EGYPT

Highlights

- **Macro and socio-economic conditions continued to improve.** The economy grew at 3.3 per cent in fiscal year 2020-21 (slightly below the previous year's growth rate), unemployment fell, inflation is low, a primary fiscal surplus was achieved and foreign exchange reserves are accumulating.
- **The government extended some Covid-19 response measures and provided support to certain sectors.** The initiative to support the tourism sector was extended for an additional year until the end of 2021 and the Central Bank of Egypt (CBE) directed commercial banks to increase their financing for micro, small and medium-sized enterprises (MSMEs) from 20 to 25 per cent of their credit facilities portfolio.
- **The government successfully completed the International Monetary Fund (IMF) programme and launched its National Structural Reform Programme.** The latest phase of reforms focuses on supporting private-sector-led growth and job creation and will capitalise on reforms implemented since late 2016 under successive IMF-supported programmes.

Key priorities for 2022

- **Implementing the recently adopted medium-term revenue and debt strategies is essential to put debt on a sustainable, declining path.** This would lower the risks arising from high financing needs, notably the external part, and would create space for more productive spending on health and education.
- **Reforms to the role of the state in the economy would support competition and create a level playing field for private enterprises.** There is a need to develop a transparent state ownership policy and governance framework, and the state's role as regulator needs to be separated from that of operator to resolve potential conflicts of interest.
- **Integration into global value chains should be stepped up.** There is a need for a master plan for logistics, as well as for upgrading infrastructure and transport for better integration with other African economies. Reforms to customs and ports, including the use of automation, would facilitate and expedite exports.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021
GDP growth	4.1	5.3	5.6	3.6	3.3
Inflation (average)	23.5	20.9	13.9	5.7	4.5
Government balance/GDP	-10.4	-9.4	-8.0	-7.9	-7.3
Current account balance/GDP	-6.1	-2.4	-3.6	-3.1	-4.7
Net FDI/GDP [neg. sign = inflows]	-3.3	-3.0	-2.6	-2.0	-1.4
External debt/GDP	33.4	37.0	36.0	34.0	n.a.
Gross reserves/GDP	13.0	17.4	14.5	10.2	n.a.
Credit to private sector/GDP	28.3	24.4	22.9	24.9	n.a.

Note: Fiscal year is July-June.

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Covid-19: macroeconomic implications

Economic growth slowed in fiscal year 2020-21. Growth in fiscal year 2020-21 was 3.3 per cent, following 3.6 per cent in fiscal year 2019-20. There were improvements in the wholesale and retail trade, agriculture, telecommunications and construction, but sluggish manufacturing activity, coupled with weak tourism, slowed the recovery. Meanwhile, inflation slowed to 5.0 per cent year-on-year in the first nine months of 2021. This is at the lower end of the CBE's target of 7.0 per cent +/- 200 basis points, despite the cumulative 400 basis points cut in the CBE's policy rate to 8.75 per cent between March and November 2020. As a result, Egypt now has one of the world's highest real interest rates, which helped attract portfolio flows and stabilise foreign exchange reserves, as other traditional sources of foreign exchange (tourism and Suez Canal receipts) slowed because of the Covid-19 pandemic. At the same time, unemployment declined to 7.3 per cent in the second quarter of 2021 from a peak of 9.6 per cent in the second quarter of 2020, but the labour participation rate, at 41.9 per cent, remains below its pre-Covid-19 pandemic level of 42.7 per cent.

The fiscal position improved, but the current account deficit widened. Revenues rose, driven by an improvement in tax collection, partly thanks to new electronic systems being put in place, in addition to tax policy and revenue administration measures and the start of the recovery from the pandemic. Expenditures also increased, mainly investment and interest payments. As a result, the deficit narrowed to 7.3 per cent of gross domestic product (GDP) in fiscal year 2020-21 and the primary surplus remained at 1.3 per cent of GDP. Meanwhile, public debt increased to 91.4 per cent of GDP. On the external side, the current account balance widened sharply in fiscal year 2020-21, to 4.7 per cent of GDP from 3.1 per cent in fiscal 2019-20. Tourism revenues continued to underperform, imports increased and exports remained stagnant. Moreover, foreign direct investment (FDI) inflows declined to US$ 5.2 billion but portfolio flows recorded a strong US$ 18.7 billion inflow, against a US$ 7.3 billion outflow a year earlier, as foreign investors' confidence picked up, lured by the high real interest rates. International reserves increased to US$ 40.8 billion in September 2021 and continue to cover comfortably more than eight months of imports.

The government is actively looking to diversify its funding sources and lower its interest payment bill. In September 2020 the government issued its maiden green bond, raising US$ 750 million to fund climate-friendly projects. The government then sold US$ 3.75 billion in Eurobonds in February 2021 amid strong demand. Egypt's first issue of sukuks (Islamic financial certificates) is expected to take place in the first half of 2022, after the president ratified a law in August 2021 enabling the issue of sharia-compliant securities. Moreover, Egypt's public debt is expected to be Euroclearable in 2022, making the country more accessible to foreign investors.

The pace of GDP recovery is expected to pick up to 4.9 per cent in fiscal year 2021-22. The boom in the telecommunications sector will continue to sustain growth, the falling unemployment rates will support consumption, and private investment and FDI flows will pick up. However, risks include slow uptake of vaccination, the weak outlook in the tourism sector in view of a probable global delay in the recovery of tourism, as well as the slowing momentum of major projects implemented in different parts of the country.

