Egypt

Highlights

- **Egypt has experienced a period of acute macroeconomic stress due to its policy mix and external shocks.** High indebtedness, unsustainable foreign exchange policy and subdued investor confidence following the war in Gaza led to high inflation and growth of a parallel foreign exchange market.
- **The macroeconomic situation has improved following the Ras al Hekma transaction and an augmented programme with the International Monetary Fund (IMF).** The sale of the development rights for the waterfront city of Ras al Hekma to Arab Gulf investors for US$ 35 billion (€31.8 billion) is the largest foreign direct investment transaction in Egypt's history.
- **Egypt is implementing monetary and fiscal reforms as part of an IMF programme.** These include the shift to flexible exchange rates and the introduction of a framework for monitoring and controlling all public investment. Green energy reforms include a strategy to develop the green hydrogen sector.

Key priorities for 2025

- **Fiscal consolidation and effective debt management are key priorities.** Implementing a framework for better monitoring and control of public investment would improve the state's finances and ensure that growth-enabling projects were prioritised.
- **The continued implementation of the State Ownership Policy (SOP) is necessary to encourage private investment.** Improving the governance of state-owned enterprises, empowering the Egyptian Competition Authority (ECA) to enforce competitive neutrality and divesting from state assets would all help rebuild investor confidence and enable a decisive shift towards private-sector-led growth.
- **Progressing green transition is key to Egypt's energy security and economic development, and would help resolve some issues in the energy sector.** Scaling up its renewable energy capacity and establishing a more diverse energy generation mix would leave the country less vulnerable to external shocks, help resolve supply disruption issues in the energy sector and achieve national climate objectives.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	3.6	3.3	6.7	4.1	2.4
Inflation (average)	5.7	4.5	8.5	24.4	32.5
Government balance/GDP	-7.5	-7.1	-6.2	-6.0	-7.1
Current account balance/GDP	-2.9	-4.4	-3.5	-1.2	-6.5
Net FDI/GDP [neg. sign = inflows]	-1.9	-1.1	-1.8	-2.5	-8.4
External debt/GDP	32.3	32.6	32.8	41.8	na
Gross reserves/GDP	9.7	9.3	6.6	8.3	na
Credit to private sector/GDP	25.8	28.2	30.8	29.3	na

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Macroeconomic developments and policy response

Growth has slowed in the past year. The rate of real GDP growth slowed to 2.4 per cent in fiscal year 2023/24 (FY24) compared with 3.8 per cent in the preceding year. The slowdown was driven by an acute foreign exchange shortage and weak investor confidence. Growth was supported by the wholesale and retail trade, tourism, agriculture, communications and real estate sectors. The gas and non-oil manufacturing sectors saw the sharpest declines in activity. Official unemployment remained relatively stable, standing at 6.7 per cent in the first quarter of 2024.

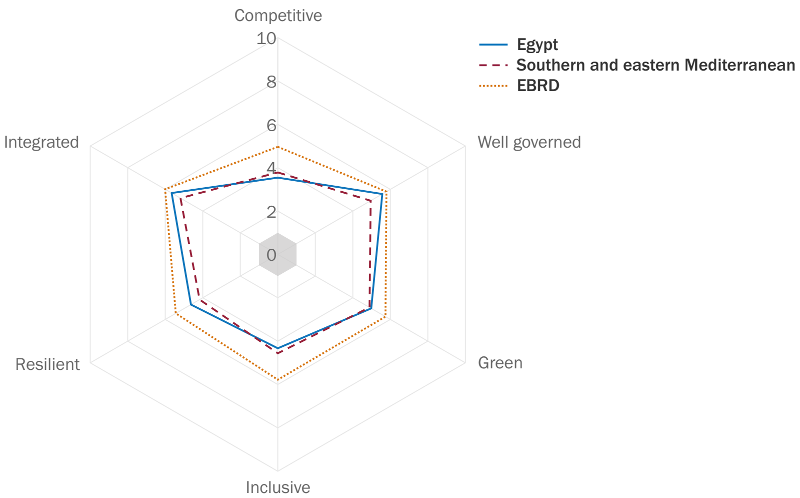
Inflation remains high but is on a downward trend. Inflation fell to 25.7 per cent in July 2024, its lowest level since December 2022. The Egyptian pound depreciated by 38.0 per cent in March 2024 after the Central Bank of Egypt (CBE) announced a shift to a flexible exchange rate regime. Pass-through was limited as the policy unified exchange rates and resolved the issue of goods shortages in the economy. Inflation was also moderated by a substantial hike in the CBE's policy rate (600 basis points in March 2024) and base effects. However, recent and planned increases to the prices of fuel, electricity, medicines and bread may push inflation up.

External accounts have recovered to pre-crisis levels following the deal to sell development rights in Ras al Hekma (RAH), and financial inflows from international financial institutions and investors. In parallel, financing packages from the IMF and European Union amounted to US$ 16 billion (€14.5 billion) in March 2024, with additional commitments from the World Bank and others. Portfolio inflows into Treasury bills amounted to over US$ 23 billion (€20.9 billion) following the exchange rate shift. As a result, net international reserves rose to US$ 46.6 billion (€42.4 billion) in August 2024, their highest level in five years and covering around 7.4 months of imports. In parallel, the financial system's net foreign assets have risen from US$ -22.0 billion (€-20 billion) to US$ 13.3 billion (€12.1 billion) as of August 2024. Egypt has already received both tranches (US$ 24 billion or €21.8 billion) of the RAH deal and converted a deposit from the United Arab Emirates (US$ 11 billion or €10 billion) into local currency. Against the backdrop of regional geopolitical instability, tourism has held up relatively well (rising 6 per cent in the first half of 2024 year on year) but Suez Canal revenues have fallen by 60 per cent, more than €4.7 billion, over the first eight months of 2024.

Debt levels remain burdensome. Servicing costs are expected to absorb 50-60 per cent of the FY25 budget and the debt-to-GDP ratio was 96 per cent as of FY24. The budget deficit stood at 3.6 per cent of GDP in FY24 and debt-to-GDP is expected to fall to 83 per cent in FY25. The government has announced a budgetary limit of EGP 1.0 trillion (US$ 21 billion) on public investments in FY25. Following several rating downgrades, Fitch upgraded Egypt's rating to B (from B-) while Moody's and S&P upgraded the country's outlook to positive.

