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Socioeconomic performance of North Africa: subregional profile 2022–2023

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Executive summary

In 2022, North Africa was confronted with weak external demand, high borrowing costs and adverse weather conditions. The annual growth of real gross domestic product (GDP) in the subregion declined to 3.9 per cent in 2022, from 4.9 per cent in 2021. The external shock from the war between the Russian Federation and Ukraine, which started in February 2022, was a key factor behind the decisions of Egypt and Tunisia to request additional financial assistance from the International Monetary Fund (IMF) and Gulf States. In contrast, Algeria and Mauritania benefited, at least in the short term, from the global commodity price shock: high hydrocarbon prices drove high export revenues for Algeria, and strong gold production growth and higher international prices significantly increased gold exports from Mauritania. Despite a rise in global oil prices, the economy in Libya contracted in 2022, as a result of the blockade of oilfields in the first half of the year, which significantly reduced oil production. In addition, Libya is still striving to recover from conflict.

Subregional growth is expected to stabilize at 4.8 per cent in 2023 on the back of an expected strong economic recoveries in Libya and Morocco, although fiscal pressures and persistently rising inflation rates weigh on growth prospects. Fiscal deficits are expected to gradually increase in 2023 and 2024, reflecting the many uncertainties that remain at the subregional and global levels. Monetary policy stances continue to tighten aggressively, with the Federal Reserve and the European Central Bank planning to raise interest rates until the end of 2023, in response to the persistence of inflationary pressures and tight labour markets. Tightening monetary policies affect North African economies through domestic consumption and investment, exports and the servicing of public debt. Debt service burdens continue to rise, and North African countries continue to struggle to finance their debt as global interest rates are expected to remain high.

Severe climate risks have heightened the cost-of-living crisis, and, combined with increased political and food insecurity risks, they are fuelling poverty in North Africa. Poverty in the subregion is also partly the result of a high unemployment rate (13.7 per cent in 2022), which is still a long-standing problem and remains the main economic and social challenge of the subregion. Female unemployment, at 20.2 per cent in 2022, remains high compared with male unemployment, which was 11.3 per cent in 2022. Youth unemployment stood at 30.2 per cent in 2022 compared with the global average of 14.2 per cent.

North African countries are encouraged to redirect public spending towards support for vulnerable populations and those living in poverty. North African Governments need to improve the quality of spending to reduce inflation. Public spending should be more performance-based, untargeted energy subsidies should be reduced, State-owned infrastructure enterprises should be reformed and debt should be managed more effectively to reduce the servicing cost. Governments must strengthen fiscal risk management, including by building up reserves and protecting budgets and households against crises.

Moreover, North African countries must make space for climate adaptation spending. Given the magnitude of the impact of climate change on the subregion, North African countries need to decarbonize and diversify their economies by working together to promote renewable energy, invest in water infrastructure and share knowledge and best practices. Climate change policies should be integrated into public spending through green budgets and broader fiscal policies, including taxes, carbon pricing and the removal of fossil fuel subsidies.

To ensure that labour markets recover in an inclusive manner, North African policymakers should reduce labour market distortions caused by labour regulations and public sector employment policies. North African Governments should adopt active labour market policies to promote gender equality, by increasing employment opportunities for jobseekers and better matching the profiles of unemployed individuals with those of job vacancies, and to stimulate the creation of new jobs.

I. Introduction

Following a tumultuous 2022, the economic and social landscape of North Africa in 2023 is dominated by uncertainty. The strong recovery from the coronavirus-disease (COVID-19) pandemic in the subregion in 2021 was affected by external shocks, triggered by the onset of the war between the Russian Federation and Ukraine in February 2022, which led to increased food insecurity, highly volatile energy prices, tight financing conditions and debt vulnerabilities in most countries of the subregion. The array of climate change impacts in 2022 were even more extreme than those of 2021. Countries across the subregion suffered from drought, water shortages and rising sea levels. Tunisia suffered its fifth consecutive year of drought, with authorities continuing to ration water. In Morocco, wheat imports soared as drought caused national wheat yields to fall by nearly 60 per cent compared with the previous year (United States Department of Agriculture, 2023).

Dwindling foreign exchange reserves and fiscal pressures in Egypt and Tunisia pushed both countries closer to a major debt crisis in 2022, which could lead to a volatile situation in the subregion. The two countries already face shortages of essential goods and financial market dysfunction. Some of the largest exporters of commodities in the subregion, however, such as Algeria and Mauritania, recorded the biggest improvements in overall country risk during 2022.

In 2023, uncertainties in North Africa are exacerbated by several factors, including conflict in the Sudan and the highly unpredictable evolution of the conflict between the Russian Federation and Ukraine. The conflict in the Sudan is having a devastating impact on the already fragile economy of the country and threatens to have catastrophic consequences for the entire subregion, with increased illegal migration and greater numbers of asylum-seekers. The Sudan has borders with seven countries, including two countries in North Africa, namely Egypt and Libya, each with security concerns related to the conflict.

North Africa will need to contend with weaker external demand and higher borrowing costs in 2023. The biggest risks in the subregion are in countries where the economic outlook is also clouded by political uncertainty in the form of conflict. High inflation and elevated interest rates will limit economic growth in North Africa. Food prices have soared in 2023, and many countries in the subregion face overwhelming fiscal deficits, high public debt, currency depreciation and dangerous levels of inflation, which threaten food security.

