Egypt

Highlights

- **Egypt's post-pandemic economic recovery was strong, but slowed in the wake of the war on Ukraine.** The subdued performance of the tourism and non-oil sectors weighed on growth in the second half of the 2021-22 fiscal year. Inflation surged and previous fiscal gains were reversed by increased social spending, although unemployment decreased slightly.
- **The country has become an attractive destination for renewable energy investments, which could help alleviate the precarious external-sector situation.** Prospects for a green transition by decommissioning domestic gas facilities in favour of renewables have gained traction, and COP27 offers an opportunity to translate high-level ambitions into concrete plans on the back of outside economic pressures.
- **The authorities have published a new draft state-ownership policy.** The policy highlights which sectors will be opened up for private investment, as well those where the public and private sectors will co-exist. A third group will be dominated by the public sector.

Key priorities for 2023

- **Macro-fiscal imbalances need to be addressed.** A staff-level agreement on a new International Monetary Fund (IMF) programme has been announced. Its implementation could help to alleviate external pressures and ensure debt sustainability.
- **Advancing the structural reform agenda is a top priority.** Key reforms that should be given immediate attention include strengthening competition and opening up state-owned enterprises (SOEs) for private investment, both of which would help support growth and attract foreign direct investment (FDI).
- **A strong green agenda could boost economic growth, complement efforts to strengthen food and energy security, and address the impact of climate change.** Key measures that the authorities should promote include further developing renewables, improving water and energy resource efficiency, and promoting sustainable agriculture.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.0	5.5	3.5	3.3	6.6
Inflation (average)	20.9	13.9	5.7	4.5	8.5
Government balance/GDP	-9.0	-7.6	-7.5	-7.0	-6.2
Current account balance/GDP	-2.3	-3.4	-2.9	-4.4	-3.6
Net FDI/GDP [neg. sign = inflows]	-2.8	-2.5	-1.9	-1.1	-1.7
External debt/GDP	35.2	34.2	32.3	31.3	32.2
Gross reserves/GDP	16.5	13.8	9.7	9.3	7.0
Credit to private sector/GDP	23.2	21.7	23.6	26.3	28.1

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Macroeconomic developments and policy response

Growth doubled in the 2021-22 fiscal year, but has levelled off in recent months. In the first three-quarters of 2021-22, gross domestic product (GDP) growth reached 6.6 per cent compared with 1.9 per cent in the same period the previous fiscal year. This was driven by strong manufacturing growth, a rebound in Suez Canal revenues and an expansion in construction activity. However, growth decelerated markedly in the fourth quarter to 3.2 per cent, held back by a muted private-sector recovery, although gas exports provided some counterweight to costlier oil imports. Annual inflation surged to 13.6 per cent in July 2022, fuelled by rising food and energy prices and by an exchange-rate devaluation of more than 20 per cent since March. Meanwhile, unemployment decreased slightly to 7.2 per cent in the second quarter of 2022, although it remains higher among women (17.8 per cent) and in urban areas (10.5 per cent).

In response to inflation, the authorities implemented a range of measures. In March 2022 the government announced a fiscal package of US$ 7 billion to mitigate the impact of global inflation, including expedited salaries and an inflation adjustment to pensions. In July 2022 the government raised diesel prices by EGP 0.5 (US$ 0.03) per litre to alleviate pressure on the general budget, although diesel subsidies for 2022-23 are still expected to reach EGP 55 billion (around US$ 2.8 billion). At the same time, the government announced a bonus of EGP 100 (US$ 5.30) on food subsidy cards for six months to help beneficiaries cope with rising food prices. The government also postponed reforms to its bread subsidy system, which has been supporting large segments of the population since the 1970s. In addition, the scheduled annual rise in electricity tariffs, which normally takes place in July, was postponed this year.

Fiscal and current account deficits have narrowed. The fiscal deficit shrank to 6.1 per cent of GDP in 2021-22 as revenues grew 9.8 per cent in the period from July 2021 to March 2022. However, government spending grew 10.2 per cent during the same period, reflecting continued fiscal stimulus. In parallel, government estimates show public debt decreasing to 85.3 per cent of GDP as of June 2022. Meanwhile, the current account deficit declined to an estimated 5.0 per cent of GDP by the third quarter of 2021-22, thanks to strong remittances and a recovery in tourism income. However, it probably widened in April to June 2022 as import prices rose. In parallel, FDI contracted and portfolio outflows increased significantly. As a result, foreign-exchange reserves decreased from US$ 41 billion in December 2021 to US$ 33.1 billion in July 2022, covering less than four months of imports.

A short-term slowdown in growth is expected. Continued global volatilities and the slow progress of essential structural reforms to create more space for the private sector are weighing on the economic outlook. We expect growth in 2022-23 to fall to 4.7 per cent and be held back by adverse global conditions and structural domestic factors that suppress the recovery of the non-oil private sector. As momentum for public mega projects will be constrained by limited fiscal space, a return to higher growth rates will require additional drivers beyond domestic demand, tourism and gas exports.

