law for the public pension fund was approved by the parliament in April 2019. The law raises the retirement age for civil servants from 60 to 62 as of 2020. It also imposes a 1.0 per cent social security tax on employees and a 2.0 per cent tax on employers.

Energy subsidies have been reduced after some delay. Fuel prices were raised in September 2018, but planned increases in fuel and utility tariffs for October and November 2018 were not implemented due to social tensions. Instead, the government increased the prices of fuel and other oil products by around 6.0 per cent in March 2019 and raised the prices of low-pressure natural gas and low-voltage electricity in May 2019.

Energy-sector digitisation is advancing gradually. The government started implementing a "smart grid project" in June 2019, which is part of Tunisia's energy plans in the form of a PPP. The project aims to obtain 30.0 per cent of electricity from renewable energy sources by 2025. The development of the smart grid will allow the Tunisian Electricity and Gas Company to monitor consumption patterns of the grid's power supply, leading to reduced energy losses, fewer unpaid bills, enhanced energy efficiency, an improved ecosystem and increased competitiveness of the electricity sector. The project comprises two phases: the first phase includes the installation of 430,000 smart meters over three years in the Sfax governorate in southern Tunisia; and the second phase will extend the programme to the rest of the country. Tunisia's national grid is connected to those of Algeria and Libya, and is therefore essential to improve electricity transmission and distribution networks across northern Africa.

A new Investment Climate Improvement Law is in place. The new law, approved in April 2019, aims to unblock investments and eliminate bottlenecks, and has four objectives. First, it tackles administrative bureaucracy, further simplifies procedures and significantly reduces paperwork. Second, it increases access to finance, notably to SMEs, by reducing the costs of financing through subsidies. Third, the new law includes provisions allowing SMEs to access concessions and private operators to intervene in the more advanced stages of projects. The fourth objective is to improve corporate governance in the private sector, in order to protect savers and minority shareholders.

The government has widened social protection to cover vulnerable segments of society. In March 2019, the government improved access to public health care and established the AMEN social database. Social spending increased in 2018 through the expansion of the main social programme for vulnerable families (Programme National d'Aide aux Familles Necessiteuses). In addition, a database on vulnerable households was established in March 2019 in order to better target low-income households. Furthermore, new medical and payment cards have been issued. The parliament adopted the CNRPS reform law, which became effective in May 2019, limiting the short-term need for government support. A decree based on similar reform parameters for the private pension fund is about to be passed.