The present report is focused on the period 2022–2023, which began with the outbreak of war between the Russian Federation and Ukraine in February 2022. It shows how North African economies have been reshaped by the impact of the war on commodity prices and by global monetary tightening. The report highlights the economic threat presented by climate change and the impact of climate change on food security in North Africa.

II. Macroeconomic performance of North Africa

A. Economic growth set to stabilize in 2023

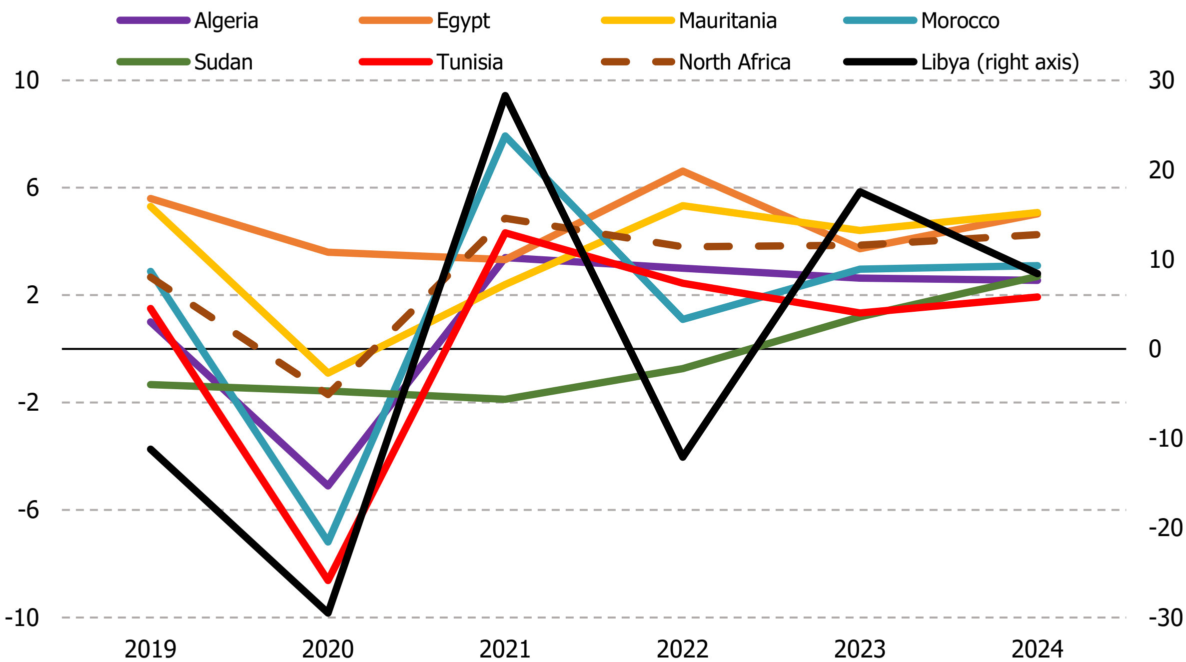
After a slowdown in 2022, North Africa's growth rate is expected to stabilize, averaging around 4.8 per cent in 2023.

The United Nations (2023) estimates that the growth of real gross domestic product in North Africa was 3.9 per cent in 2022, down from 4.9 per cent in 2021, as shown in figure I. The slowdown in growth in 2022 was mainly the result of the lingering effects of the COVID-19 pandemic and rising global commodity prices, exacerbated by supply chain disruptions following the war between the Russian Federation and Ukraine, the main wheat supplier to North Africa, combined with the impact of tighter global financial conditions on North African economies. The sharpest slowdown in economic growth was in Libya, where the economy contracted by 12.8 per cent in 2022, down from growth of 28.3 per cent in 2021 (IMF, 2023c). The recession in the country in 2022 reflected the outbreak of protests that began in April 2022, which resulted in the blockade of several key ports and oilfields, causing production to fall below the 2021 daily average of 1 million barrels. The Sudan also experienced a series of political crises that affected the stability of its economy, leading to a 0.7 per cent contraction in GDP in 2022, which is relatively less than the 1.9 per cent decline recorded in 2021 (Central Bank of Sudan, 2023). The situation in the Sudan is not expected to improve in the near future, given the struggle for power within the country between the army and the Rapid Support Forces.

At 6.6 per cent, the annual growth rate in Egypt in 2022 was particularly strong, thanks to better control of the COVID-19 pandemic, dynamic household consumption, increased investment, especially in infrastructure, and substantial international financial support (Egypt, 2023). The major reforms undertaken by Egypt in recent years, notably fiscal consolidation measures, the introduction of a floating exchange rate and a significant reduction in subsidies, had a positive impact on national economic performance in 2022. Mauritania had the second highest national economic growth rate in the subregion, estimated at 5.9 per cent in 2022 (Mauritania, 2023a), driven by an elevated global commodity price environment, robust demand for iron ore and gold exports, and exceptional agricultural output. That performance continued the trend of economic recovery, which began in 2021 with growth of 2.4 per cent, following a contraction, as a consequence of the COVID-19 pandemic, of 0.9 per cent in 2020 (Mauritania, 2023a). Growth in Algeria declined slightly, by 0.2 percentage points in 2022, from 3.4 per cent in 2021 to an estimated 3.2 per cent in 2022 (Algeria, 2023). The slowdown was the result of the global economic situation.