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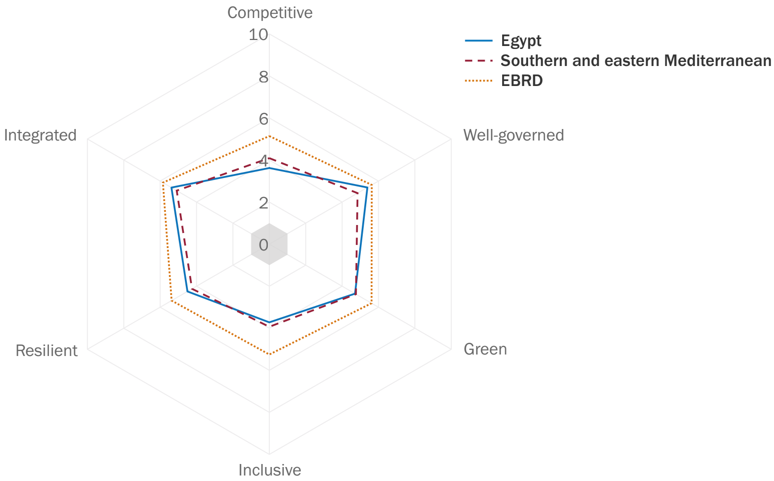
CHART Assessment of transition qualities (1-10)



Structural reform developments

Egypt has achieved a staff-level agreement with the IMF on a new programme. Key pillars include objectives on foreign-exchange policies, fiscal and debt management, and structural reforms, notably in the SOE sector and with a view to supporting the private sector as an engine of growth. Following its staff visit in July 2022, the IMF highlighted the need for decisive progress on fiscal and structural reforms.

The government published a draft of its first state ownership policy. The new policy, published in May 2022, classifies sectors into three groups: (i) the government mostly withdraws; (ii) the government remains partly involved; and (iii) the government remains fully involved and/or expands its presence in the coming years. Key sectors where private investment and privatisation will be encouraged include textiles, mining, chemicals and food processing. In contrast, the authorities are aiming for an increased presence in transport and in financial and insurance activities. The plan aims to attract US$ 40 billion in private investment over the next four years, but specific implementation arrangements have not yet been published. Consultations with the public and private sectors have been ongoing over summer 2022.

An Emergency Food Security and Resilience Project was launched. This programme, introduced in June 2022, will help mitigate the impact of the war on Ukraine on food security in Egypt. Supported by a US$ 500 million loan from the World Bank, the project will finance the public purchase of imported wheat, equivalent to one month's supply for the bread subsidy programme, which supports approximately 17 million low-income households, including about 31 million people living below the national poverty line. The plan will also support national efforts to reduce waste and losses in the wheat supply chain through the upgrade and expansion of climate-resilient wheat silos, thereby sustainably improving domestic grain production and strengthening Egypt's preparedness for and resilience to future shocks.

Egypt has developed a National Climate Change Strategy in the run-up to hosting COP27. Announced in May 2022, the strategy aspires to include adaptation and mitigation programmes in all sectors until 2050, with a focus on energy, transport, agriculture and water resources. The strategy also aims to improve access to green finance and infrastructure, strengthen research into green technologies and raise public awareness of climate change. Egypt is hosting COP27 in November 2022, which is widely seen as an opportunity to focus more on the impact of climate change on the world's least-developed countries, notably in Africa. Egypt will also aim to raise its profile as a leader in emerging green technologies, such as green hydrogen production (and associated renewable energy production) and industrial-scale desalination.

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A Women's Economic and Social Empowerment Programme is in place. Female labour force participation has been historically among the lowest in the region (on a par with Morocco and below Tunisia). The five-year programme, introduced in June 2022, aims to provide 200,000 women in seven Egyptian governorates with increased employment opportunities, strengthen financial inclusion and reduce violence against women and girls. The programme is looking to develop, scale up and advocate innovative solutions to realise the economic and social benefits of gender-responsive empowerment policies and practices.

The Ministry of Finance has started to automate the tax management system to improve the efficiency of tax administration. It is part of the government's strategy to digitalise the country's tax processes and procedures, as well as to integrate the informal economy into the formal economy, enhance governance over tax returns and expand the tax base. Tax revenues accounted for nearly 20 per cent of GDP in 2021-22 and for more than 75 per cent of general state revenues. However, facilitating tax payments to encourage the informal sector to contribute to the tax base could help maintain fiscal space without raising tax rates. The system was successfully piloted in 10 tax offices in Greater Cairo and will continue to expand across Egypt in 2022.

The government has announced a reform of ration cards. Egypt remains committed to improving the allocative efficiency of its social safety expenditure, which was set up during the previous IMF programme of 2016-20, including through reduced subsidies. Under the new scheme announced in June 2022, the Ministry of Supply and Internal Trade plans to stop issuing subsidy ration cards for Egyptians travelling outside the country, including those who have been abroad for more than three consecutive months (an estimated half a million citizens). New eligibility conditions for subsidies have been established. Citizens earning more than US$ 500 per month, households spending more than US$ 1,000 per month on their children's education and farmers owning more than 10 acres of land will no longer be eligible.

Jordan

Highlights

- **The country's economic recovery continued steadily in 2021 and the first half of 2022.** This was supported by an upturn in services and tourism, but unemployment remains high and inflation is accelerating because of rising energy and food prices.
- **Important reforms in the energy sector have progressed.** The government completed a comprehensive review of power purchase agreements (PPAs) and adopted a three-year electricity tariff reform plan.
- **Jordan launched its Economic Modernisation Vision 2030.** The new strategy targets higher growth and the creation of 1 million additional jobs, with a focus on promoting high-value industries, addressing food and energy security and ensuring sustainable development.