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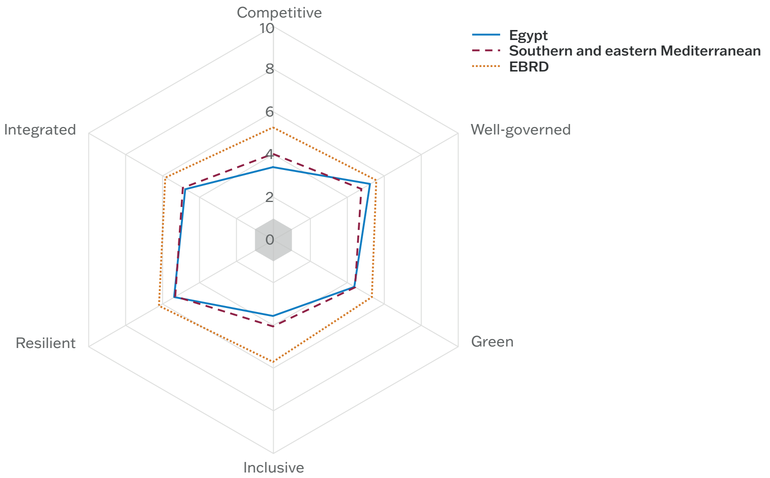
Policy response to Covid-19

Support for businesses affected by the Covid-19 pandemic has been maintained. The government decided to keep in place a package of financial support measures for businesses that were introduced in early 2020 in response to the Covid-19 pandemic. These include payments to cover the financing arrears of exporting companies, a scheme that is aimed at enabling such firms to continue meeting their current obligations. The government also extended its initiative to support the tourism sector for an additional year until the end of 2021. Banks are allowed to postpone dues and capitalise the interest rate on the principal without additional charges for a maximum period of three years. The government also extended the duration of the initiative for individuals working in the tourism sector, whereby banks can postpone their retail and mortgage loans due. Although the government's vaccination campaign was off to a slow start with only 3.7 per cent of the population fully vaccinated as of early September 2021, this had gone up to 10.5 per cent by early November 2021.

Assessment of transition qualities (1-10)



Structural reform developments

The government introduced a new phase of the National Structural Reform Programme. The new phase, announced in April 2021, focuses on structural reforms to support private-sector-led economic growth and capitalises on recent economic reforms. The three-year programme targets 6 reform pillars, 31 policies and objectives, and 100 procedural and legislative structural reforms. The authorities will continue to reform subsidies and move towards better-targeted social spending, increase investment in human capital, and focus on boosting certain sectors, including agriculture, manufacturing and information and communication technology (ICT). Other envisaged reforms include efforts to liberalise trade, improve competition and upgrade transport and logistics infrastructure.

Subsidy reforms have advanced. In July 2021 the government performed another round of electricity subsidy reforms, by hiking prices to consumers by 8 to 26 per cent, depending on consumption. Moreover, in August 2021 the president announced that the price of subsidised bread, fixed at 5 piasters (US$ 0.003) per loaf since 1988, would be increased and the savings directed to targeted social benefits, such as school meals. More details about the bread subsidy reform have yet to be announced. Meanwhile, Egypt remains the world's largest importer of wheat. Lastly, the government continued to rely on its automatic fuel indexation mechanism and fuel prices have increased three times in 2021, in line with global oil prices.

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The CBE has launched an EGP 100 billion (US$ 6.4 billion) mortgage finance initiative for low- and middle-income earners. Under the initiative, introduced in July 2021, banks and mortgage finance companies will offer loans at a declining interest rate of 3.0 per cent over a repayment period of up to 30 years. The programme aims to offer subsidised mortgages on houses valued at up to EGP 1.4 million (US$ 89,000), provided homebuyers make a 20 per cent down payment. Pensioners will also be eligible to take part in the programme.

Financing for small businesses is being expanded. In February 2021 the CBE directed commercial banks to raise financing for MSMEs to 25 per cent of their credit facilities portfolio, from 20 per cent previously. In particular, the central bank circular asked banks to direct 10 per cent of their net loan book to small enterprises. The CBE also allowed banks to finance micro and small-sized enterprises, with annual sales of less than EGP 20 million (US$ 1.3 million), without the requirement to submit their financial statements. This comes at a time when the government is increasing its focus on smaller firms and on the private sector to drive growth, create jobs and promote financial inclusion.

The government announced a minimum wage for workers in the private sector. The National Council for Wages confirmed in June 2021 that the minimum wage for private-sector employees would be set at EGP 2,400 (US$ 153) per month from January 2022. This is in line with the increase of 20 per cent in public-sector employees' wages that took effect in July 2021. This comes against a backdrop of low formal labour force participation (41.9 per cent in June 2021) and a significant portion of the private-sector workforce consisting of self-employed farmers, thus excluded from minimum wage rules. While this measure could increase purchasing power and boost private consumption, it could also force some smaller companies to lay off staff, further strengthening the informal sector. It is estimated that more than 95 per cent of companies in Egypt are MSMEs.

The Ministry of Finance continues to modernise and automate the tax management system. An electronic billing system was launched in November 2020 and, in January 2021, the ministry launched the first phase of the unified automated tax payment system for large and medium-sized companies and high-income self-employed taxpayers. It inaugurated taxpayer service offices, which provide businesses with a single online system for filing and paying taxes. The unified automated tax payment system will be implemented in four phases and is projected to be completed by the end of 2022.

JORDAN

Highlights

- **The economy is recovering slowly from the Covid-19 crisis.** The pandemic and related containment measures have led to rising public debt and record levels of unemployment, which are likely to present a difficult challenge for policymakers.
- **The authorities have extended a set of Covid-19 response measures in 2021 and developed plans to support economic recovery post-crisis.** Recovery plans are targeted at higher degrees of digitalisation and a greener and more sustainable recovery.
- **The authorities are committed to resuming reforms under the latest International Monetary Fund (IMF)-supported programme.** The 2021-24 Government Indicative Executive Programme (GIEP) is set to introduce public administration restructuring, energy and water sector reforms, policies to increase export competitiveness and more inclusive employment regulations.