Growth is expected to remain muted, at 2.4 per cent, in FY24 as a result of macro-structural challenges and external risks. Domestic and foreign investors will likely watch for progress on the government's reform programme before sentiment durably improves. Regional developments will also likely weigh on growth, at least until the war in Gaza has been resolved.

Assessment of transition qualities (1-10)



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Structural reform developments

The IMF augmented its programme in Egypt to support structural reforms. In March 2024, the IMF increased its loan under the Extended Fund Facility (EFF) from US$ 3.0 billion (€2.7 billion) to US$ 8.0 billion (€7.3 billion) and completed the first, second and, later, third reviews under the programme. Reforms will focus on shifting to a flexible exchange rate regime, improving debt management and fiscal stability, and expanding the role of the private sector. Discussions are under way for a US$ 1.2 billion (€1.1 billion) loan under the Resilience and Stability Framework. The 46-month EFF was initially approved in December 2022.

Exchange rate liberalisation is a key area of reform. The CBE allowed the Egyptian pound to trade freely in March 2024 as a condition for completing the first and second reviews under the IMF-supported programme. The spread between the official and parallel market rates has since closed, foreign exchange demand backlogs at banks have been cleared, and trading in the foreign exchange interbank market has resumed. The credibility of the liberalisation policy could be reinforced if it is sustained through future episodes of market stress.

Implementation of the SOP is under way. The SOP was a landmark document published in January 2023 that outlined the rationale for the state's involvement in the economy and ambitions for divesting from state-owned assets, improving governance at state-owned enterprises (SOEs) and strengthening private sector competitiveness by enforcing competitive neutrality. Recent developments include: (i) submitting legislation to embed the SOP into law, (ii) establishing a unit under the prime minister's office to oversee governance improvements in more than 700 SOEs with potential divestment of over 30 companies, and (iii) drafting amendments to align the independence of the ECA with other regulators such as the CBE and the Financial Regulatory Authority.

Divestments have slowed as the government takes a more strategic approach. Proceeds from privatisation over FY24 amounted to US$ 2.2 billion (€2 billion), with significant sales or divestments to state-owned investors from the Arab Gulf region in the hospitality, manufacturing and petrochemical sectors. Progress slowed in the second half of 2024 as the government took a more targeted approach, focusing on aviation, financial services and telecommunications. Other transactions, particularly those involving military-owned companies, have stalled in their final stages.

The government has taken steps to consolidate all economic authorities into general government fiscal reporting. The executive regulation of the Public Financial Management Law was enacted in March 2024, integrating the spending of 59 economic authorities (EAs), which are now required to report financial performance to the Ministry of Finance. Debt ceilings for EAs will also be introduced and included in the annual budget law. The next phase will involve classifying EAs by sector and retaining only non-market producers in the general government. These measures should enhance monitoring and control over EA investment and enable the transparent integration of some off-budget expenditures in policymaking, a key challenge of the past period.

Much-needed energy sector reforms are under way. FY24 was characterised by frequent disruptions in the energy sector, including electricity blackouts owing to a fall in domestic gas supply and the accumulation of arrears to international oil and gas companies due to the foreign exchange shortage. The government has taken steps to improve the economics of the energy sector by raising the prices of electricity and fuel products, committing to reaching cost recovery by the end of 2025. The government has also launched a national low carbon hydrogen strategy, passed a law to incentivise investments in the sector, and approved regulations opening up the private-to-private renewables market, allowing for a move away from the single buyer model Egypt had been following. Egypt will likely require greater investment in grid infrastructure and/or sector liberalisation to meet its renewable electricity generation target by 2030. Concurrently, increasing renewable capacity and diversifying the generation mix as well as improving the quality, efficiency and sustainability of infrastructure will also be critical to meet these goals.

Jordan

Highlights

- **Growth is slowing in 2024.** The economy has been weighed down by the impact of regional geopolitical tensions, particularly the war in Gaza, on private consumption, investment and tourism flows in the first months of the year. However, economic stability has been preserved despite successive shocks, and a new International Monetary Fund (IMF)-supported programme is expected to help support reform.
- **Reforms under the government's Economic Modernisation Vision (EMV) are advancing.** These include the implementation of regulatory amendments to improve the business environment, the digitalisation of government services and the restructuring of the civil service in line with the Public Sector Modernisation Roadmap.
- **Jordan has taken steps to advance its green transition.** Recent measures include regulatory reforms to promote renewable energy development and energy efficiency practices, exploring green hydrogen potential, and putting in place plans for greening the financial sector.

Key priorities for 2025

- **High youth unemployment and low labour participation rates among women need to be addressed to promote inclusive growth.** Reforms to promote private investment, especially in high-potential sectors, will be key to creating jobs. Labour-market reforms and addressing skills mismatches are vital to mitigating market rigidities and should be complemented by measures to promote entrepreneurship and innovation.
- **Effective implementation of business environment reforms is crucial to attracting foreign investment and leveraging private-sector participation.** Reforms are progressing under the EMV, but the authorities need to capitalise quickly on achievements, with further emphasis on attracting foreign investment to and advancing public-private partnerships (PPPs) on critical infrastructure projects.
- **Deeper fiscal and structural reforms are needed to support debt sustainability.** As well as revitalising growth and shoring up revenues, the authorities must address long-standing financial vulnerabilities in the water and energy sectors to safeguard macroeconomic and fiscal stability and improve private-sector access to services.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-1.1	3.7	2.4	2.6	2.2
Inflation (average)	0.4	1.3	4.2	2.2	2.7
Government balance/GDP	-9.6	-7.7	-6.8	-7.1	-7.4
Current account balance/GDP	-5.7	-8.0	-7.9	-7.0	-6.3
Net FDI/GDP [neg. sign = inflows]	-1.7	-1.3	-2.6	-2.5	-2.8
External debt/GDP	79.3	80.5	84.3	84.1	na
Gross reserves/GDP	39.9	40.8	39.3	34.2	na
Credit to private sector/GDP	83.1	82.0	84.4	82.3	na

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Macroeconomic developments and policy response

Economic growth remained robust in 2023 despite regional turmoil, but has slowed in 2024. Real gross domestic product (GDP) grew 2.6 per cent in 2023, thanks to an improved performance by the agriculture and transport sectors, as well as a strong rebound in tourism, and despite some slowdown in construction and mining. The pace of growth slowed to 2.2 per cent year on year in the first half of 2024 as rising uncertainty due to the war in Gaza damped private consumption and reduced tourism and investment inflows to the region. In parallel, unemployment remained high in the first quarter of 2024, at 21.4 per cent, and even higher for women (34.7 per cent) and youth (43.7 per cent). Inflation is at low levels despite a slight pick-up during the year to 1.9 per cent in July 2024, helped by the gradual decline in global commodity prices. In tandem, lower prices and more than 60 per cent growth in service exports, including travel, helped reduce the current account deficit to 3.5 per cent of GDP in 2023 and offset the decline in mineral exports. Meanwhile, foreign-exchange reserves remained at comfortable levels and edged up to US$ 19.1 billion (€17.3 billion) in July 2024, covering around 8.1 months of imports.