A latent political and social crisis, combined with the global economic situation related to the war between the Russian Federation and Ukraine, affected Tunisia, where economic growth contracted by 1.9 percentage points, from 4.3 per cent in 2021 to 2.4 per cent in 2022 (Tunisia, 2023). In Morocco, economic growth plummeted from 7.9 per cent in 2021 to 1.3 per cent in 2022 (Morocco, 2023b). The decline was the result of the slowdown in the agricultural and fishing sectors, the underperformance of the extractive and processing industry, and construction and public works sectors, and geopolitical tensions, in particular the war in Ukraine and its impact on inflation.

Figure I
Real gross domestic product growth in North Africa, 2019-2024
(Percentage)



Source: Author's compilation based on ECA calculations, national statistics and IMF figures.

Note: Figures for 2022 are estimates and figures for 2023 and 2024 are projections.

In 2023, following the resumption of activity in major oilfields in Libya and the recovery of the primary sector in Morocco, leading to a strong recovery in both economies, the average subregional growth in North Africa is expected to stabilize at 4.8 per cent in 2023 (United Nations, 2023), despite the highly uncertain situation in the Sudan. Subregional growth in 2023 is higher than the average before the COVID-19 pandemic of 2.9 per cent, in 2019 (United Nations, 2022). The economic outlook in Libya is positive, and the country could return to strong growth of around 17.5 per cent in 2023, before slowing to a rate of 8.4 per cent in 2024, according to projections by IMF (2023c). The economy of Morocco is expected to grow by 3.3 per cent in 2023, up from 1.3 per cent in 2022, assuming agricultural production is positive (Morocco, 2023b).

The current geopolitical tensions and the reorganization of global supply chains are expected to lead to lower growth rates in other countries in North Africa. The economic growth rate of Egypt will decline by 2.9 percentage points, from 6.6 per cent in 2022 to 3.7 per cent in 2023 (IMF, 2023c).

Growth in Mauritania will decline slightly, from 5.9 per cent in 2022 to 4.7 per cent in 2023, owing to lower growth in iron ore and gold production and lower agricultural output (Mauritania, 2023a). Growth in the Sudan is expected to contract sharply, following political instability. Growth in Tunisia will continue to decline in 2023, by 1.9 percentage points compared to 2022, reflecting the difficult global environment and the lack of structural reform (Tunisia, 2023).

The GDP growth rate of Algeria is expected to decline to 2.6 per cent in 2023, as hydrocarbon production stabilizes and growth in agriculture and services slows (IMF, 2023c).

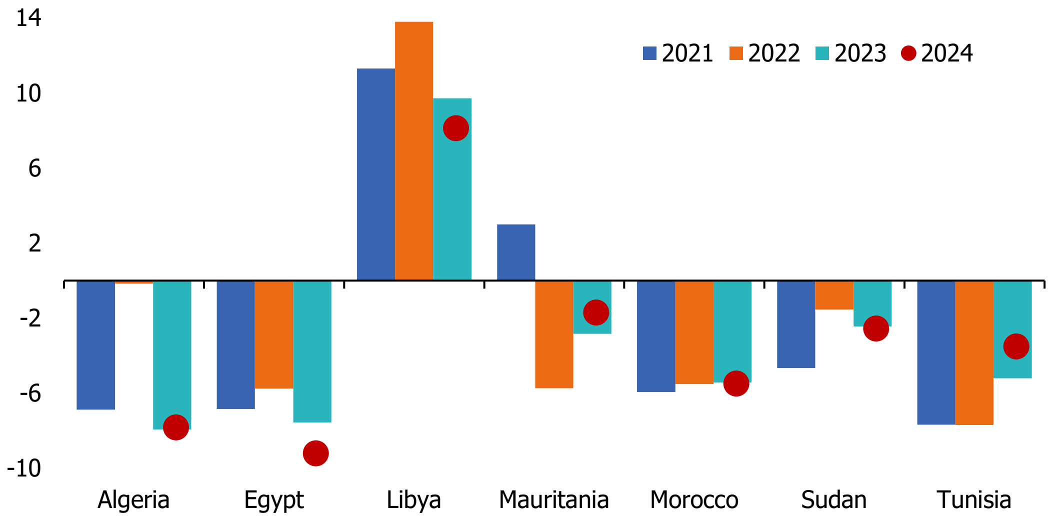
B. Narrower fiscal deficits, but challenges persist

The fiscal deficit in North Africa declined in 2022, following the widening observed after the COVID-19 crisis.