Key priorities for 2022

- **Swiftly implementing key reforms envisaged under the IMF-supported programme and the affiliated 2021-24 GIEP is crucial.** These include the implementation of the ambitious three-year electricity reform plan. Reforms should be supported by a continuation of the government's anti-corruption campaign. A more agile, transparent and accountable public administration is essential to ensure credibility and trust in planned reforms.
- **A return to fiscal discipline is needed to stabilise public debt and bring it towards more sustainable levels.** Broadening the tax base, reducing tax exemptions, overhauling investment incentives and reforming the governance of the tax and customs administrations should be complemented by spending containment and subsidy reforms, as well as improving social safety nets. Rolling out a pipeline of projects to be implemented under the country's public-private partnership (PPP) scheme, in line with international best practices, is also essential.
- **There is a need to diversify sources of economic growth and tackle rising unemployment.** This would require measures to promote private-sector growth for job creation, labour market reforms to encourage female and youth employment, increased labour force participation and reduced informality in the private sector, as well as targeted employment and upskilling programmes.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	2.1	1.9	2.0	-1.6	1.5
Inflation (average)	3.6	4.5	0.7	0.4	2.0
Government balance/GDP	-3.6	-4.7	-6.0	-8.9	-7.7
Current account balance/GDP	-10.6	-6.9	-2.1	-8.0	-8.9
Net FDI/GDP [neg. sign = inflows]	-4.9	-2.2	-1.5	-1.6	-2.2
External debt/GDP	68.4	67.9	68.0	78.3	n.a.
Gross reserves/GDP	37.6	33.9	34.6	38.8	n.a.
Credit to private sector/GDP	72.4	76.5	78.1	82.9	n.a.

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Covid-19: macroeconomic implications

The economy is recovering slowly. After a 1.6 per cent contraction in 2020, growth rebounded to 1.8 per cent year-on-year in the first half of 2021. Despite a strong recovery in financial services, manufacturing and mining, the decline continued in tourism and the rebound was slower in construction, transport and communications, as well as in a wide array of services, as health restrictions lingered and demand for exports and tourist services remained weak. Meanwhile, annual inflation gradually increased in the first eight months of 2021, at an average of 1.1 per cent year-on-year, due to strong base effects from the drop in oil prices in 2020. Moreover, the unemployment rate increased to 24.8 per cent in the second quarter of 2021, one of the highest levels in the past two decades. Unemployment is particularly high among graduates (31.1 per cent), women (33.1 per cent) and young people (48.5 per cent).

Fiscal conditions recovered slightly, but the current account deficit widened. The overall fiscal deficit (excluding foreign grants) narrowed to 4.4 per cent of GDP in the first quarter of 2021, from 7.2 per cent in the same period of 2020, as growth in revenues (except for shrinking external donor support) outpaced the increase in current expenditures. However, public debt remains elevated, at 100.1 per cent of GDP in 2020. In tandem, the current account deficit widened to 15.9 per cent of GDP in the first quarter of 2021, up from 2.3 per cent a year earlier. The increase was driven by rising demand for goods imports, which more than offset the improvements in exports, in addition to the drop in tourism income as travel restrictions persisted. Gross official reserves remained relatively stable following the issue of the US$ 1.75 billion Eurobond in mid-2020, amounting to US$ 19.6 billion in September 2021 and covering more than nine months of imports.

A return to positive growth is expected in 2021, with an acceleration in 2022. We currently project GDP to expand by 1.5 per cent in 2021, as restrictions on movement and activity are gradually lifted in the second half of the year. Growth is expected to pick up in 2022 to 2.2 per cent, sustained by stronger cross-border trade and a partial recovery of the tourism sector. The economy is expected to benefit from IMF-supported reforms in the long term, but will likely remain subdued as the necessary return to fiscal discipline caps government spending. Risks to the outlook include an erosion of real competitiveness stemming from an overvalued exchange rate, regional instability and slower-than-expected recovery in partner economies.

Policy response to Covid-19

The authorities extended some of the previously implemented fiscal, social and monetary measures into 2021. In March 2021 the Central Bank of Jordan extended loan moratoria to affected sectors until the end of 2021 and expanded its subsidised small and medium-sized enterprise (SME) lending scheme by JOD 200 million (US$ 282 million). In the same month, the government announced a set of fiscal measures to the value of JOD 186 million (US$ 262 million), aimed at expanding social safety nets, supporting affected sectors and introducing employment programmes targeting young people and women.

The uptake of the Covid-19 vaccine was initially slow, but has gathered pace in recent months. More than 33 per cent of the population was fully vaccinated by early November 2021.

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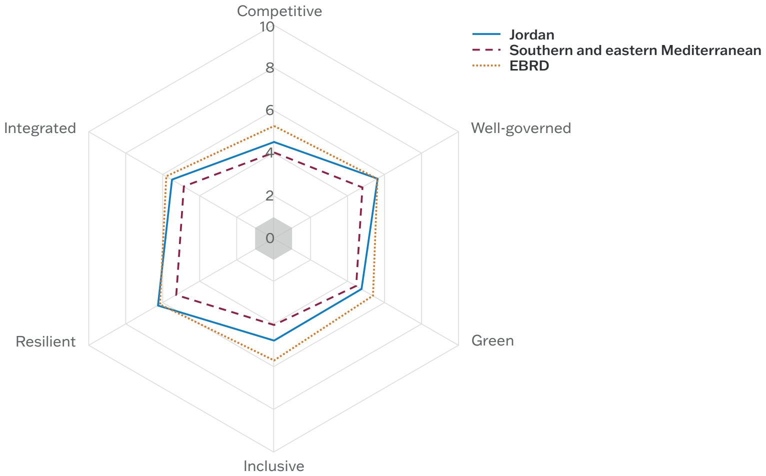
Assessment of transition qualities (1-10)



Structural reform developments

The government is continuing work under the IMF-supported programme. The new programme, approved by the IMF board in March 2020, is a four-year US$ 1.3 billion Extended Fund Facility. This is the third consecutive IMF-supported programme since 2012. It aims to achieve stronger and more inclusive growth and create jobs, with implementation centred on growth-enhancing structural reforms and a gradual reduction of the budget deficit. The first and second reviews were completed successfully, the latter in July 2021, bringing total IMF disbursements to Jordan to around US$ 900 million since the start of 2020.

The government launched its Executive Programme 2021-24, outlining its priorities and reform plans. The programme, launched in February 2021, comprises seven pillars: structural and economic reforms; rule of law and anti-corruption reforms; green and digital transformation; promotion of investment and productive sectors; infrastructure services; social services; and employment and poverty reduction. Key plans under this programme include: fiscal reforms to widen the tax base; unifying custom administration; improving public administration efficiency; revising investment regulations and activating solvency law; digitalising streamlined business registration and licensing procedures; and simplifying procedures in economic courts.