Key priorities for 2023

- **High unemployment and low female participation in the workforce must be tackled.** Reforms to promote private investment, especially in labour-intensive sectors, will be key for employment creation. Bold labour-sector reforms and measures to address skills mismatches are needed to mitigate market rigidities, and should be complemented by measures promoting entrepreneurship and innovation.
- **Improved food and energy security should be prioritised.** A combination of better long-term planning and strategies to promote investment in agriculture is essential to mitigate sensitivity to food security risks and reduce import dependence. Sectoral reforms are also needed to diversify energy sources and improve energy efficiency.
- **Further efforts are needed to rein in public debt and free up resources to meet development needs.** Successful fiscal reforms in recent years under the International Monetary Fund (IMF)-supported programme have strengthened the country's resilience, and the authorities should now leverage public-private partnerships in key infrastructure projects.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	1.9	2.0	-1.6	2.2	2.0
Inflation (average)	4.5	0.7	0.4	1.3	3.8
Government balance/GDP	-4.7	-6.0	-8.6	-8.0	-5.9
Current account balance/GDP	-6.9	-1.7	-5.7	-8.8	-6.7
Net FDI/GDP [neg. sign = inflows]	-2.2	-1.5	-1.7	-1.3	-1.7
External debt/GDP	67.9	68.0	79.3	80.6	n.a.
Gross reserves/GDP	33.9	34.6	38.8	42.0	n.a.
Credit to private sector/GDP	80.9	81.4	87.5	88.9	n.a.

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Macroeconomic developments and policy response

A robust economic recovery has been under way since 2021. After 2.2 per cent growth in 2021, gross domestic product (GDP) expanded by 2.5 per cent year on year in the first quarter of 2022. Growth was led by a broad-based expansion of the services and industrial sectors, as well as a strong rebound in the tourism sector. Tourism revenues rose by 215 per cent year on year in the first quarter of 2022, reaching US$ 893 million, but were just half the level of the first quarter of 2019. However, the economy remains unable to absorb many workers; unemployment decreased slightly in the first quarter of 2022, but was still high, at 22.8 per cent. Disparities in unemployment between men (22.4 per cent) and women (30.7 per cent) are significant, with even higher rates among the youth (36.4 per cent) and graduates (32.6 per cent). Female labour force participation has been historically among the lowest in the region, at around 15 per cent, lagging even behind Egypt and Morocco at above 20 per cent. Meanwhile, inflation reached 5.3 per cent year on year in July 2022, mainly due to a 30.6 per cent increase in the cost of fuel and electricity as a result of the war on Ukraine and the new electricity tariffs introduced in April 2022.

Targeted subsidies have been increased in response to rising fuel and food prices. In the first quarter of 2022 the government partly alleviated the burden of rising energy prices by reducing fuel taxes to stabilise prices. However, fiscal space is limited: the government deficit in 2021 was 5.4 per cent of GDP and public debt at the end of the year was 113.8 per cent of GDP. The government is, therefore, gradually phasing out indirect blanket subsidies and moving instead to increasing targeted support for the poorest households. In August 2022 the authorities announced a payment mechanism of JOD 30 million (US$ 42 million) of fuel subsidies for the beneficiaries of the National Aid Fund (NAF), underprivileged university students and the public transport sector. The removal of general subsidies in favour of targeted support for the vulnerable, combined with higher-than-expected revenues, is keeping the primary deficit target of 3.4 per cent of GDP in 2022 within reach.

External imbalances have narrowed in 2022. In 2021 the current account deficit widened to 8.8 per cent of GDP (from 5.7 per cent in 2020), reflecting rebounding domestic demand. It narrowed in the first half of 2022, however, despite a rising import bill, in part thanks to recoveries in tourism and exports (mostly crude materials, such as phosphates). Meanwhile, foreign-exchange reserves reached US$ 16.6 billion in July 2022, covering around nine months of imports.

Growth is expected to continue, but uncertainty remains. GDP growth is projected to reach 2.0 per cent in 2022, led by the robust performance of the services sector, continued recovery in tourism and rising value of exports of raw materials. Faster growth in the non-service sector and a stronger recovery in global tourism and trade flows could push growth in 2023 to 2.7 per cent. However, global volatility could hold back growth (notably through inflation and risks to tourism revenues), while high unemployment and limited job creation will weigh on the recovery for many households, including the poorest parts of the population and refugees.

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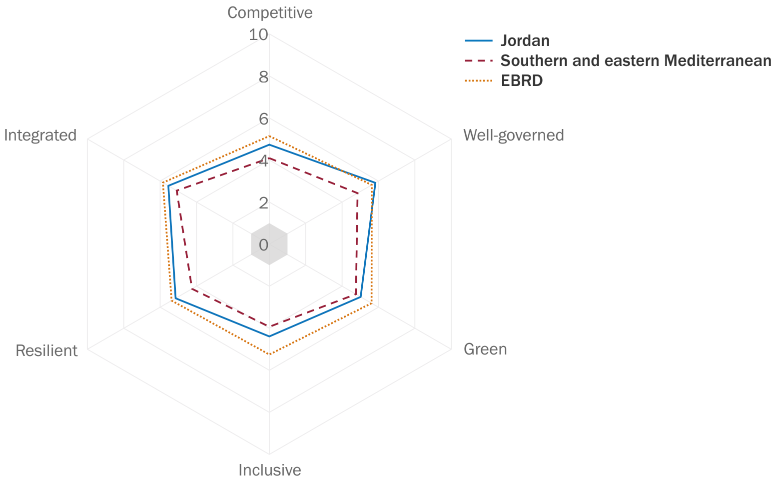
CHART Assessment of transition qualities (1-10)



Structural reform developments

The government is continuing with reforms under the IMF-supported programme. The IMF's four-year Extended Funds Facility remains on track, with the Fund approving in July 2022 an additional US$ 100 million of funding to deal with rising pressures from higher prices for hydrocarbons and raw materials. Current conditions are likely to flatten the downward path envisaged for public debt under the programme. The country has met most of the programme's fiscal and monetary targets, including those related to closing tax loopholes, widening the tax base (with better-than-expected revenue collection reported in 2021) and maintaining healthy foreign-currency reserves. As prior actions under the programme, the government completed a comprehensive review of PPAs and adopted a three-year electricity tariff reform plan.