Fiscal discipline was maintained despite regional headwinds and the high interest-rate environment, but public debt remains high. In 2023, the government introduced further measures to improve revenue collection and increase expenditure efficiency. Social spending remained limited to targeted support for the poorest households, while subsidies on food commodities were limited to traditional bread. Meanwhile, elevated interest rates in the United States of America kept public debt-servicing costs high, on the one hand, and domestic interest rates similarly elevated on the other, as the policy of the Central Bank of Jordan (CBJ) is to maintain the currency peg. The CBJ has kept its main policy rate stable at 7.5 per cent since July 2023. Meanwhile, the fiscal deficit narrowed from 6.8 per cent of GDP at the end of 2022 to 7.1 per cent at the end of 2023 but is expected to widen to 7.5 per cent of GDP in 2024, driven mostly by higher interest payments and capital expenditure. General government debt, which stood at more than 114 per cent of GDP (including guarantees and debt held by the Social Security Corporation) at the end of 2023, is expected to decline slowly as the fiscal deficit continues to narrow. As interest rates decline gradually around the world, the financing costs for Jordan's external and domestic debt are expected to fall, easing its debt-servicing burden in the medium term. In addition, financial costs could be further reduced as investor confidence increases; Jordan has seen two credit rating upgrades in 2024 (by Moody's to Ba3 in May and by S&P Global Ratings to BB- in September) owing to economic resilience, progress on reforms and strong external support.

Growth will remain robust in the medium term, but the risks are high in light of the war in Gaza and Lebanon. Real GDP growth is projected to slow to 2.2 per cent in 2024 as geopolitical developments continue to weigh on tourism and foreign investment flows into the country. In 2025 domestic demand, tourism and foreign investment inflows are expected to improve, provided regional tensions remain contained, lifting the growth rate to 2.6 per cent. However, Jordan remains vulnerable to rising energy and food prices and global supply-chain disruptions, thanks to its high import dependency. In the long term, its growth potential remains modest in the absence of strong drivers, and recent successive shocks underline the importance of progress on transformative structural reforms to promote growth and job creation. As the war in Lebanon continues to deteriorate rapidly, our forecasts are subject to major downside risks.

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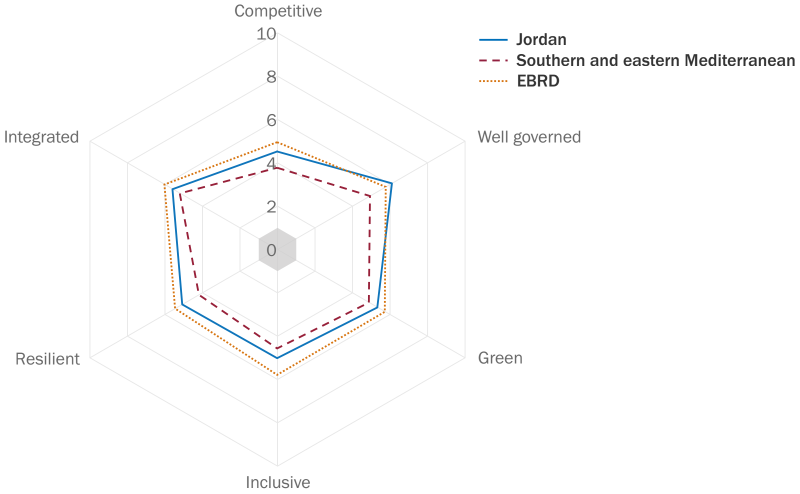
Assessment of transition qualities (1-10)



Structural reform developments

Jordan is implementing reforms under a new IMF-supported programme. The four-year Extended Funds Facility, approved by the IMF Board in January 2024, follows the successful conclusion of an earlier four-year programme that helped the country maintain macroeconomic stability while navigating multiple external shocks. Under the current programme, the authorities continue efforts to promote fiscal consolidation, preserve financial stability and access to finance, and improve the efficiency and financial viability of the water and electricity sectors. The government is also committed to advancing structural reforms to promote growth and job creation through a number of governance, business-environment and labour-market reforms that aim to strengthen competition, attract investment and encourage formal employment.

The government is progressing steadily with economic modernisation reforms. Work is continuing under Jordan's EMV, a comprehensive 10-year plan that targets a doubling of GDP growth rates and stimulation of job creation, driven mainly by private investment, especially foreign direct investment. The authorities are working to implement a number of regulatory amendments aimed at improving the business environment, including companies, investment, PPPs, competition, labour, social security, property rights and personal data protection laws. This is in tandem with the ongoing implementation of the Public Sector Modernisation Roadmap 2022-25, which targets the digitalisation of government services, improving governance and transparency, consolidating strategic planning and policymaking, and moving towards competency-based hiring and a performance-based reward and promotion system.

The government has taken steps to reform the water sector. These include working to increase efficiency and foster financial sustainability by revamping infrastructure and management practices to help resolve leakages and improve revenue collection, alongside scaling up investments in water desalination and wastewater treatment projects. The government has made progress on reducing non-revenue water by more than 5 per cent since mid-2022 and is committed to an annual 2 per cent decrease. In late 2023, the government also introduced amendments to the water and sanitation tariff structure for household consumption, with tariffs to be raised gradually until 2028.

Work is ongoing to strengthen energy-sector efficiency and resilience. In April 2024, parliament approved amendments to the Energy and Energy Efficiency Law, which facilitates renewable energy development and introduces energy efficiency solutions. Under this law, in August 2024, the cabinet approved new customs and sales-tax exemptions for renewable energy and energy efficiency equipment, as well as a shift from net metering to a new net billing scheme to help cover grid operation and energy storage costs. This was followed by a government decision in September 2024 to resume approvals for large-scale renewable energy projects, which had been paused since 2019.