Some legal reforms are already under way. In June 2021 the government introduced amendments to the General Sales Tax Law. The amendments address previous loopholes to minimise tax evasion as well as obstacles to disbursing tax refunds. The government also approved amendments to the Companies Law to allow companies to hold general assemblies and board of directors meetings by electronic means.

An ambitious digitalisation plan has been approved. In July 2021 the government approved the 2021-25 Digital Transformation Strategy, which aims to upgrade the country's digital infrastructure, introduce digital government services, electronic identification and e-signatures, and promote the use of digital payments. The strategy aims to increase the information and communication technology (ICT) sector's contribution to GDP from 3 per cent to 7 per cent in the next five years. It plans to introduce 5G technologies and connect all government entities, 80 per cent of businesses and 55 per cent of households to fibre optic cables.

A new programme will promote the export of services by SMEs. The programme, launched by the Jordan Enterprise Development Corporation in January 2021, aims to encourage the export of services and open new markets for small exporters.

LEBANON

Highlights

- **Lebanon continues to sink into financial, economic and social crises.** Currency depreciation has deepened, the government has yet to rein in the parallel foreign exchange market, inflation continues to spiral and external imbalances point to further economic decline.
- **The pressure on financial resources is at a record high.** The government is unable to access international financial markets following the March 2020 Eurobond default, remittances and foreign direct investment are minimal and foreign currency reserves have shrunk to record low levels.
- **Progress on reforms in the past year has been negligible.** Several reforms were stalled or undermined by political paralysis, as well as the Covid-19 pandemic and the implications of the Beirut port blast.

Key priorities for 2022

- **Agreement on an International Monetary Fund (IMF)-supported stabilisation and structural reform programme remain the most immediate priority.** An agreement would help rebuild credibility and improve access to much-needed external financing. Comprehensive banking sector restructuring needs to accompany fiscal and structural reforms.
- **Comprehensive social safety nets are a pressing necessity in tandem with the reform programme.** Economic hardship, record inflation and the Covid-19 crisis have led to alarming unemployment and poverty levels.
- **Strong commitment is needed to carry on and expedite the forensic audit of Banque du Liban (BdL), retrieve stolen assets and combat corruption.** Progress in these areas would help to restore credibility in Lebanese institutions and garner public support for any proposed reform agenda.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	0.8	-1.7	-7.3	-25.0	-10.0
Inflation (average)	4.5	4.6	2.9	84.9	150.0
Government balance/GDP	-8.6	-11.2	-10.3	-3.2	n.a.
Current account balance/GDP	-26.3	-28.4	-27.6	-15.6	n.a.
Net FDI/GDP [neg. sign = inflows]	-2.3	-3.7	-3.3	-15.8	n.a.
External debt/GDP	189.6	191.7	198.3	472.3	n.a.
Gross reserves/GDP	68.0	59.3	45.9	92.9	n.a.
Credit to private sector/GDP	111.6	106.6	92.4	56.5	n.a.

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Covid-19: macroeconomic implications

Lebanon is sinking further into multi-dimensional crises. The economy is estimated to have contracted by 25 per cent in 2020, reflecting dried-up fiscal resources following the Eurobond default in March 2020, almost no capital inflows, diminishing reserves and spiralling inflation on the back of a falling exchange rate that effectively wiped out purchasing power. Political inaction prolonged the economic crisis and exacerbated unemployment and poverty. The unemployment rate is estimated to be around 50 per cent, while more than 75 per cent of the population is estimated to have fallen below the poverty line in 2020. The situation is likely to be even worse in 2021, as the economic turmoil continues to worsen and households face greater challenges accessing food, electricity, water and medicine.

The currency has continued to depreciate and the central bank is struggling to manage the parallel foreign exchange market. The *de facto* official pegged exchange rate of 1,507.5 Lebanese pounds per US dollar has been abandoned *de jure*, with the BdL allowing banks to exchange at a rate of LBP 3,900 per US dollar in April 2021 through its Sayrafa platform. The BdL later introduced a different mechanism, whereby the rate for withdrawals of US dollar deposits (up to US$ 400) was raised to LBP 12,000 per US dollar. This remains well below the parallel market rate of LBP 21,000 per US dollar as of early November 2021, implying a 90 per cent depreciation. Meanwhile, inflation continued to spiral, reaching 157.9 per cent year-on-year in March 2021, before slowing slightly to 144.1 per cent in September, as the Lebanese pound continued to depreciate. Rebuilding efforts following the August 2020 explosion in Beirut have been derailed, as importing building materials is becoming increasingly difficult without fresh US dollars. Meanwhile, the foreign currency reserves of the BdL dropped by 38 per cent year-on-year to US$ 14.2 billion in August 2021, as they were used to subsidise a range of essential imports. The country's actual net foreign assets are negative.

The ongoing political, economic and social crises, coupled with the external debt default, contributed to a narrowing of the fiscal deficit in 2020. Revenues declined by 14 per cent, with both non-tax and tax revenues dropping significantly due to the worsening economic crisis. Expenditures also fell, by 27 per cent, mainly owing to a 93 per cent decline in foreign debt service costs, traditionally the main expenditure component, and to a decline in transfers to Electricité du Liban, which are usually around 4 per cent of gross domestic product (GDP). Overall, a primary deficit of 0.2 per cent of GDP was achieved and public debt increased. Meanwhile, Lebanon is struggling to access capital markets and is opting for domestic borrowing.

External imbalances remain wide. The current account deficit was 27.6 per cent of GDP in 2019, one of the highest in the world. In 2020, it remained large, at 15.6 per cent of GDP, as both exports and imports declined, by 15 and 42 per cent, respectively. Remittances and non-resident deposits continued to decline in 2021.

The outlook remains highly uncertain and any recovery depends on the speed of reforms and the outcome of elections in March 2022. A further contraction of 10.0 per cent is expected in 2021 as a result of the ongoing economic, political and social crises, the government's inability to borrow on international markets, delays in implementing critical reforms and the drying-up of financial resources. The economy is expected to record positive growth in 2022, at 3.0 per cent, conditional on an IMF-supported programme being successfully implemented by a reform-minded government, which would allow negotiations to resume with international partners.