The authorities have unveiled their Economic Modernisation Vision. The new 10-year plan, announced in June 2022, targets inclusive and sustainable growth. It aims to attract US$ 41 billion in foreign direct investment over the next 10 years and raise the country's GDP growth rate to 5.6 per cent by 2033, while increasing per capita income by an average 3 per cent per year. The reforms are designed to tackle persistent unemployment by creating over a million jobs in the next 10 years. To achieve this, the plan envisages US$ 5 billion of investment a year in high-value industries (pharmaceuticals, chemicals, engineering and textiles), with a focus on building integrated value chains and boosting productivity and innovation. Furthermore, the plan aims to enhance the sustainability of Jordan's natural resources in the areas of energy and water, as well as improving food security. In parallel, the government remains committed to ongoing reforms to the oversized public administration.

Public-sector reforms are advancing. In August 2022 the government approved a new public-sector modernisation plan in tandem with the launch of its Executive Programme 2022-25. The plan aims to transform public-sector operations, procedures, structure and policymaking; it is looking to fully automate operations, streamline procedures, digitalise services to citizens, including digital payments, and restructure ministries and government bodies towards a more agile government.

Jordan is prioritising food security planning in line with the National Food Security Strategy launched in September 2021. The country is highly dependent on food imports, as it buys in more than 95 per cent of its grain. The new strategy lays out key interventions to address availability, access, use and stability of food security. An initial investment of US$ 480 million will reduce short-term vulnerability to supply shocks. This investment will meet urgent domestic needs for wheat and barley, using the maximum physical storage capacity currently in the country. A second investment of US$ 20 million is expected to ensure food security to mitigate commodity risks, with US$ 15 million dedicated to expanding storage capacity. The creation of a High Council for Food Security is also planned to better manage food supply crises.

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The Support for Industry Development Fund Project was launched. Introduced in May 2022, it aims to promote investments and exports in the manufacturing sector through a new Industry Development Fund. Financed by a US$ 85 million World Bank fund, it will focus on upgrading and modernising industries, developing and promoting exports, and incentivising companies to perform well in key areas, such as manufacturing. The project aims to support more than 500 export-oriented companies directly through the fund's programmes and to leverage at least US$ 17 million in additional private capital. It will also support new and effective delivery mechanisms, strong governance and operational capacity, enabling the fund to support longer-term industry transformation.

Jordan-United Arab Emirates (UAE)-Israel signed a breakthrough water-for-energy deal. This agreement, signed in November 2021, will ease the impact of climate change on Jordan and address severe water shortages in the country. Under the deal, the UAE will build a solar power plant in Jordan, allowing the country to export 600 megawatts annually to Israel at a price of US$ 180 million, the proceeds to be shared between the UAE and Jordan. In exchange, Israel will send 200 million cubic metres annually of desalinated water to Jordan – an estimated 12 per cent of its annual needs.

Lebanon

Highlights

- **Lebanon is sinking further into financial and economic crisis.** The currency's depreciation has continued, with multiple exchange rates still in place, while inflation is soaring, pushing more vulnerable population groups into poverty.
- **The pressure on the government's finances continues to rise.** The government is still unable to access international financial markets. Improved remittances and tourism revenues are offering some relief, but rising food and energy prices have added more pressure on depleted foreign-currency reserves.
- **Lebanon was unable to pass the reforms outlined in the April 2022 staff-level agreement with the International Monetary Fund (IMF).** This has delayed a final agreement with the Fund that would unlock access to much-needed financing, including from other sources.

Key priorities for 2023

- **Meeting the requirements of an IMF-supported stabilisation and structural reform programme is the most immediate priority.** An agreement with the IMF would help rebuild credibility on reform commitment and provide access to necessary external financing.
- **A comprehensive social safety net is needed so that households can better access energy and food.** Wider coverage and a more transparent ration-card system are essential to the success of targeted subsidies to combat deepening poverty levels, but significant donor support will be vital.
- **Progress on energy reforms is necessary to unlock the financing needed to develop the sector's capacity.** A stronger commitment to greener energy production and improved efficiency would greatly help to address severe shortages and limit import dependence.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	-1.9	-6.9	-25.9	-10.0	-2.0
Inflation (average)	6.1	2.9	84.9	150.0	186.0
Government balance/GDP	-11.3	-10.4	-3.5	0.7	0.5
Current account balance/GDP	-28.6	-28.2	-15.8	-12.5	-14.2
Net FDI/GDP [neg. sign = inflows]	-3.7	-3.4	-5.3	-2.1	-2.3
External debt/GDP	193.6	200.6	349.1	n.a.	n.a.
Gross reserves/GDP	57.3	48.2	72.1	n.a.	n.a.
Credit to private sector/GDP	100.4	88.3	54.3	n.a.	n.a.