Jordan is exploring its green hydrogen potential. In 2024 the Ministry of Energy and Mineral Resources signed 12 memoranda of understanding and one framework agreement on the development of green hydrogen projects in Jordan, reflecting the potential of this sector given Jordan's renewable energy potential and access to the port of Aqaba. With development potential still further down the line, the industry will need strategic support to reach price predictability and cost competitiveness, including through government efforts to reduce barriers arising from regulatory gaps, land and water availability, and infrastructure.

The central bank is embarking on greening the financial sector. In November 2023, the CBJ launched its first green finance strategy for 2023-28, under which it will conduct a comprehensive climate risk assessment for the financial sector. The strategy aims to introduce climate-responsive practices at the regulatory level (financial stability and macroprudential frameworks), institutional level (corporate governance, risk management and internal controls) and product level (inclusive green finance and sustainable Islamic finance). To promote green finance mobilisation, the CBJ aims to address information gaps, introduce a green loan framework (definition, processes, governance and consumer-protection measures) and promote the development of climate-related insurance products and de-risking instruments.

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Lebanon

Highlights

- **The escalating war in Lebanon leaves the recovery outlook increasingly uncertain.** Living conditions have deteriorated further due to the political impasse and the dire national and geopolitical situation, although the currency has stabilised somewhat as the central bank's efforts to unify multiple exchange rates and rein in inflation have paid off.
- **Access to basic goods and services is precarious.** Lower global prices and a short-lived recovery in tourism and remittances have helped to ease pressure on the external accounts, but the current account deficit is still large and the country remains unable to attract international investment and donor support in the absence of progress on reforms.
- **Political paralysis is holding back reform.** Some limited progress on the fiscal and monetary fronts has been achieved, but far below what is required to support an economic recovery. Key reforms are at a standstill, including banking-sector restructuring and other regulatory reform prerequisites to an International Monetary Fund (IMF) programme.

Key priorities for 2025[1]

- **Completing the reforms required for an IMF-supported stabilisation and structural reform programme is the key priority.** An agreement with the IMF would help restore credibility with regard to reform commitment and provide access to necessary external financing. Progress on electing a president and forming a government with full executive powers is urgently needed, in addition to bank restructuring and critical institutional and governance reforms.
- **Significant improvements in government revenue mobilisation are critical to restoring access to essential services.** Establishing comprehensive social safety nets remains crucial in order to alleviate the economic pain the population is facing. Given its severe financing constraints, the government needs to attract donor assistance and gradually build robust support networks. It will also need significant investment to rebuild its capacity to provide public services.
- **Progress on energy-sector reforms is necessary to unlock the financing needed to develop capacity and restore a consistent power supply.** In parallel, capitalising on recent legislative reforms to promote renewable energy uptake is critical to providing a sustainable energy supply and helping to address severe shortages and high import dependence.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-25.9	-10.0	0.0	-0.2	-1.0
Inflation (average)	84.9	154.8	171.2	221.3	na
Government balance/GDP	-3.5	0.6	-6.1	na	na
Current account balance/GDP	-16.1	-17.5	-36.1	-34.0	na
Net FDI/GDP [neg. sign = inflows]	-6.4	-9.6	-0.8	na	na
External debt/GDP	362.3	414.5	378.3	na	na
Gross reserves/GDP	72.1	66.5	48.8	na	na
Credit to private sector/GDP	54.3	na	na	na	na

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[1] The war continues to escalate as this report is being finalised, and different priorities will emerge if the war persists into 2025.

Macroeconomic developments and policy response

Political deadlock and ongoing conflict continue to hold back Lebanon's economic recovery and the population's living conditions are dire. The economy failed to grow in 2023, as armed confrontation in the southern part of the country weighed considerably on the economy. Meanwhile, the country's unyielding political deadlock and lack of progress on critical reforms have continued to hold back recovery. Real gross domestic product (GDP) is estimated to have contracted slightly, by 0.2 per cent, in 2023, adding to a cumulative loss of real GDP of more than 40 per cent since 2018. The country remains locked out of international markets as uncertainty continues to surround the long-awaited IMF programme. Lebanon's foreign-exchange reserves decreased slightly to US$ 14.5 billion (€13.1 billion, excluding gold) in 2023, despite benefiting from remittances and tourism flows in the first nine months of the year – until the war in Gaza broke out. Dire economic conditions and years of hyperinflation have caused large segments of the population to suffer severe hardship, with over a third of the labour force unemployed and more than 80 per cent of the population estimated to be living in poverty.

Efforts to unify the multiple exchange rates in the economy have helped to rein in inflation, but fiscal conditions and the public debt situation remain precarious. The Banque du Liban (BDL) introduced several measures to unify the economy's multiple exchange rates, including phasing out the Sayrafa platform. This step, in tandem with the adoption of the 2024 budget law, has helped to bring the official exchange rate closer to the prevailing market rate. This follows several years of exchange-rate fluctuations that eroded confidence in the local currency and increased dollarisation in the economy. Against this backdrop, the market rate has stabilised at around LBP 89,700 per US dollar since the end of August 2023 and inflation has dropped significantly as a result, falling to 32.9 per cent in September 2024 (from a peak of 269 per cent in April 2023). Meanwhile, the surge in the cash economy and informal sector as a result of the country's economic deterioration has further deprived the state of much-needed fiscal revenues. In contrast, significant reductions in spending have likely helped to reduce the budget deficit. The falling real salaries of public-sector employees have resulted in high numbers of resignations and increased absenteeism, further undermining Lebanon's already weakened public administration capacity. Public debt was estimated at around 195 per cent of GDP at the end of 2023.

The current account deficit has probably narrowed thanks to lower commodity prices and rising inflows, but food and energy security remains precarious. The deficit, estimated to have exceeded 23.5 per cent of GDP in 2023, is likely to have declined in 2024, helped by increasing tourism receipts and rising remittances from Lebanese nationals abroad, as well as lower global inflation. However, the country is still unable to meet the population's needs in terms of fuel, electricity and grain. A World Bank loan of US$ 150 million (€135.9 million) helped Lebanon secure most of its wheat needs and to maintain some bread price stability in 2023. Meanwhile, access to electricity in most areas remains limited to two hours a day, increasing households' dependence on private generators.