Policy response to Covid-19

The vaccination campaign was rolled out in March 2021 and the uptake was initially slow. However, it is picking up pace as the government attempts to minimise damages to public health in light of the worsening economic crisis. As of early November 2021, more than 22 per cent of the population was fully vaccinated.

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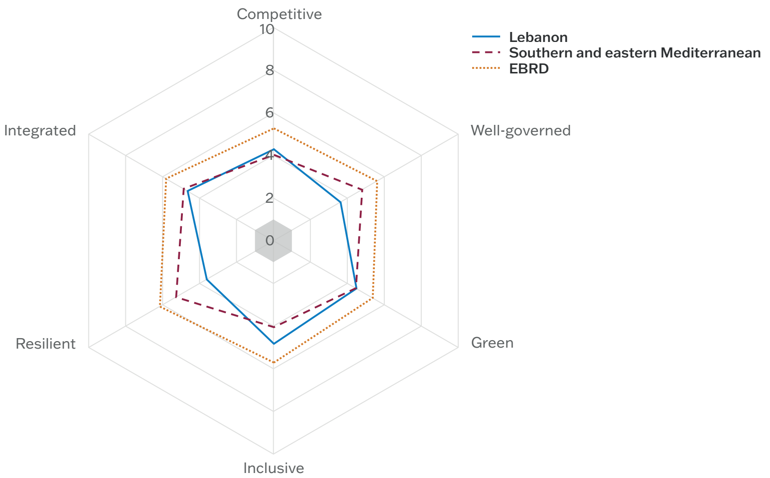
Assessment of transition qualities (1-10)



Structural reform developments

Efforts to reach agreement on an IMF-supported financing programme were derailed. Discussions with the IMF began in April 2020, but were placed on hold in July 2020. Resuming talks is conditional on the government agreeing a common approach towards – and starting to implement – reforms in key sectors. The Eurobond default in March 2020 further underlined Lebanon's inability to access external financing without IMF support. Several conferences were held to attract support for crisis-stricken Lebanon and, while some participants offered immediate relief and aid to reconstruct the port of Beirut following the August 2020 explosion, these pledges were conditional on successful government formation, which only took place in September 2021, 13 months after the previous government had resigned following the explosion.

Some reforms in early 2020 have been either halted or undermined. As an example, the forensic audit that was agreed with management consultants Alvarez & Marsal in September 2020 faced several obstacles, mainly BdL management's refusal to share necessary documentation, citing bank secrecy laws. Parliament voted to lift bank secrecy for public officials in December 2020, but the BdL did not agree to hand over documents until April 2021.

The draft capital control law proposed in mid-2020 was held back in parliament until June 2021. The draft law, which is part of the overall reform package, prompted significant opposition and was deemed ineffective unless appropriate fiscal, monetary and exchange rate policies were put in place. Irrespective of the law, it is noteworthy that informal capital controls have been enforced by the banking system since late 2019.

Lebanon's Public Procurement Law was approved by parliament and published in the Official Gazette in July 2021. The law, which was formulated in line with international best practice and will enter into force in July 2022, will improve financial governance and market competition and promote transparency and accountability in the use of revenues, especially tax revenues. Completing the main reforms mandated by the law will be essential to ensuring its correct and efficient implementation.

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Some subsidy reforms were implemented, in part to ease the unprecedented pressures on foreign currency reserves, but access to basic goods is becoming progressively difficult. From June 2020 the government hiked the price of subsidised bread seven times; it raised fuel prices in June and August 2021. It is negotiating new import destinations, such as Egypt, Jordan and Syria, for fuel in a bid to lower the energy bill. The BdL also announced it would offer credit lines for fuel imports, starting in August 2021, based on the market price of the Lebanese pound, signalling an effective end to fuel subsidies. However, delays in implementing concrete measures in a timely manner led to a further depletion of reserves and prompted the population to hoard medical and food stocks in anticipation of the remaining subsidies being lifted. As a result, access to medicine, food, fuel and other basic necessities became increasingly difficult, leading to nationwide power outages in August 2021. Access to basic necessities for the Lebanese public is further undermined by eroded purchasing power and sizeable smuggling activities along the borders.

Parliament approved a ration card programme for poor families in June 2021, which has been announced, but yet to be launched. The programme, which will cost US$ 556 million a year and support 500,000 households, will replace the direct subsidy for essential goods, including medicine, fuel and wheat, which costs between US$ 5 billion and US$ 6 billion annually, thus moving to a better-targeted regime. The application process for the pre-paid cards started in September 2021, but the system will take time to implement and targeting is expected to be complicated by weak transparency and political concerns.

MOROCCO

Highlights

- **Several sectors of the economy are improving in 2021.** Exports rose, agricultural output increased – supported by favourable weather conditions – and the economy returned to growth in the first half of 2021. However, inflation is accelerating, tourism continues to decline and unemployment is on the rise.
- **The report on Morocco's new development model was completed.** The ambition of the new development model, which sets out goals up to 2035, is a thriving, prosperous, skilled, inclusive, sustainable and pioneering Morocco.
- **The National Business Environment Policy 2021-25 was adopted.** It aims to simplify administrative procedures and improve the legal and regulatory framework for businesses. The policy was set in partnership with the public and private sectors, under the National Business Environment Committee that was created in 2010 and chaired by the prime minister.

Key priorities for 2022

- **Measures to stimulate competition and level the playing field for new entrants would support the private sector.** As highlighted by the report of the Special Commission on the Development Model, several factors restrict competition and innovation, including regulations, the system of economic incentives and the ineffective implementation of competition policy. Strengthening the Competition Council should be prioritised.
- **To improve access to finance and promote financial inclusion, there is a need to expand the range of digital financial services and enhance financial literacy.** The outbreak of the Covid-19 pandemic exacerbated the urgent need to address financial inclusion gaps. Digitalisation would increase access to financial services for customers, as well as enhance the internal processes of banks and other financial institutions, thus helping to channel funds to the economy more effectively.
- **Social safety nets need to be strengthened.** As the government moves ahead with subsidy reforms, an inclusive and consolidated system is needed for targeted transfers. The decision to harmonise all current social assistance programmes into a single family allowance scheme, starting from 2023, is a step in the right direction.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	4.2	3.1	2.6	-6.3	5.0
Inflation (average)	0.7	1.6	0.2	0.6	1.1
Government balance/GDP	-3.5	-3.7	-3.8	-7.6	-6.5
Current account balance/GDP	-3.4	-5.3	-3.7	-1.5	-3.1
Net FDI/GDP [neg. sign = inflows]	-1.5	-2.4	-0.7	-1.1	-1.4
External debt/GDP	34.8	31.8	33.1	43.7	n.a.
Gross reserves/GDP	23.9	20.7	22.0	30.8	n.a.
Credit to private sector/GDP	63.0	62.4	63.4	70.0	n.a.