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Macroeconomic developments and policy response

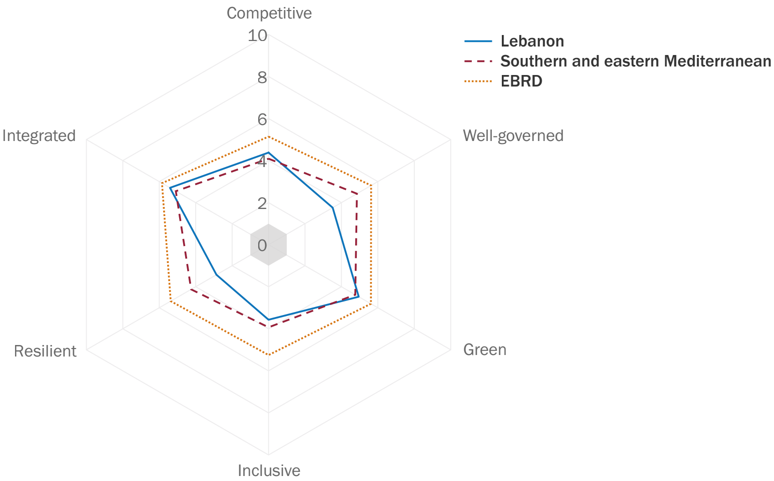
Lebanon has sunk into an even deeper economic crisis. The economy contracted by an estimated 10.5 per cent in 2021, on top of a decline of 25 per cent in 2020. Political inaction throughout the year undermined the country's ability to attract necessary external financing to shore up dwindling reserves. As a result, the Lebanese pound depreciated by an additional 70 per cent in 2021 on the black market (95 per cent since March 2020), fuelling even higher triple-digit inflation, which reached 168 per cent in July 2022. Political inaction has prolonged the economic crisis and exacerbated unemployment and poverty during 2022. As a result, the economy is expected to have contracted further in the first half of the year. According to the International Labour Organization (ILO), the unemployment rate was 29.6 per cent as of January 2022, and more than 80 per cent of the population was estimated to be living in poverty as of the end of 2021 (official data are not available, but a 2019 analysis of multidimensional poverty suggested that 53 per cent of residents suffered from multidimensional poverty).

Spiralling depreciation and parallel exchange rates persist. The official pegged exchange rate of 1,507.5 Lebanese pounds per US dollar for pricing customs, dubbed the "customs dollar", was recently increased to 15,000. The Banque du Liban's (BDL's) Sayrafa platform rate stood at 29,800 pounds to the US dollar at the end of September 2022, while the black market rate surpassed 38,000 pounds per dollar.

Access to wheat and energy imports remains uncertain. In the past year, Lebanese households have faced repeated price hikes and shortages of medicines, bread, fuel and electricity. However, the government is committed to maintaining the price of basic subsidised bread until spring 2023, thanks to a US$ 150 million World Bank loan approved in July 2022. Fuel prices have continued to change based on availability, exchange-rate fluctuations and global prices, while access to electricity in most areas is limited to two hours per day, increasing households' dependence on private generators. A gas import agreement was signed by Egypt, Syria and Lebanon in July 2022 (but is yet to be implemented) and the fuel supply deal with Iraq was extended for another year, but more progress is needed to improve energy access. An agreement signed with Jordan in January 2022 to import electricity is also awaiting implementation. Meanwhile, fiscal space remains extremely limited and public debt had soared to an estimated 360 per cent of GDP (end 2021) as the Lebanese pound has depreciated.

The short-term outlook remains bleak. We expect a further GDP contraction of at least 2.0 per cent in 2022 as the ongoing crisis is exacerbated by a costlier and intermittent supply of energy and food, as well as delays in implementing critical reforms and the drying up of financial resources. There could be some improvement in 2023, when we forecast growth of 4.0 per cent, but this is conditional on an IMF-supported programme being successfully implemented by a reform-minded government, which would allow negotiations on further aid to resume with international partners.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Progress on an IMF programme has stalled. Staff-level agreement on a 46-month US$ 3 billion Extended Fund Arrangement was reached in April 2022, but further progress has been delayed by the failure so far to form a new government following general elections in May 2022. The 2022 budget law received parliamentary approval, but controversy continues on the appropriate exchange rate for operational revenues and expenses. A watered-down version of amendments to the bank secrecy law received the parliamentary stamp of approval in July 2022, but was rejected by the president after comments from the IMF. The law was returned to parliament for further amendments, while the draft capital controls law also remains stuck in parliament.

Lebanon's stakeholders have yet to reach consensus on the proposed economic recovery plan. The current plan, passed by the caretaker cabinet in May 2022, rests on sweeping banking-sector restructuring, including BDL. The plan estimates banking-sector losses at roughly US$ 72 billion, much of which might have to be borne by depositors. The Association of Banks in Lebanon (ABL) has repeatedly expressed strong opposition to the plan, citing severe risks to public confidence in the banking system and calling on the government to shoulder more of the losses. The ABL is also critical of plans to write off a large proportion of BDL foreign-currency obligations to commercial banks.

The central bank's forensic audit has been stalled. The audit was agreed with management consultants Alvarez & Marsal in September 2020, but faces 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 audit has still faced multiple delays due to lack of cooperation and transparency from BDL management.

Public procurement reform is advancing steadily, but faces severe capacity constraints. Approved in 2021, the public procurement law came into effect in July 2022. An implementation action plan was also approved in June, but progress depends heavily on sweeping governance reforms and building capacity at ministries and public enterprises.

The cabinet passed a plan to reform the electricity sector, but it faces strong pushback in parliament. Restructuring the country's electricity sector is the main condition of the World Bank providing financing for regional deals to increase Lebanon's power supply. The plan, approved by the cabinet in March 2022, involves creating an electricity regulatory authority, expected to be in place by the end of the year provided parliamentary opposition can be overcome. It also includes a revision of an earlier plan to increase electricity tariffs, which forecasts a US$ 3.5 billion investment in the sector to secure 24-hour power across the country by 2026.

The rollout of the ration cards programme has faced multiple delays. Approved in June 2021, the programme aims to support 500,000 households at an estimated cost of US$ 556 million a year. This would provide the most vulnerable households (those facing extreme poverty) with some relief, but the application process has raised criticism with regard to accessibility. In addition, targeting is likely to be complicated, amid weak transparency and political concerns, and is further undermined by the fact that 80 per cent of Lebanese households (versus 40 per cent in 2019) are estimated to face multidimensional poverty.