The outlook remains highly uncertain and increasingly weighed down by geopolitics. Any recovery will depend on a ceasefire agreement, as well as the speed of government formation, agreement on an IMF deal and swift reconstruction efforts. Before the recent escalation of conflict, the economy was forecast to see a further contraction of 1.0 per cent in 2024, with a return to growth of 2.0 per cent in 2025, conditional on cessation of the war and implementation of an IMF-supported programme by a reform-minded government that would also allow negotiations to resume with international partners. As of early November, the war in Lebanon continues to intensify and our earlier forecasts (above) are therefore subject to significant downside risks.

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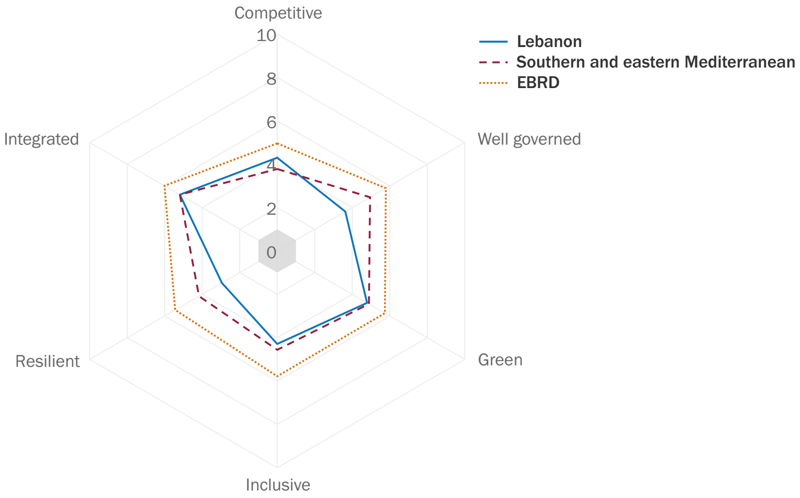
Assessment of transition qualities (1-10)



Structural reform developments

Lebanon has yet to make progress on an IMF programme. Discussions with the IMF are largely dormant, with no progress made to date on forming a new government or electing a new president. During its May 2024 staff visit, the IMF noted the country's progress on bringing down inflation and unifying its multiple exchange rates, but previously identified gaps remain unresolved. These include reaching an agreement on banking-system restructuring, as well as meeting several programme prerequisites, including draft laws on banking secrecy, banking resolution and capital controls.

There has been some progress on fiscal reform. Lebanon was able to pass its 2024 budget law in a timely manner and the Ministry of Finance has introduced a number of measures to improve revenue mobilisation, including an exchange-rate adjustment to the customs dollar, which has helped to close the fiscal gap. However, shoring up revenues to the levels needed to support recovery is still a remote prospect, as severe funding and human capacity gaps prevent effective tax collection. Consequently, public spending cannot ensure the adequate provision of key services, let alone the levels of social spending and capital investment needed to support an economic recovery. The ongoing war is likely to exacerbate the fiscal pain, as disrupted economic activity suppresses key sources of income, including customs and VAT, while raising pressure to increase spending to meet urgent humanitarian needs and demand for public services.

Some steps have been taken towards monetary policy independence, but essential transformative reforms remain to be done. In addition to phasing out the Sayrafa platform and efforts to unify the country's multiple exchange rates, the BDL has taken measures to end the monetary financing of the fiscal deficit. However, progress has yet to be made on strengthening BDL governance and internal controls, as well as improving transparency and accountability.

Consensus on the proposed economic recovery plan and subsequent bank restructuring is still out of reach. The plan, approved by the cabinet in May 2022, introduces sweeping banking-sector restructuring, including for the BDL. Banking-sector losses are estimated at around US$ 70 billion (€66 billion) and reforms are likely to result in large haircuts on deposits over US$ 100,000 (around €94,000). The plan is still facing pushback, as different parties continue to dispute the distribution of losses.

Reforming the electricity sector remains a top priority. Plans to address the electricity sector's numerous vulnerabilities continue to encounter political hurdles, even though the need to progress has become more urgent amid ever-more-frequent power supply interruptions. Large segments of the population are increasingly dependent on private generators to counter power cuts that last most of the day. Since its approval by the cabinet in early 2022, the electricity reform plan remains stuck in parliament, blocking international support and energy imports from neighbouring countries. The plan involves setting up an electricity regulator, carrying out a comprehensive audit of the state power company, Electricité du Liban (EDL), and adjusting tariffs. Still, some progress has been made independently of this plan, with the first tariff reform in 30 years becoming effective in early 2023. In addition, EDL disclosed its audited financial statements for the first time since 2011 (reflecting 2020 performance and published in August 2024), and developed a cost recovery plan approved by the prime minister. Furthermore, a new regulatory framework for decentralised renewable energy generation is a welcome development. In late 2023, parliament passed a distributed renewable energy law that introduces net metering and peer-to-peer renewable energy trading. ●

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Morocco

Highlights

- **Growth has slowed in 2024 but the economy continues to show resilience to negative shocks.** Droughts have badly affected the agricultural sector but overall economic performance has proved resilient, despite the 6.8-magnitude earthquake in September 2023 which caused widespread destruction around the High Atlas Mountains near Marrakech.
- **Inflation has fallen significantly in 2024 as supply shocks were resolved.** The central bank (Bank Al-Maghrib) began loosening its monetary policy in June 2024 given projections of continued falls in food prices and core inflation.
- **Morocco has taken steps to become an energy hub.** The government aims to improve the attractiveness and competitiveness of the renewables sector by developing a conducive regulatory framework for investors, notably by publishing tariffs for network access and usage and bringing greater clarity on the country's electricity network capacity, although some secondary legislation to operationalise the framework is still pending. Known as the "Morocco Offer", the initiative has seen developer interest and will support the expansion of the green hydrogen sector.