On the basis of ECA calculations, national statistics and figures from IMF, the average fiscal deficit in North Africa narrowed by 1.9 percentage points, to 3.5 per cent of GDP in 2022 from 5.6 per cent in 2021, as a result of increased revenues, particularly in Libya, which recorded a budget surplus of 13.8 per cent of GDP (African Development Bank, 2023), as can be seen in figure II. Between 2021 and 2022, the deficit declined from 6.9 per cent to 0.2 per cent in Algeria and from 4.7 per cent to 1.5 per cent in the Sudan (African Development Bank, 2023). The deficit fell by 1.1 and 0.8 percentage points in Egypt and Morocco, respectively, in the same period (African Development Bank, 2023). Mauritania was the only country in North Africa to experience a deterioration in its fiscal deficit in that period: its budget surplus of 2.2 per cent of GDP in 2021 became a budget deficit of 1.2 per cent in 2022 (African Development Bank, 2023), possibly owing to internal pressures related to security spending, a rise in subsidies for such items as energy and food, and an increase in capital expenditure.

In view of growing economic uncertainties, the fiscal deficit in North Africa is expected to increase in 2024. The budget deficit is expected to widen in Algeria and Egypt, and Libya is expected to experience a budget surplus of an average of 8.9 per cent of GDP again in 2023–2024 (IMF, 2023c), following the reopening of major oilfields in the country. The budget deficit in Morocco is projected to stabilize at around 4.6 per cent of GDP in 2023–2024 (IMF, 2023c), although risks remain, owing to the ongoing war in Ukraine. The projections are optimistic for Tunisia, where the budget deficit is expected to decline from 4.2 per cent of GDP in 2023 to 3.5 per cent in 2024 (IMF, 2023c). Mauritania and the Sudan are expected to maintain their budget deficits below the traditional threshold of 3 per cent of GDP, each with average projections of 2.4 per cent in 2023 (IMF, 2023c).

Figure II
Fiscal deficits and surpluses, as a percentage of gross domestic product, in North African countries, 2021–2024



Source: Author's compilation based on ECA calculations, national statistics and IMF figures.

Note: Figures for 2022 are estimates and figures for 2023 and 2024 are projections.

C. Tighter monetary policy and elevated inflation rate

The tightening of international financial conditions has led to high inflation and the depreciation of several currencies, weakening the economic fabric in most North African countries.

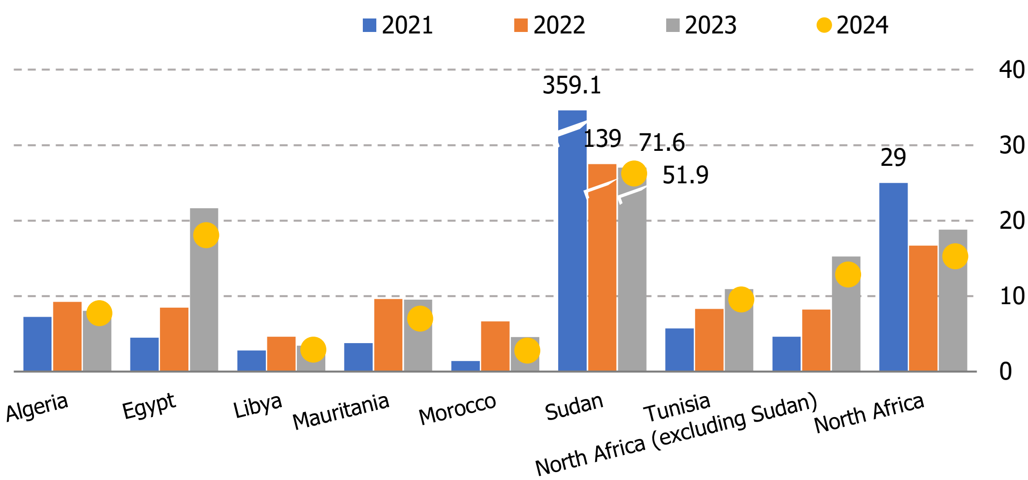
In the wake of the war in Ukraine and the subsequent sanctions on the Russian Federation, an inflationary spiral engulfed the global economy, prompting central banks in advanced economies to tighten monetary policy by raising key interest rates. The aggressive and restrictive monetary policy has had a deleterious effect on global financial conditions and exposed developing and emerging market economies to potential capital outflows and currency depreciation, affecting the cost of servicing foreign currency debt. In most North African countries, monetary policy rates have been adjusted upwards.

Inflation remains the main threat to the North African economies.

Inflation has been particularly high in North Africa, at a rate calculated by ECA of 8.2 per cent in 2022 (excluding the Sudan), up from 4.6 per cent in 2021, as shown in figure III. Of all the countries in North Africa, inflation in 2022 was highest in Mauritania, at 9.6 per cent, compared with 3.6 per cent in 2021, followed by Algeria (9.3 per cent compared with 7.2 per cent), Egypt (8.5 per cent compared with 4.5 per cent), Tunisia (8.3 per cent compared with 5.7 per cent), Morocco (6.6 per cent compared with 1.4 per cent) (IMF, 2023c) and Libya (4.6 per cent compared with 2.8 per cent) (Central Bank of Libya, 2023). Inflation fell in the Sudan in 2022 by more than half, reaching a rate of 139 per cent in 2022, as a result of the reform undertaken related to the unification of the exchange rate and a reduction in the monetization of the fiscal deficit (IMF, 2023c).