Morocco

Highlights

- **The economic rebound of 2021 was short lived, as growth slowed in the first half of 2022.** A drought-induced decline in the agriculture sector has offset strong non-agriculture growth in 2022 and inflation has been well above target levels due to increasing global food prices.
- **The government has responded to rising global prices with a range of measures.** These include direct support for farmers, transport-sector subsidies and the doubling of budgetary spending on subsidies for gas, flour and sugar. The central bank increased its benchmark rate by 50 basis points in September 2022.
- **A new government programme, setting the country's path to 2026, has been announced.** The programme targets an annual growth rate of 4 per cent over the next few years and the creation of at least 1 million jobs by 2026. New employment and entrepreneurial programmes and labour-market reforms will underpin job growth.

Key priorities for 2023

- **A comprehensive approach to employment and investment promotion is essential.** The announced programmes and reforms are positive steps, but would benefit greatly from close coordination and links to complementary sectoral policies and action plans that create an attractive business climate.
- **Targeted support for vulnerable population groups is needed in the form of a stronger social safety net.** The government's decision to harmonise current assistance programmes into a single allowance scheme, starting in 2023, is a welcome step as part of broader subsidy reform.
- **The country should accelerate the development of renewables while leveraging the private sector's role.** This would enhance overall competitiveness (especially given rising fossil-fuel prices) and boost the achievement of Morocco's ambitious climate change objectives.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	3.1	2.9	-7.2	7.9	1.1
Inflation (average)	1.6	0.2	0.6	1.4	6.2
Government balance/GDP	-3.4	-3.6	-7.1	-5.9	-5.3
Current account balance/GDP	-4.9	-3.4	-1.2	-2.3	-4.3
Net FDI/GDP [neg. sign = inflows]	-2.2	-0.6	-0.8	-1.2	-1.5
External debt/GDP	35.0	36.7	44.5	37.1	n.a.
Gross reserves/GDP	19.2	20.5	29.7	25.0	n.a.
Credit to private sector/GDP	56.4	57.4	64.3	60.1	n.a.

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Macroeconomic developments and policy response

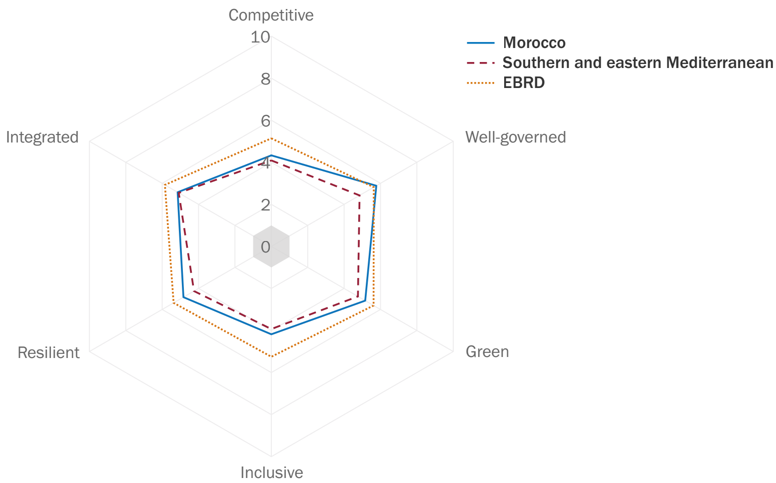
Following a strong rebound in 2021, the economy slowed in the first half of 2022. In 2021 the economy grew by 7.9 per cent, driven by strong growth in agriculture, manufacturing and trade. In the first half of 2022 the economy slowed, with growth of just 1.1 per cent year on year. The agriculture sector faced severe drought, but non-agricultural growth reached 3.2 per cent year on year. Inflation was 5.1 per cent in the first six months of 2022, well above the central bank's target of 2 per cent. This was mainly driven by a 7.8 per cent increase in food prices. Meanwhile, unemployment decreased slightly to 12.1 per cent in the first quarter of 2022 and was higher among women (17.3 per cent), the youth (33.4 per cent) and in urban areas (16.3 per cent).

The authorities implemented a range of measures to counteract the effects of the war on Ukraine. In March 2022 the government announced almost US$ 1 billion of support for farmers, initially in response to the country's drought, but also to help with soaring commodity prices, as feed and fertiliser prices had doubled since the beginning of the year. Between March and July 2022, Moroccan road freight companies received US$ 203 million in subsidies to help curb the impact of rising global fuel prices on domestic inflation. The government also doubled the budget for subsidies for butane gas, flour and sugar to US$ 3 billion (two-thirds of which was for butane). The space for further fiscal measures is limited, as the fiscal deficit was 6 per cent of GDP in 2021, and general government debt was 76.4 per cent of GDP as of the end of 2021.

External imbalances have risen. In 2021 the current account deficit widened to 2.3 per cent of GDP (from 1.2 per cent in 2020), as imports rose significantly, outweighing the increase in exports. The same trend continued in the first half of 2022, fuelled by higher energy and food prices. Even though tourist arrivals quadrupled in the first half of 2022, they are still just 63 per cent of pre-pandemic levels. The added demand for hard currency reduced the country's foreign-exchange reserves to US$ 32.9 billion in June 2022, but they still cover a healthy nine months of imports.