Key priorities for 2025

- **Governance reforms at state-owned enterprises (SOEs) will be important for private sector growth.** The implementation of the state ownership policy and restructuring at key SOEs will signal commitment to the reform agenda. The continued strengthening of the Competition Council would enable further enforcement against anti-competitive practices.
- **Economic diversification would improve Morocco's resilience to external shocks.** GDP growth has been badly affected by droughts, highlighting the importance of integrating climate change and social considerations into policymaking.
- **The authorities should enable further investment in renewable energy and related infrastructure.** Morocco can improve its energy security by encouraging private sector participation and prioritising investments in electricity interconnections and green hydrogen.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-7.2	8.0	1.3	3.0	2.9
Inflation (average)	0.7	1.4	6.6	6.1	2.2
Government balance/GDP	-7.1	-6.0	-5.4	-4.4	-4.3
Current account balance/GDP	-1.2	-2.3	-3.5	-0.6	-2.6
Net FDI/GDP [neg. sign = inflows]	-0.8	-1.1	-1.2	-0.1	-0.9
External debt/GDP	54.2	45.9	49.5	49.1	na
Gross reserves/GDP	29.7	25.1	24.7	25.2	na
Credit to private sector/GDP	90.9	86.2	87.7	83.4	na

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Macroeconomic developments and policy response

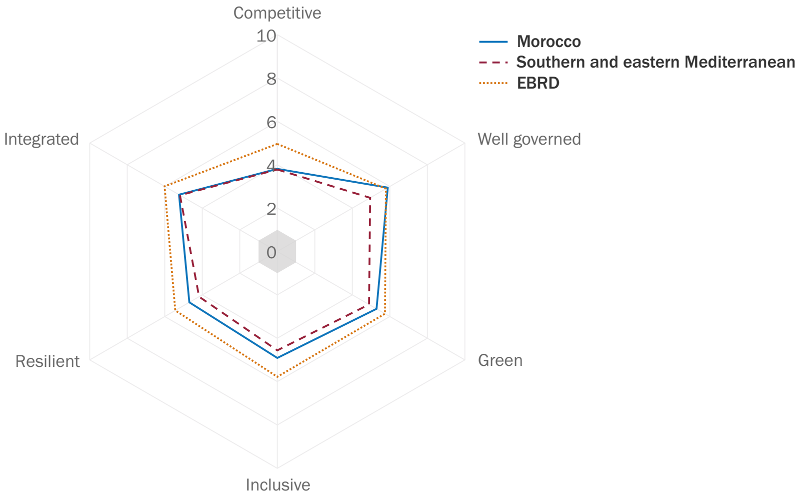
Growth has slowed during 2024. Real GDP grew by 2.5 per cent year on year in the first quarter of 2024, compared with 3.9 per cent in the same period last year. The slowdown was driven by a contraction in the agricultural sector due to drought, while non-agricultural sectors expanded at a slightly slower pace than the previous year. Rainfall continues to be significantly below average despite a year-on-year increase in the first four months of 2024. Growth is supported by consumer demand, bolstered by an expansion in social protection. Agriculture accounts for 14 per cent of GDP and close to 30 per cent of employment. Around 200,000 jobs in the sector were estimated to have been lost in 2023 as a result of the ongoing drought, with a disproportionate impact on rural populations and women. Post-earthquake reconstruction is continuing. The government announced a reconstruction plan amounting to MAD 120 billion (around €11.7 billion, or 8 per cent of GDP) over five years soon after the earthquake in September 2023. The remoteness of some of the affected area is hampering efforts to rebuild the 60,000 damaged or destroyed homes. Despite a dip in tourist arrivals immediately after the earthquake, a record 14.5 million tourists visited Morocco in 2023 and figures for the first half of 2024 show a further increase of 14 per cent year on year, alleviating fears of a wider impact on the economy.

Inflation is in low single digits. The annual core rate of inflation dropped to 2.4 per cent in September 2024 from its peak in February 2023 at 8.5 per cent. In June 2024, Bank Al-Maghrib became the first central bank in North Africa to cut its policy rate, bringing it down by 25 basis points to 2.75 per cent. The dirham continued to trade within its determined fluctuation band.

Fiscal and current account imbalances are minor. The budget deficit is expected to stand at 4.3 per cent of GDP in 2024 (compared with 4.4 per cent in 2023) and narrow further in 2025 due to a shrinking primary deficit, despite higher social benefit expenses. Central government debt-to-GDP is expected to fall to 70.4 per cent in 2024 from its peak of 72.2 per cent in 2020. Meanwhile, the current account registered a surplus of 1.1 per cent of GDP in the first quarter of 2024. This follows a significant narrowing in the deficit to 0.6 per cent of GDP in 2023 from 3.5 per cent the preceding year, driven by lower energy imports and higher remittances and tourism and automotive exports. Net foreign exchange reserves rose by 1.3 per cent year on year to €34 billion in August 2024, covering around five months of imports.

Growth is expected to continue to recover in the medium term, with some downside risks to the outlook. Recovering domestic and external demand and easing inflation should keep economic activity buoyant while the fiscal consolidation plan continues, giving a forecast growth rate of 2.9 per cent in 2024 and 3.6 per cent in 2025. On the downside, Morocco's high dependence on energy imports and seasonal agricultural production increases its vulnerability to global and climate risks.

Assessment of transition qualities (1-10)



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Structural reform developments

Morocco continued to perform well on its International Monetary Fund-supported programmes, on the back of strong macroeconomic policies and commitment to structural reforms. In March 2024, the country successfully concluded its mid-term review under the Flexible Credit Line Arrangement (FCL) and first review under the Resilience and Sustainability Facility (RSF). The two-year US$ 5 billion FCL (€4.6 billion, approved in April 2023) aims to build up the country's external buffers and create the necessary policy space to accelerate the implementation of the reform agenda (New Model of Development 2021-35). Moreover, the 18-month US$ 1.3 billion RSF (€1.2 billion, approved in September 2023) aims to support Morocco's green transition and improve its climate resilience.

SOE reforms are advancing. In June 2024 the Council of Ministers took the first step towards developing a state ownership policy (SOP) by approving its strategic orientation. This was followed by a favourable opinion issued by the consultation body on the draft SOP, chaired by the head of government, in September 2024. The SOP will provide a basis on which the country can enhance the efficiency, governance and transparency of SOEs. The National Agency for the Strategic Management of State Participations (ANGSPE) became operational in 2023 and is tasked with developing the SOP and managing and monitoring 57 public institutions and enterprises. In early July 2024, a US$ 350 million (€319 million) World Bank programme was signed which will further contribute to SOE reforms.