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Covid-19: macroeconomic implications

The economy contracted by 6.3 per cent in 2020 but rebounded in the first half of 2021. In 2020 the drought-burdened agricultural sector declined by 8.6 per cent, while non-agricultural activities, mainly tourism, transport, retail and manufacturing, dropped by 6.0 per cent. In the first half of 2021 the economy returned to growth, at 7.6 per cent year-on-year, driven by the agricultural sector, which benefited from above average rainfall. Non-agricultural economic activity expanded, despite the continued contraction in tourism and slow growth in transport. Inflation accelerated to a three-year high of 2.2 per cent year-on-year in July 2021, largely on the back of volatile food prices, although averaging 1.0 per cent in the first nine months of the year, in line with Bank Al-Maghrib's projections. Meanwhile, the unemployment rate rose to 12.8 per cent in the second quarter of 2021, with higher-than-average rates for women (15.9 per cent), in urban areas (18.2 per cent), graduates (20.4 per cent) and young people (30.8 per cent).

The fiscal deficit widened significantly in 2020. The deficit reached 7.6 per cent of gross domestic product (GDP), compared with 3.1 per cent on average in 2015-19. Both tax and non-tax revenues declined due to the drop in economic activity, the absence of privatisations and the decline in payments from state-owned enterprises, while spending on transfers to workers in the informal sector, support to companies and health rose to contain the socio-economic impact of the crisis. As a result, total debt increased to 77.7 per cent of GDP in 2020, from 64.8 per cent on average in 2015-19.

The current account deficit narrowed in 2020 as exports, tourism and imports fell, and remittances increased. For 2020 as a whole, the current account deficit was 1.5 per cent of GDP. In the first half of 2021 both exports and imports increased, reflecting not just the low base effect but also the recovery in external demand and in trading partners, as well as the rebound in the key export sectors of automotive, phosphates and textiles. Nevertheless, tourism revenues declined by 58.1 per cent year-on-year, reflecting the continued impact of the Covid-19 pandemic. Reserves reached US$ 34.8 billion in August 2021, comfortably covering more than seven months of imports.

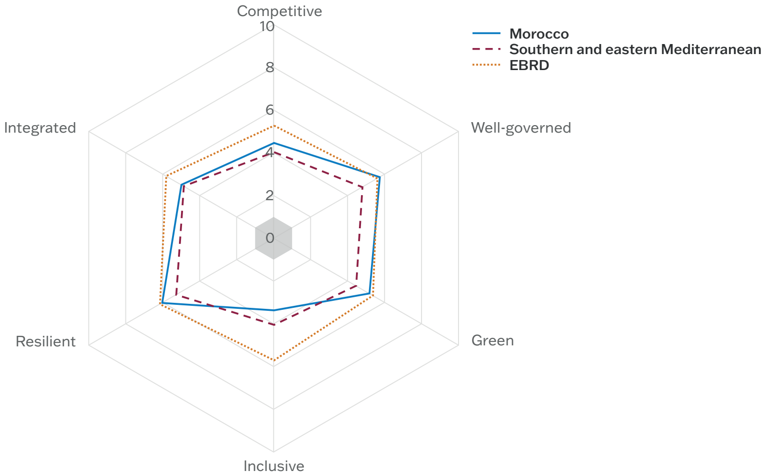
A solid recovery is expected in 2021. We forecast GDP growth of 5.0 per cent in 2021, as Morocco benefits from the relative success of its vaccination campaign (61.5 per cent of the population was fully vaccinated as of early November) and therefore a relatively faster reopening of the economy, despite a cautious resumption of tourism globally. The economy will also benefit from a good rainy season and the expected recovery in Europe, Morocco's main trading partner, as well as the strengthening in exports from the phosphate and automotive sectors. In 2022 a slower expansion is projected (at 3.2 per cent), as base effects subside and the pace of growth returns to pre-Covid-19 pandemic levels. The outcome depends partly on political developments as well as uncertainty over the future of the pandemic.

Policy response to Covid-19

The government extended some fiscal and monetary response measures to support the economy. First, it extended social transfers to employees temporarily unemployed until the end of March 2021 (MAD 2,000 per month; US$ 225) and further deferred social contribution payments for businesses in some sectors – including tourism – with fewer than 500 employees made temporarily idle and experiencing a reduction in turnover of more than 50 per cent. In February 2021 Bank Al-Maghrib extended the reduction in the capital conservation buffer, initially announced in March 2020, by 50 basis points until June 2022. In March 2021 the government extended the Damane Relance facility until June 2021. Originally, Damane Relance was set up in May 2020 as a post-crisis facility to support businesses. It provides financing to cover working capital needs at subsidised interest rates, a sovereign guarantee, and offers a seven-year tenor and two-year grace period.

CONTINUES

Assessment of transition qualities (1-10)



Structural reform developments

The report for Morocco's new development model was completed and presented to the King in May 2021, after some delay. In November 2019 the King established the Special Commission on the Development Model comprising a broad range of prominent stakeholders from the government, the private sector, academia and civil society. It was mandated to review the achievements and identify any inadequacies of Morocco's current development trajectory and suggest a new development model. In May 2021 the commission published a general report outlining key findings, including diagnoses, forecasts and projections up to 2035. The new development model envisages a prosperous, skilled, inclusive, sustainable and pioneering Morocco. The four priority areas highlighted are: a productive and diversified economy that creates value-added and quality jobs; enhanced human capital that is better prepared for the future; opportunities for inclusion for all and a stronger social bond; and resilient territories.