Growth is expected to pick up in 2023, but significant uncertainties remain. In 2022 we expect growth to slow to 1.1 per cent, due mainly to adverse weather conditions affecting agricultural production, the fallout from the war on Ukraine and a decline in tourism due to travel disruptions and higher costs. Agriculture is expected to recover in 2023 and we forecast the pace of growth to return to its pre-pandemic level of 3.3 per cent. However, Morocco remains vulnerable to increases in hydrocarbon prices, as it imports most of its energy, and global supply-chain disruptions may continue to provide further headwinds to growth.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

The government has set out a new programme for the country's path to 2026. The three strategic axes of the programme announced in October 2021 are to: strengthen the social foundations of the state; stimulate the economy for the benefit of employment; and improve public-sector governance and management. The programme targets an annual growth rate of 4 per cent over the next few years and the creation of at least 1 million jobs. The government has also addressed women's unemployment, aiming to increase the activity rate from the current 20 per cent to more than 30 per cent. The aim is to reduce the poverty rate among the most vulnerable by 2026 by introducing a minimum pension of MAD 1,000 (US$ 97) for each person over 60, as well as a family allowance of MAD 300 (US$ 29) per month for every child.

The Awrach (building sites) employment programme was launched in January 2022. The programme aims to create 250,000 public-service jobs in 2022 and 2023, including in infrastructure construction, the renovation of urban spaces and government-led cultural and sports activities. It seeks to improve the employability of discouraged workers, enabling them to enter the labour market more easily. The initiative is geared towards Moroccans who lost their jobs in the Covid-19 pandemic and those who have never worked or who have been registered with the National Agency for the Promotion of Employment and Skills (ANAPEC) for more than two years. The programme has two components: the first concerns temporary public worksites, where 80 per cent of the new jobs will be allocated, and the second involves support for sustainable integration, which includes personal assistance services, education or sports activities. Associations, cooperatives or companies that commit to hiring the remaining 20 per cent of the programme's beneficiaries will receive a subsidy of approximately MAD 1,500 (US$ 145) per month, for a period of 18 months for each integrated employee. The workers will be paid a minimum wage and will benefit from social security coverage.

The government has adopted a new Investment Charter. The Charter, in development since 2016 and finally adopted in July 2022, provides a strategy for increasing the share of private investment to two-thirds of total investment by 2035. It includes improving conditions for creating permanent jobs and reducing disparities between provinces and prefectures in terms of investment attractiveness. In addition, it aims to steer investments towards high value-added productive sectors to ensure sustainable development, as well as to increase Morocco's attractiveness for foreign direct investment.

The government has continued to promote digitalisation by introducing a national digital identity platform. New national electronic identity cards were introduced in 2020 and allow citizens to identify themselves digitally for numerous public and private (online) services. Functionalities have been expanded since then; for example, citizens can now choose directly which data to share, through a web platform and an app, with additional layers of security introduced in parallel.

Tunisia

Highlights

- **Tunisia's economic recovery has been muted, but the new staff-level agreement on an International Monetary Fund (IMF) programme has improved the outlook.** Growth slowed in the first half of 2022, contributing to a rising fiscal deficit and persistently high unemployment. Amid current uncertainty, the sovereign rating has deteriorated as fiscal pressures have risen.
- **The country launched its "Green hydrogen for sustainable growth and a low-carbon economy in Tunisia" (H2Vert.TUN) project.** Supported by development partners, this is Tunisia's first concrete commitment to green hydrogen production. The project seeks to improve the framework to develop a value chain based on renewable energy for green hydrogen and its derived products in Tunisia.
- **The National Programme of Reforms was launched in 2022.** The programme sets out a host of essential reforms to improve the business environment, strengthen competitiveness and loosen restrictions on foreign exchange, as well as reduce the role of the state and improve public-sector management.

Key priorities for 2023

- **Measures are urgently needed to bring public spending under control.** These include reducing subsidy expenditure and the public-sector wage bill and reforming state-owned enterprises (SOEs), all of which will also be important in the context of the new IMF programme.
- **Reforms to promote a business-enabling environment must advance in parallel.** These would support private-sector growth and attract foreign investment – both necessary for creating jobs, promoting exports and shoring up foreign reserves. Scaling back the role of SOEs and lowering barriers to domestic competition will be essential here, as will easing business regulations (licensing, general red tape) for enterprises.
- **Addressing disparities and strengthening social safety nets should be prioritised.** Effectively mitigating the impact of successive crises on the livelihood of vulnerable groups requires stronger support networks combined with targeted investment, innovative policies to support small businesses and the introduction of upskilling and employment programmes.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	2.5	1.4	-8.7	3.3	1.7
Inflation (average)	7.3	6.7	5.6	5.7	8.1
Government balance/GDP	-4.3	-3.6	-9.1	-7.6	-6.6
Current account balance/GDP	-10.4	-7.8	-5.9	-6.1	-9.1
Net FDI/GDP [neg. sign = inflows]	-2.3	-1.9	-1.4	-1.1	-1.2
External debt/GDP	80.9	91.2	98.7	87.4	n.a.
Gross reserves/GDP	12.2	17.8	21.4	18.5	n.a.
Credit to private sector/GDP	74.2	70.1	75.7	n.a.	n.a.