Efforts to restructure the electricity and water sectors are under way. Legislation passed in 2023 permits the operation of regional multiservice companies (SRMs) in the electricity and drinking water sectors, along with wastewater collection and treatment. The first SRM was created in October 2024. The state-owned electricity and water company, ONEE, also aims to eventually unbundle its generation, transmission and distribution activities, initially by separating its financial accounts. Once achieved, this will support greater private sector participation in the electricity sector by ensuring transparent and non-discriminatory access to the network.

The government has implemented policies to improve the competitiveness of the renewable energy sector. In January 2024, the National Electricity Regulatory Authority (ANRE) started publishing information on the capacity of the national electricity network to absorb additional renewable energy for the regulatory period 2024-28. Publication will provide potential investors with clear signals regarding project site selection and planning based on available capacity. New transparent tariffs to access and use the transmission network were announced in early 2024, which should increase the competitiveness of the electricity sector and attractiveness of the renewables sector to investors, although publication of distribution tariffs is still pending.

The government has announced the "Morocco Offer" for the development of the green hydrogen sector. The initiative, launched in March 2024, builds on Morocco's potential for solar and wind energy – as hydrogen production is energy-intensive – and is targeted at both local and international developers and investors. The Offer relates to integrated projects of scale along the entire value chain, includes allocations of suitable public land, and makes use of existing tax exemptions. Developers signalled strong interest as of August 2024, with 40 proposals having been received by the Moroccan Agency for Sustainable Energy (MASEN), the agency tasked with managing the application process.

The government is gradually implementing fiscal consolidation measures. This includes a reform of social protection and the gradual lifting of subsidies, including on gas butane and other commodities. Value-added tax (VAT) reform will reduce the number of rates from five to three over the coming three years. The government is also reforming the Organic Budget Law to include a medium-term fiscal framework (MTFF) and debt anchor. Current improvements to the MTFF include an evaluation of previous years' budget performance, reconciliation of macroeconomic assumptions and identification of fiscal risks.

Morocco has launched a programme to expand its social protection system in response to the Covid-19 pandemic. Reforms will focus on expanding healthcare coverage by moving to compulsory health insurance, and providing family, pension and unemployment benefits. The first two pillars of the programme (health insurance and cash transfers to the poor) have been implemented. Beneficiaries of the health insurance system number approximately 14 million, with a further 22 million to be added. Remaining reforms will be phased in during 2025.

Tunisia

Highlights

- **Growth is recovering but the outlook is modest amid extremely challenging conditions.** Real gross domestic product (GDP) growth picked up slightly in the first half of 2024, following a slowdown in 2023. The country's fiscal and external performances showed some improvement, despite a lack of progress on approving a new programme with the International Monetary Fund (IMF).
- **Tunisia has entered a strategic and comprehensive partnership with the European Union (EU).** The agreement should help the authorities promote macroeconomic stability, improve the business environment, boost growth, investment and trade, and support the green transition.
- **Key reforms are advancing.** Recent reform measures include an enhancement of the energy-sector regulatory framework, improvements in road quality, the partial liberalisation of foreign-exchange transactions and the restructuring of public banks. The state's footprint is large, however, and a recent law allowing exceptional fiscal monetisation in 2024 could undermine central bank independence.

Key priorities for 2025

- **Continued fiscal consolidation is a top priority to improve Tunisia's public finances.** This entails committing to the country's medium-term fiscal framework to contain the deficit and public debt. Efforts should be made to improve revenue mobilisation, as well as reduce the public wage bill, interest payments and subsidies.
- **Accelerating the green transition and improving the resilience of the agricultural sector are necessary.** These are important to reduce Tunisia's dependence on energy and food imports. Priorities should include enhancing the energy sector's regulatory framework and facilitating private-sector investment to scale up renewables. Moreover, continued efforts to strengthen food security and boost the resilience of the agricultural sector to climate shocks are crucial.
- **Reducing the state's role in the economy and improving the business environment are essential.** This will mean restructuring public enterprises, eliminating restrictions, improving operational efficiency and levelling the playing field.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	-8.6	4.6	2.7	0.0	1.2
Inflation (average)	5.6	5.7	8.3	9.3	7.4
Government balance/GDP	-9.4	-7.7	-7.6	-7.1	-6.6
Current account balance/GDP	-5.9	-6.0	-8.6	-2.5	-3.5
Net FDI/GDP [neg. sign = inflows]	-1.4	-1.1	-1.4	-1.3	-1.3
External debt/GDP	98.7	87.7	87.1	83.0	na
Gross reserves/GDP	21.4	18.5	17.0	17.8	na
Credit to private sector/GDP	71.0	76.0	75.0	69.4	na

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Macroeconomic developments and policy response

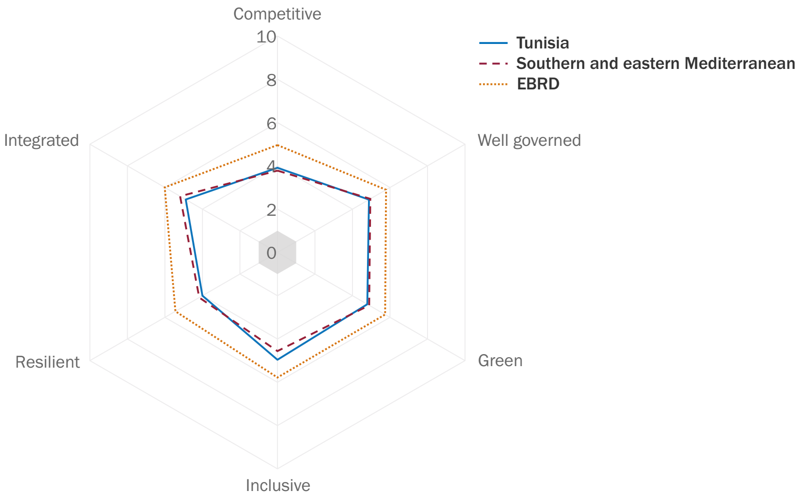
Growth recovered slightly in 2024, but economic activity remains largely subdued. Real GDP growth was close to zero in 2023, before increasing slightly to 0.6 per cent year on year in the first half of 2024. Although tourism, financial services and some industrial sectors recovered, a severe drought and a contraction in agriculture, along with declines in the mining and construction sectors, dragged on growth. Inflation dropped to a 30-month low of 7 per cent in July 2024, supported by a cumulative 175 basis-point tightening of the central bank's policy rate. Unemployment increased slightly to 16 per cent in the second quarter of 2024, remaining higher among women (21 per cent) and youth (41 per cent).