A bill was approved to integrate the micro credit sector further into the financial system and improve its governance. The new bill, approved by parliament in June 2021, aims to broaden the scope of activity of microfinance institutions, including granting micro credit, collecting deposits and conducting micro-insurance operations. Under this bill, the micro credit ceiling will be set by decree, depending on the category, objectives and financial resources of each company. It also aims to adapt to the provisions of the banking law and to ensure a single representation for micro credit establishments regardless of their legal form, while also offering the possibility of creating micro credit institutions either as an association or a joint stock company assimilated to a credit institution. Lastly, the new regulatory framework raises the loan limit to MAD 150,000 (US$ 16,800), from MAD 50,000 (US$ 5,600).

The Maroc Mines 2021-30 plan was launched. The new plan, launched in June 2021, updates the development strategy put in place for the period 2013-25. It aims to revitalise the national mining sector, enhance its performance and economic and social impact, and transform it into a driving force for responsible and sustainable development at the local, regional and national levels. It also aims to strengthen the sector's ability to respond to the intrinsic challenges it faces, including the need to discover new fields and maximise the value added of the mineral substances exploited. The plan is based on four strategic pillars: developing a network of competitive players; overhauling the institutional organisation of the sector; strengthening the social impact and the responsible nature of the sector; and adapting the legislative framework of financial and fiscal resources to the new ambitions of the sector.

CONTINUES

The government has announced plans to cut subsidies on butane gas, sugar, wheat and flour from 2022. This move, in July 2021, follows several rounds of subsidy reforms conducted successfully by the authorities in recent years. They aim to replace subsidies on key products, which tend to disproportionally benefit consumers with higher levels of consumption, with targeted social protection mechanisms to support low-income families, thus making government spending more efficient and improving Morocco's fiscal position. Eliminating subsidies on commodities will be gradual, with wheat and flour subsidies to be reduced in 2022 and removed by 2023, subsidies on sugar to be eliminated in 2022, and butane gas subsidies to be reduced by at least 50 per cent in 2023 before being fully eliminated in 2024.

The National Business Environment Committee – the public-private dialogue platform created in 2010 – adopted the National Business Environment Policy 2021-25. The new policy, adopted in May 2021, includes 33 reform projects relating to the simplification of administrative procedures and the improvement of the legal and regulatory framework for businesses, payment deadlines and access to financing, infrastructure and public procurement. The policy also aims to improve the quality of human capital, strengthen support mechanisms for businesses and integrate the informal sector into the formal economy. It aims to develop an integrated strategic vision to create favourable conditions for investors. The policy is based on three pillars: improving the structural conditions of the business environment; simplifying companies' access to the necessary resources; and reinforcing transparency, inclusion and cooperation between the public and private sectors.

TUNISIA

Highlights

- **Tunisia's recovery from its deepest recession since 1956 is slow.** The economy continued to contract in the first quarter of 2021, inflation is accelerating, reserves are declining and unemployment is high, notably among the youth.
- **The fiscal situation has deteriorated.** The fiscal deficit widened and debt is climbing, particularly the domestic currency-denominated part, but foreign currency-denominated debt still accounts for two-thirds of total debt. The public sector wage bill is now among the highest of all emerging markets, relative to gross domestic product (GDP).
- **Reform progress and an International Monetary Fund (IMF)-supported programme have been delayed by the ongoing political crisis.** Technical discussions with the IMF on the authorities' draft reform programme started in May 2021, but were put on hold due to political instability and a lack of societal consensus on reforms among various stakeholders.

Key priorities for 2022

- **An agreed economic reform programme and recovery plan is necessary to help the economy rebound more quickly from the impact of the Covid-19 crisis.** To advance reform progress, institutions need to be stabilised and confidence among international donors and institutions restored. Innovative financing mechanisms are essential if companies affected by the pandemic are to be restructured.
- **Fiscal consolidation should be prioritised.** The government needs to cut its public-sector wage bill, reduce transfers to state-owned enterprises (SOEs) and enhance their governance, and replace subsidies with direct support for the needy, to ensure adequate and targeted social protection. Public debt needs to be put on a sustainable, declining path.
- **A deal with the IMF is needed to stabilise the economy and unlock other sources of external financing for Tunisia's needs.** In addition to fiscal consolidation, the government will need to implement labour-market reforms to create high-value skilled jobs, to modernise and liberalise the banking sector, and to advance reforms to the business environment to promote competition and facilitate access to markets.

Main macroeconomic indicators %

	2017	2018	2019	2020	2021 proj.
GDP growth	2.2	2.5	1.5	-9.3	2.5
Inflation (average)	5.3	7.3	6.7	5.6	5.3
Government balance/GDP	-6.0	-4.5	-3.9	-9.8	-8.3
Current account balance/GDP	-10.3	-11.1	-8.4	-6.8	-7.3
Net FDI/GDP [neg. sign = inflows]	-2.0	-2.5	-2.1	-1.5	-1.4
External debt/GDP	82.4	86.1	97.3	100.3	n.a.
Gross reserves/GDP	14.1	12.9	19.0	23.2	n.a.
Credit to private sector/GDP	80.5	78.9	74.8	82.1	n.a.

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Covid-19: macroeconomic implications

Economic recovery started in the second quarter of 2021. Real GDP increased 15.4 per cent year-on-year in the second quarter, reflecting base effects, after a drop of 2.1 per cent year-on-year in the first quarter, the fifth consecutive quarter of contraction. The tourism and transport sectors continued to be affected by Covid-19 restrictions, and agriculture contracted after a record year in 2020. However, the export-driven manufacturing sector recovered. Inflation remained quite elevated by regional standards, at 5.5 per cent year-on-year in the first nine months of 2021 and a 21-month high of 6.4 per cent in July 2021, driven by a reduction in subsidies and base effects. Meanwhile, the unemployment rate rose to 17.9 per cent in the second quarter of 2021 and was higher than average for women (23.6 per cent) and youth (41.7 per cent).

The fiscal deficit widened and debt increased. In 2020 the fiscal deficit widened to 9.8 per cent of GDP on the back of a decline in revenues, mainly tax and an increase in interest payments, as well as the public-sector wage bill, which, at 17.3 per cent of GDP, is among the highest in emerging markets. Meanwhile, public debt increased to 83.5 per cent of GDP in 2020, of which two-thirds is denominated in foreign currency.