Subregional inflation is expected to almost double to 15.3 per cent in 2023, owing to the expected price surge in Egypt, where inflation is projected to reach 21.6 in 2023 and 18.0 per cent in 2024 (IMF, 2023c). Tunisia will also experience more intense inflationary pressures, with projected rates of 10.9 per cent in 2023 and 9.5 per cent in 2024 (IMF, 2023c). In contrast, in Libya and Morocco, inflation rates will be relatively stable on average over the next two years, at 3.1 per cent and 3.7 per cent, respectively, lower than the rates recorded in 2022 (IMF, 2023c). Small decreases in inflation rates will be observed in Algeria and Mauritania, where the average rates will be 7.9 per cent and 8.3 per cent, respectively, in 2023–2024 (IMF, 2023c). The risk of renewed inflationary pressures remain, however, in view of the continuing conflict in Ukraine.

Figure III
Inflation in North Africa, 2021–2024
(Percentage)



Source: Author's compilation based on ECA calculations, national statistics and IMF figures.

Note: Figures for 2022 are estimates and figures for 2023 and 2024 are projections.

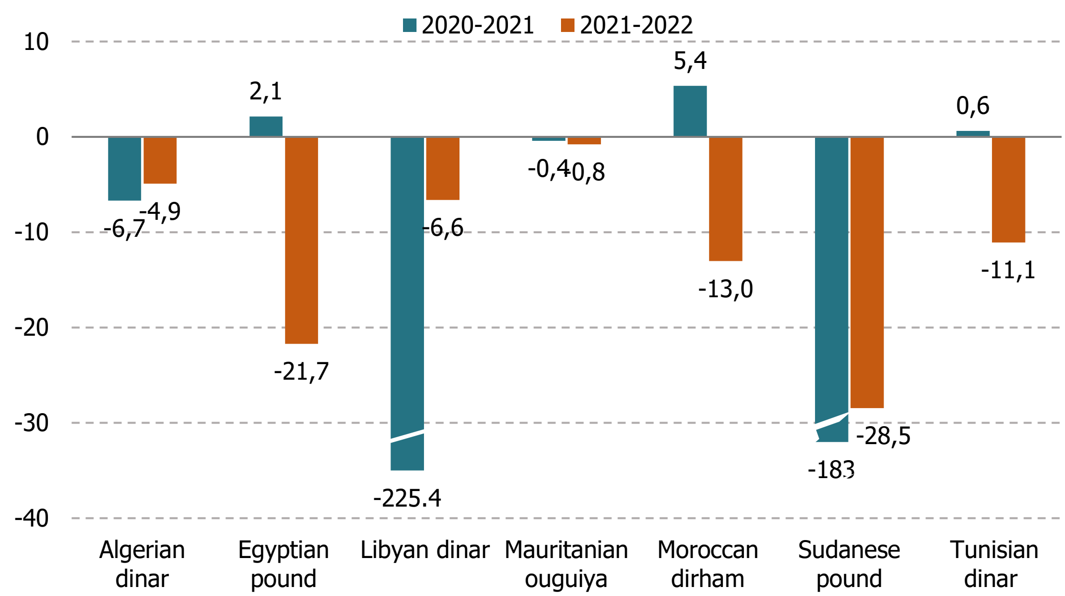
Food inflation accounted for the largest share of inflation in most countries in the subregion. With the exception of Libya, food inflation is in double digits and is the highest in Egypt, where prices have increased by 30 per cent or more each month since December 2022 (World Bank, 2023a). Rising food prices exacerbate food insecurity in the subregion.

The tightening of global financial conditions has caused significant volatility in the foreign exchange markets of most North African countries.

Figure IV shows that the Sudanese pound was the worst performing currency in North Africa, depreciating by almost 28.5 per cent in 2022 (IMF, 2023a). Significant depreciation was observed in relation to the Egyptian pound, the Moroccan dirham and the Tunisian dinar, which depreciated by 21.7 per cent, 13.0 per cent and 11.1 per cent, respectively (IMF, 2023a). The

Libyan dinar depreciated less, by 6.6 per cent in 2022 (IMF, 2023a), benefiting from the rise in oil prices, and, in Algeria, despite high inflation of 9.3 per cent in 2022, the Algerian dinar depreciated even less, by 4.9 per cent (IMF, 2023a and 2023c). Like Libya, Algeria is benefiting from the rise in energy prices for its gas. The Mauritanian ouguiya has been the most resilient currency compared with others in North Africa, depreciating only marginally, by 0.8 per cent in 2022 (IMF, 2023a).

Figure IV
Percentage change of currencies in North Africa per United States dollar, 2020–2021 and 2021–2022



Source: Author's compilation based on ECA calculations, national statistics and IMF figures.

Note: Negative change represents depreciation.