Public finances remain constrained, although the country's fiscal performance has improved. Tunisia's fiscal deficit narrowed to 7.1 per cent of GDP in 2023, driven by a rationalisation of wage and subsidy spending, despite a decline in tax revenues. Meanwhile, public debt increased to around 80 per cent of GDP. In the first half of 2024, the state budget recorded a surplus, driven by higher revenues. The government is targeting a decline in the deficit to 6.6 per cent of GDP in 2024, largely thanks to enhanced revenue mobilisation and lower basic goods subsidies (as weather conditions improved and food prices continued to gradually ease in the first half of 2024). Nevertheless, interest spending and public wages are projected to increase. Because of these fiscal pressures, the government has embarked on a medium-term fiscal consolidation plan to further contain the public deficit by undertaking tax reforms, rationalising fuel consumption, incentivising renewable energy investments and usage (including by raising the fuel/carbon tax), and consolidating the public-sector wage bill.

The current account and foreign reserves have proved resilient, but external vulnerabilities remain. The current account deficit stood at 1.4 per cent of GDP in the first half of 2024 and is expected to reach 3.5 per cent of GDP for the full year, despite increased tourism and remittances. Imports contracted (due to lower commodity prices), while mechanical, electric and olive oil exports improved. International reserves continued to increase (covering nearly four months of imports in August 2024), despite several major debt repayments. After credit-rating downgrades in 2023, Moody's raised Tunisia's outlook to stable from negative in March 2024 on the back of its better current account performance and continued access to bilateral and multilateral external funding (including from Afreximbank, the African Development Bank, Algeria, the European Union, Saudi Arabia and the World Bank). In September 2024, Fitch upgraded Tunisia's Long-Term Foreign-Currency Issuer Default Rating to CCC+ from CCC.

The outlook for 2024 is modest, with several external and domestic vulnerabilities. Growth is expected to gather pace to 1.2 per cent in 2024 and 1.8 per cent in 2025. The restrictive business environment, tighter monetary conditions, and fiscal and external pressures continue to weigh on economic activity, however. Moreover, the law allowing the monetisation of the fiscal deficit up to TND 7 billion (€2 billion) in 2024 poses a risk to central bank independence and could fuel inflation. Tailwinds include easing inflationary pressures, the stronger current account and continued fiscal consolidation. Despite the large financing gap and slow progress on agreeing an IMF-supported programme, Tunisia is expected to be able to service all of its external debt, thanks to solid reserves and key economic drivers, notably tourism and exports.

Assessment of transition qualities (1-10)



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Structural reform developments

Tunisia has embarked on a strategic partnership with the EU to promote macroeconomic stability and structural reform. In June 2024, the country launched the "Investments in Tunisia" initiative, in cooperation with the EU, to support its National Reform Programme. The initiative will mobilise over €3 billion through more than 120 projects to improve: (i) the investment climate, (ii) sustainable and digital infrastructure, and (iii) access to finance and support for micro, small and medium-sized enterprises (MSMEs). This followed the agreement of a comprehensive partnership package in July 2023 to promote macroeconomic stability, boost economic growth, investment and trade, improve the business climate, support the green transition and combat illegal migration.

Efforts are under way to enhance the regulatory framework in the energy sector and promote renewable energy investments. Recent measures include: (i) the submission for approval in April 2024 of a draft bill to establish an independent electricity regulator, (ii) plans to revise the tariff structure to authorise projects with various production capacities (including SMEs) to sell electricity to the Tunisian Electricity and Gas Company, and (iii) plans to enhance the legal framework to facilitate the production, export and transport of electricity and green hydrogen. If implemented, these reforms should facilitate private investment in the renewable energy sector. Moreover, several agreements have been signed with international investors to launch five solar energy projects with a total generation capacity of 500 megawatts in 2025.

Tunisia has launched several infrastructure projects to enhance regional integration and reduce economic disparities. In March 2024, the country launched the Economic Development Corridor project, aimed at enhancing the quality of road infrastructure linking the Kasserine, Sidi Bouzid and Sfax governorates and facilitating SME access to finance in the region by capitalising the Deposit and Consignment Fund for impact investment. The project is expected to enhance social inclusion and regional integration, as well as open new trade routes with Libya and Algeria. The strategic corridor will be supported by more than €400 million of funding from the World Bank and the European Investment Bank. Moreover, the government will develop a new bridge in the port city of Bizerte, supported by a €245 million financing package from the European Investment Bank and the African Development Bank, to boost the region's economic activity and trade by enabling access to the Mediterranean port of Bizerte.

Several initiatives are under way to enhance food security and improve the cereal sector's resilience to external and climate shocks. The Inclusive and Sustainable Development of the Cereal Sector project, launched in July 2023, aims to improve food security and self-sufficiency through upstream and downstream interventions in the cereals supply chain. Efforts are expected to benefit farmers by: (i) increasing productivity, (ii) modernising storage capacity, (iii) reducing transport costs and (iv) securing emergency supplies. The project will be supported by around €80 million from the African Development Bank and guaranteed by the United Kingdom under the Room to Run Sovereign risk-sharing arrangement. In addition, the World Bank will support the cereals sector with close to €300 million in financing to the Emergency Food Security Response project, which will streamline wheat imports and support small dairy and wheat producers by providing barley and climate-resilient seeds.

Foreign-exchange transactions are gradually being liberalised. In March 2024, the government approved a new foreign-exchange bill, which is currently subject to parliamentary review. If passed, it would partially liberalise foreign-exchange transactions, simplify regulations and allow for greater digitalisation of financial transactions. The new law is expected to allow certain residents to hold foreign-currency accounts, enabling them to invest, purchase assets and pay expenses abroad. It will also redefine the concept of residency, enabling foreign investors to avoid restrictions by maintaining permanent non-resident status. Some details of the eligibility criteria are still unclear, however.

The government will embark on a process to reform state-owned banks. A ministerial committee will be formed in coordination with the central bank to oversee an in-depth audit of financially distressed state-owned banks and to enhance their capital adequacy and expenditure management. Once a reform plan is proposed, banks will be allowed an implementation period of three months.