The current account deficit narrowed in 2020, but reserves are diminishing. The change in the current account from 8.4 per cent of GDP in 2019 to 6.8 per cent in 2020 came thanks to the substantial narrowing of the foreign trade deficit, reflecting a sharper drop in imports, notably energy products, than in exports. Meanwhile, tourist arrivals declined by 19.4 per cent year-on-year in the first half of 2021. Moreover, reserves decreased to US$ 8 billion, covering just over four months of imports. Furthermore, in February and October Moody's downgraded Tunisia's credit rating to B3, then to Caa1, maintaining the negative outlook, while in July Fitch downgraded it to 'B-' with a negative outlook. Both agencies cited heightened fiscal and external liquidity risks.

A weak recovery is expected in the short term. GDP is projected to grow by just 2.5 per cent in 2021, before picking up to 3.3 per cent in 2022. The recovery will depend on the pace of vaccination allowing the reopening of the economy, including for the tourism sector, and on the pace of implementing reforms, currently held back by the lack of political consensus and limited ambition to overhaul public administration and SOEs. Fiscal tightening is expected to hold back a stronger recovery, as will lingering effects of the Covid-19 pandemic and the slow recovery in tourism worldwide.

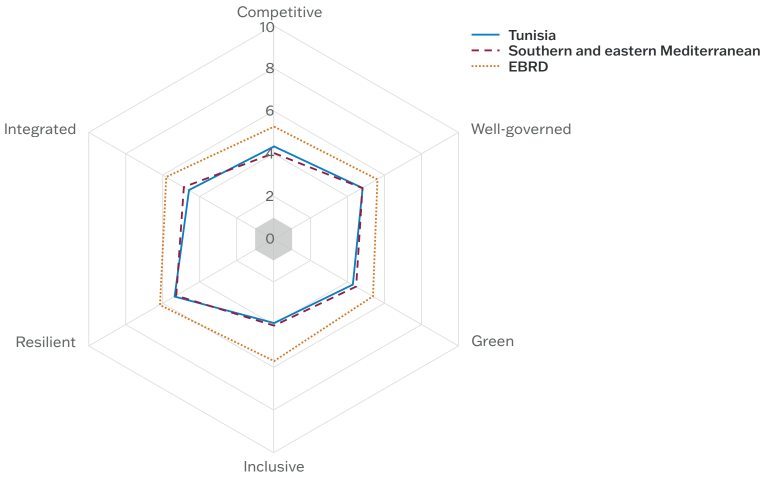
Policy response to Covid-19

The authorities extended some of the policy response measures announced in 2020 into 2021. The 2021 budget law included additional measures to support the most affected enterprises and sectors, especially the tourism sector. These measures included an extension of the state guarantee scheme to the end of 2021, the exemption from corporate income tax payments during 2021 and support for the temporarily unemployed and most vulnerable. Moreover, in January 2021 the Banque Centrale de Tunisie (BCT) revised a methodology to calculate general provisions to address potential financial stability concerns that may arise from the debt repayment moratoria. It also extended the deferral of loan repayments for the tourism sector and for companies to September 2021.

Tunisia's vaccination programme accelerated after a slow start. Tunisia began its vaccination programme in March 2021 but progress in the first four months was slow owing to vaccine shortages, widespread vaccine hesitancy and administrative failings. However, thanks to a surge in international aid, the pace of vaccination accelerated from July and close to two-fifths of the population was fully vaccinated as of early November 2021.

CONTINUES

Assessment of transition qualities (1-10)



Structural reform developments

Talks with the IMF for a programme are on hold. The president's decision in late July 2021 to suspend parliament and dismiss the prime minister added further delays to reaching an agreement with the IMF, as did the absence of societal consensus on reforms among various stakeholders. Prospects for reforms were already poor before the president's move. The fragile coalition in parliament, tensions between key political leaders and entrenched social opposition – including from the Tunisian General Labour Union (UGTT) – to budget cuts complicated efforts to advance fiscal consolidation and thus get IMF support. The fiscal situation would require the government to cut its public-sector wage bill, reduce transfers to SOEs and replace subsidies with direct support for the needy, while ensuring adequate and targeted social protection.

The government and unions made some progress on tax and SOE reform. In March 2021 the government and the UGTT signed an agreement to reform the subsidy system, the tax system and seven SOEs. However, the government committed not to privatise these SOEs, some of which are loss-making. Moreover, no agreement was reached on cutting the public-sector wage bill.

Fuel prices increased under the automatic indexation mechanism. Fuel prices, which are adjusted automatically in line with market prices, were raised in February, March and April 2021 after a series of cuts in 2020, when oil prices dropped substantially. The hike in April, by 5 per cent on average, signalled the lifting of the cap on monthly adjustments of 2 per cent. This would have positive effects on the government's fuel subsidy bill, which had already decreased by 70 per cent in the first four months of 2021.

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The economic recovery and regularisation of the law relating to foreign exchange offences has been adopted. The decision by parliament in July 2021 entails about 20 measures, including revaluing company fixed assets for tax purposes, deducting reinvested profits and income from the capital of fully exporting companies, a lower tax burden on housing built by property developers and regularising customs offences. It also allows people, for the first time, to open foreign currency accounts, permits companies and individuals to agree a financial settlement for foreign exchange violations, and enables firms to easily access loans and draw money from the black market. The law has yet to be promulgated by the president to enter into force. However, the BCT has advised the president against doing so, stating that it includes measures that are likely to hamper the sound conduct of monetary policy and affect Tunisia's international commitments and ability to continue to mobilise necessary external funds.

The government's objective to increase the share of renewable energy in the electricity mix to 30 per cent by 2030 is advancing. During 2021 the government launched tenders to develop and build 16 solar power plants with a total capacity of 70 MW. Selected projects will sell electricity to Tunisia's state-owned utility company STEG under a long-term power purchase agreement. Tunisia aims to install 3.8 GW of renewables before 2030. However, private-sector involvement in other sectors traditionally dominated by the public sector has been slow, with only limited progress on the public-private partnership (PPP) agenda.