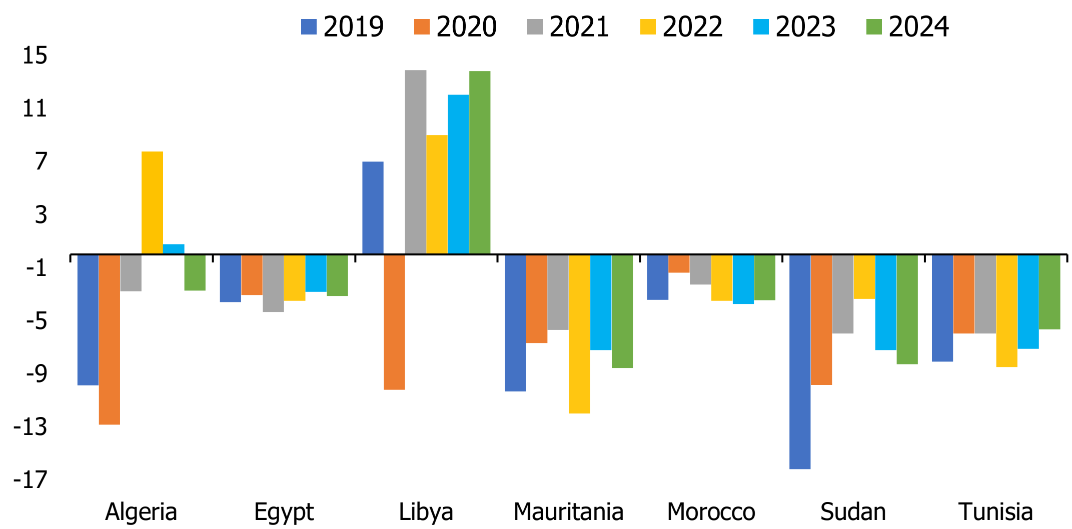
D. External position

***The external position of North Africa is expected* to *improve slightly, but uncertainty remains, owing to rising food and energy prices weighing on commodity importers*.**

On the basis of ECA calculations, national statistics and figures from IMF, the average overall current account deficit in North Africa has narrowed significantly, by 1.8 percentage points, from 3.1 per cent of GDP in 2021 to 1.3 per cent in 2022, reflecting the gains made by Algeria and Libya, which are net exporters of energy products, and corrective measures to restore external balances after the sharp contraction recorded at the height of the COVID-19 pandemic. The current account deficit is, however, expected to widen in 2023, owing to the persistence of economic uncertainties, including the continuation of the war in Ukraine.

As shown in figure V, the current account deficit of Mauritania has widened and is one of the largest in North Africa, rising to 12.0 per cent in 2022 from 5.7 per cent in 2021 (Mauritania, 2023a), as a consequence of higher commodity prices, in particular for wheat and petroleum products, and a possible decline in exports, owing to global economic conditions.

Figure V
Current account deficit or surplus as a percentage of gross domestic product in North African countries, 2019–2024



Source: Author's compilation based on ECA calculations, national statistics and IMF figures.

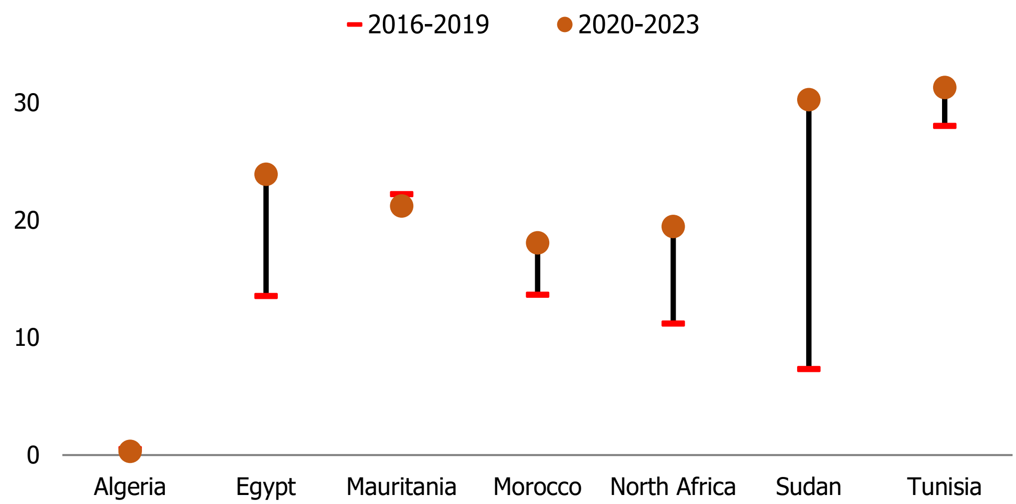
The current account deficits of Egypt and the Sudan narrowed slightly, from 4.4 per cent and 6.0 per cent of GDP in 2021 to 3.4 per cent and 3.4 per cent respectively in 2022 (IMF, 2023c, and African Development Bank, 2023). In contrast, the current account deficits of Morocco and Tunisia widened in the same period, from 2.3 per cent and 6.0 per cent of GDP, respectively, to 3.5 per cent and 8.5 per cent, as a result of the higher prices of petroleum products and wheat, of which the two countries are net importers (Morocco, 2023b, and IMF, 2023c). Over the period 2023–2024, all the countries in the subregion will experience substantial current account deficits, the largest of which will be observed in Mauritania (7.9 per cent of GDP), followed by the Sudan (7.7 per cent) and Tunisia (6.4 per cent), except for Libya, which is expected to experience an average current account surplus of 12.9 per cent (IMF, 2023c).

E. Challenges servicing large volumes of debt

Servicing external debt in most North African countries remains a major challenge and has increased in Egypt, Mauritania, Morocco and Tunisia.