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Macroeconomic developments and policy response

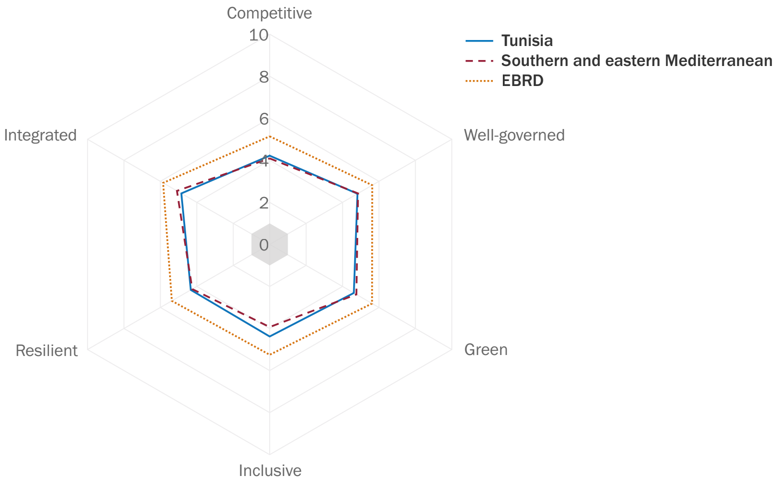
Tunisia is experiencing weaker growth in 2022 after a modest recovery in 2021. Gross domestic product (GDP) grew 3.1 per cent in 2021, after a sharp contraction (9.2 per cent) in 2020. The relative dependence of the economy on tourism, weak demand for exports, limited fiscal space and the difficult business environment all continued to weigh on growth. In the first half of 2022 economic growth was 2.6 per cent year on year, driven by growth in the agricultural and agribusiness sectors. Meanwhile, inflation reached a 30-year high of 8.2 per cent in July 2022, driven by large increases in food and energy prices. Unemployment decreased slightly to 15.3 per cent in the second quarter of 2022, although rates remain higher for women (20.9 per cent), the youth (38.5 per cent) and graduates (30.1 per cent).

Measures to alleviate pressures from the war on Ukraine are hindered by a lack of fiscal space. The country normally imports about 54 per cent of its wheat from Russia and Ukraine. The World Bank has provided a US$ 130 million loan to Tunisia to enable the government to purchase wheat for one and a half months' consumption, ensuring affordable bread for the poor in the immediate short term. As for energy, the government has sought to offset the impact of rising prices on vulnerable households by expanding subsidies to about 15.4 per cent of budgeted expenditures. The additional spending is likely to push the 2022 budget deficit above the target of 6.7 per cent of GDP. Public-sector wages are 17 per cent of GDP, one of the highest ratios in the world. Public debt was 85.5 per cent of GDP as of the end of 2021, of which 64.5 per cent was denominated in foreign currency.

Reserves are still falling and the country's sovereign rating has been downgraded. In 2021 the current account deficit slightly narrowed to 6.3 per cent of GDP, driven by the strong performance of remittances, which peaked at US$ 2.7 billion. In the first quarter of 2022 remittances and tourism revenues continued to increase. However, foreign reserves decreased to US$ 7.6 billion in August 2022, covering just under four months of imports. In the past year both Moody's and Fitch have downgraded the sovereign rating to Caa1 and CCC, respectively.

The economic outlook remains highly uncertain. A weak recovery is likely in 2022 (1.7 per cent GDP growth) as the country struggles to attract external financing. Structural challenges and uncertainty surrounding the war on Ukraine will continue to weigh on growth. The prospects for 2023 are more positive (we forecast 2.9 per cent growth) if a new IMF programme is approved and implemented, and global headwinds ease.

CHART Assessment of transition qualities (1-10)



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Structural reform developments

Negotiations on an IMF-supported programme have advanced. In July 2022 the government submitted a reform plan to the IMF, which includes a freeze on the public wage bill, a reduction in subsidies and a restructuring of public enterprises. Following progress in the domestic dialogue on these reforms with key stakeholders, a staff-level agreement for a new programme was announced in October 2022, which should help to address financing needs as well as boost reforms.

Public-sector reform is still facing strong opposition. The public-sector wage bill in 2021 amounted to 17.5 per cent of 2020 GDP and almost 50 per cent of public expenditure, making it the highest wage-bill (relative to GDP) of all emerging markets. Strong labour unions have blocked reforms in this area and the commitments of previous governments to reduce the wage bill through limits on recruitment, wage constraint and voluntary departures remain unmet.

The government has developed an ambitious reform agenda. This includes the Vision 2035 initiative, along with accompanying development plans to address key challenges. The Vision 2035 agenda is focused on four pillars: promoting human capital; developing a more knowledge-based, digital economy; strengthening social justice (especially in the interior regions); and boosting private-sector development, especially the green economy.

The National Programme of Reforms 2023-25 was launched in June 2022. This programme aims to achieve economic stability in the short term and lay the foundations for inclusive and sustainable growth, in line with the Vision 2035 agenda. Planned measures include removing investment permits, incentives for investors in strategic sectors and improving legislative and institutional frameworks for start-ups. The authorities plan to reform the foreign-exchange code and to conclude sectoral competitiveness pacts in the textile, pharmaceutical and automotive component sectors.

Progress on crucial reforms to state-owned enterprises (SOEs) is slow, but momentum is picking up in the grain sector. In July 2022 the Office des Céréales (ODC) secured a US$ 150.3 million European Bank for Reconstruction and Development (EBRD) loan to finance grain imports and help secure them against potential disruptions in the global supply of cereals and consequent soaring prices. A grant of US$ 2 million will go towards technical assistance and support for a sectoral and corporate reform roadmap, in line with the Tunisian SOE reform agenda. The roadmap's main aim is to set out how to address the current structural weaknesses of the cereals sector, leading to the progressive liberalisation of cereal imports.

Tunisia is to launch the "Support for an accelerated energy transition" project. The project aims to enhance energy efficiency and renewable energy potential. It rests on four pillars: improving energy transition conditions; optimising the energy sector; enhancing private-sector capacity; and promoting innovation. The agreement between the Ministry of Industry, the Société Tunisienne de l'Electricité et du Gaz (STEG) and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) was signed in July 2022 and implementation is planned over the next three years. This project aims to produce 35 per cent of electricity from renewable sources by 2030, while reducing greenhouse gas emissions by 45 per cent from 2010 levels.