In North Africa, the servicing of external debt amounted to 24 per cent of total revenues in 2021 and 19 per cent in 2022, which is still a significant proportion when compared with the 12 per cent that was recorded in 2019, prior to the COVID-19 pandemic (World Bank, 2023b). The decline is the result of a significant reduction in the Sudan, where debt servicing accounted for 91.1 per cent of revenues in 2021 and 12.1 per cent in 2022 (World Bank, 2023b). Despite the reduction at the subregional level, some countries, including Egypt, Mauritania and Morocco, are experiencing an increase in their total external debt servicing as a share of total income. At 0.3 per cent for the period 2020–2023, Algeria, however, has a relatively low level of total public external debt servicing, as shown in figure VI (World Bank, 2023b). At 19.5 per cent, total external debt servicing is higher in the period 2020–2023 than in the period 2016–2019, prior to the COVID-19 pandemic, when it was 11.2 per cent (World Bank, 2023b).

Figure VI
Servicing of total external debt, as a percentage of revenue, in North Africa for the periods 2016–2019 and 2020–2023



Source: ECA calculations based on World Bank (2023b).

Average interest payments as a share of government revenue in North Africa increased from 2.8 per cent in the period 2016–2019 to 3.5 per cent in the period 2020–2023 (World Bank, 2023b). The growth highlights the inability of countries to increase government revenues to respond effectively to the rise in interest payments and to limit the erosion of their fiscal space to strengthen their ability to finance domestic spending and public investment.

III. Climate and food security risks

A. Climate risks surge

North Africa has been vulnerable to climate disasters in recent years, and the risks associated with climate change have increased significantly in the subregion, with changing weather patterns leading to adverse weather events, such as droughts and floods. Climate disasters can disrupt food availability, reduce access to food and affect food quality. Increases in temperature, changes in precipitation patterns, more frequent extreme weather events and reductions in water availability can lead to lower agricultural productivity and higher levels of poverty. According to the Centre for Research on the Epidemiology of Disasters (2023), a total of 21 extreme weather events related to climate change have been identified in North Africa for the period 2020–2022, including 15 floods, 3 wildfires, 2 droughts and 1 storm. The Sudan was the country that was most affected by climate change, having experienced five climate disasters in that period, followed by Algeria, Mauritania and Tunisia, which suffered four climate disasters each.

With two climate disasters each in the same period, the least affected countries were Egypt and Morocco.

Climate-related disasters have a major long-term impact on human welfare and economic development. Between 2020 and 2022, climate disasters caused 600 deaths and affected approximately 15 million people in North Africa, and the economic cost of extreme weather events in the subregion over those three years has been estimated at $378.6 million (Norwegian Refugee Council, 2023).

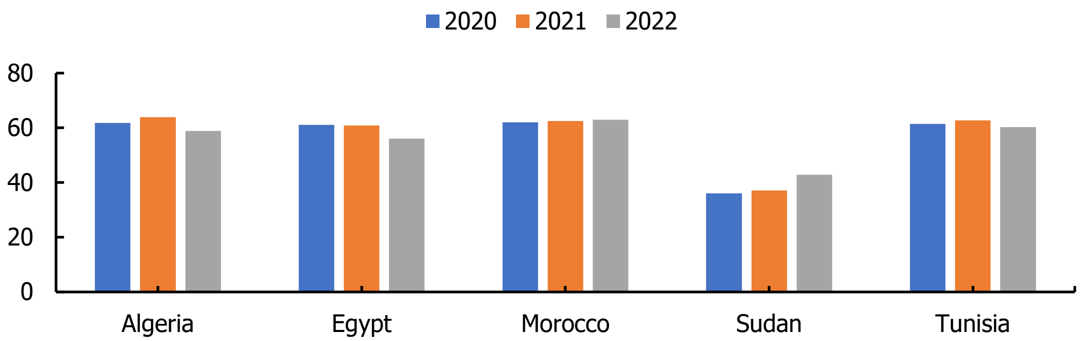
Owing to a combination of political, geographical, and social factors, Egypt, Libya, Mauritania and the Sudan are acknowledged to be highly vulnerable to the impacts of climate change, ranking 107th, 125th, 143rd and 177th, respectively, out of 182 countries in the 2020 Notre Dame Global Adaptation Initiative Country Index, of the University of Notre Dame (2023), in which countries are ranked by their scores for their vulnerability to climate change and other global challenges and their readiness to improve resilience. Morocco, Tunisia and Algeria were ranked, in descending order, sixty-sixth, sixty-seventh and ninety-ninth, respectively, in that Index. Morocco and the Sudan were ranked the lowest and the highest for vulnerability among North African countries, and Tunisia and the Sudan had the highest and the lowest rankings for readiness among North African countries.

B. Food insecurity risks

North Africa, with its limited fiscal space and high dependence on energy and food imports, remains vulnerable to further deterioration in food security, including from renewed increases to the price of food, prolonged drought and more disruption to food supplies.

Several countries in North Africa were at an increased risk of food insecurity in 2022. The Global Food Security Index is used to measure the food affordability, availability, quality and safety, sustainability and adaptation of a country, and ranges from 0 (total food insecurity) to 100 (total food security). Figure VII shows that, according to the Index, food security deteriorated in some countries in North Africa in 2022. In Algeria, Egypt and Tunisia, the Index score decreased from 63.9 to 58.9, 60.8 to 56.0 and 62.7 to 60.3, respectively, between 2021 and 2022 (Economist Impact, 2022). The decline reflects the growing risk of food insecurity in the subregion. Rising and volatile food prices, resulting from declining harvests, negative impacts of climate change, the war in Ukraine, the imposition of sanctions on Russia and, in some countries, economic or political instability, are among the main drivers of food insecurity in North Africa.

Figure VII
Global Food Security Index score in North African countries, 2020–2022



Source: Based on data from Economist Impact (2022).

Note: Global Food Security Index score data are not available for Libya and Mauritania.

IV. Persistently high levels of poverty and unemployment rates

Climate risks and increased political and food insecurity risks are fuelling poverty in North Africa. Poverty remains relatively high in most North African countries. Across the subregion, 4.33 per cent of people lived on less than $2.15 per day, and 13.66 per cent lived on less than $3.65 per day (2017 purchasing power parity) (World Bank, 2022).

According to the World Bank (2022), the Sudan has the highest poverty rate in North Africa. Some 49.7 per cent of the population live below the poverty line of $3.65 per day. Poverty levels are also high in Egypt and Mauritania, where 1.5 and 6.5 per cent of the population, respectively, live on less than $2.15 per day, and 17.6 and 26.2 per cent of the population, respectively, live on less than $3.65 per day.

Such levels of poverty are partly the result of high unemployment in North Africa. According to the International Labour Organization (2023b), the unemployment rate in 2022 in North Africa narrowed slightly to 11.3 per cent from 11.6 per cent in 2021. The global average unemployment rate in 2022 was 5.8 per cent. The youth unemployment rate was 30.2 per cent in 2022, which is higher than in 2019, compared with a global average of 14.2 per cent. Youth unemployment is, therefore, still a long-standing problem in North Africa and remains the main economic and social challenge in the subregion. The subregional female unemployment rate, at 20.2 per cent in 2022, remains high compared with the male unemployment rate (11.3 per cent in 2022). All North African countries need to adopt active labour market policies to promote gender equality and to target the most vulnerable populations.

V. Conclusions and policy recommendations

North Africa is experiencing significant challenges on multiple fronts, including climate change, the current economic challenges exacerbated by the COVID-19 pandemic and the war in Ukraine, and the migration crisis. Subregional economic rebalancing has rewarded major hydrocarbon exporters, such as Algeria and Libya, and raised challenges in energy-dependent countries, including Egypt, Morocco and Tunisia.

The war between the Russian Federation and Ukraine has led to further aggressive monetary tightening by the Federal Reserve and the European Central Bank, with ramifications for domestic consumption and investment, tourism flows from Gulf States, exports and the servicing of sovereign debt. Inflation in North Africa has reached record levels. Although global food prices are expected to fall in the coming months, inflation in food prices, which account for the largest share of the total consumer basket in North African countries, continues to rise.

Inflation can affect short-term and long-term economic prospects, owing to the greater food insecurity that it can trigger. Given the limited fiscal space and the high levels of debt in North African countries, the Governments in the subregion need to improve the quality of spending to reduce inflation. Public spending should be more performance-based, untargeted energy subsidies should be cut, State-owned infrastructure enterprises should be reformed and debt should be managed more effectively, including by reducing dependence on expensive short-term financing, to lower the cost of servicing debt.

Climate change poses increasing risks to growth in North African economies, and countries must, therefore, decarbonize and diversify their economies by working together to promote renewable energy, invest in water infrastructure and share knowledge and best practices. Climate policies should be integrated into public spending through green budgets and broader fiscal policies, including taxes, carbon pricing and the removal of fossil fuel subsidies.

It is essential to remove the barriers to private sector engagement in the subregion and promote a healthy and competitive business environment, in which the private sector can pursue the effective economic transitions that are necessary for climate action. In addition, developed countries should support middle-income and low-income countries, including those in North Africa, by offering compensation through such mechanisms as climate finance, carbon pricing and green bonds.

Climate risks and increased political and food insecurity risks are fuelling poverty in North Africa. Poverty in the subregion is also partly the result of a high unemployment rate, which is a long-standing problem in North Africa and remains its main economic and social challenge. The female unemployment rate remains high compared with the male unemployment rate. Youth unemployment stood at 30.2 per cent in 2022, compared with the global average of 14.2 per cent.

To ensure that labour markets recover in an inclusive manner, North African policymakers should reduce labour market distortions caused by labour regulations and public sector employment policies. North African Governments should adopt active labour market policies to promote gender equality, by increasing employment opportunities for jobseekers and better matching the profiles of unemployed individuals with those of job vacancies, and to stimulate the creation of new jobs.

In conclusion, North African countries are exposed to significant fiscal risks, owing to macroeconomic risks, such as growth volatility, commodity price volatility and subsidies, and exchange and interest rate volatility, and the contingent liabilities of State-owned enterprises (Boukezia and others, 2023). Strengthening fiscal risk management is, therefore, important.

Countries should consider adopting appropriate medium-term fiscal frameworks to build up reserves to address the risks. Better fiscal policies to promote sustainable employment, reduce poverty and increase shared prosperity are needed to protect households from crises and to raise incomes in North Africa.

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