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ECONOMIC AND SOCIAL CONDITIONS IN NORTH AFRICA

PART I

ECONOMIC PERFORMANCE OF NORTH AFRICA 2004

This report was presented at the 20th Meeting of the Intergovernmental Committee of Experts (ICE) of the ECA Sub-regional Office for North Africa. It has been revised to reflect comments and statistical information provided by meeting participants.

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ECONOMIC AND SOCIAL CONDITIONS IN NORTH AFRICA

ECONOMIC PERFORMANCE OF NORTH AFRICA - 2004

INTRODUCTION

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1. The present Part I of the "Report on the social and economic conditions in North Africa" gives the economic performance of North Africa as a sub-region. The presentation focuses on those areas that have important sub-regional dimensions as opposed to mainly national economic developments. The analytical approach is also focused, wherever appropriate and feasible, on sub-regional aggregates of the various economic indicators of performance of individual economies. This emphasis on the sub-regional dimensions derives from the belief that the "Report on the social and economic conditions in North Africa" has important value-added only if it goes beyond the national reports that the different countries produce annually.

2. There are, however, some limitations to how much SRO-NA can generate coherent sub-regional aggregates of various economic indicators: national data does not often refer to the same calendar period; definitions of a number of indicators differ widely as to make aggregation impossible and the different countries often use different base years. SRO-NA is determined to work on these issues so as to achieve normalisation of data and thereby be able to consistently and continually present a solid description and analysis of economic developments at the sub-regional level.

3. But, perhaps, the most important constraint to the scope of a sub-regional analysis is the unavailability of data for some of the countries. While SRO-NA uses all forms of official data, (official web-sites, documents, questionnaires and missions to countries), up-to-date data is still difficult to obtain for some of the countries of the sub-region. SRO-NA intends to address this question within the context of its proposal for a "North African Observatory on Integration".

4. Finally, it should be noted that the developments in the social sectors have been extensively reviewed in a special study in the context of the Millennium Development Goals (MDGs)1. Thus, to avoid duplication, only the summary and main conclusions of this review are given in the Annex to Part I of the present report.

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[1] See "Report on progress and prospects in the implementation of NEPAD and the attainment of the MDGs in North Africa"

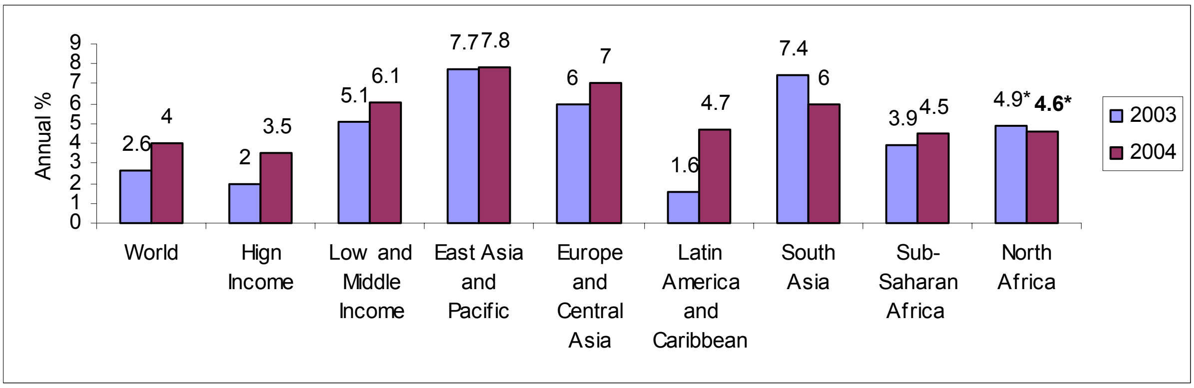
I- OVERALL CONTEXT

1.1 The International Environment

a) High Global Growth

5. The year 2004 was marked by a strong rebound in global economic recovery: total world GDP grew by 4 percent; world trade increased by 9 percent; and, growth in developing countries as a whole reached a 30-year record rate of 6.1 percent. The growth rates in the different regions of the world during 2003 and 2004 are shown in Figure 1 below.

Figure 1: Comparative GDP Growth, 2004 *(Annual percent change)*



Source: Global Economic Prospects, World Bank - SRO-NA from Official sources and EIU estimates*

b) Global Uncertainties and Pressures

6. The world economic recovery occurred in circumstances that involved a number of political and economic pressures and uncertainties. The two most important of these were a) the high oil prices and b) the weak and declining US dollar vis-à-vis almost all world currencies.

7. In 2004, oil prices soared in 2004 due mainly to an unexpected demand shock. During the year, crude oil prices reached a 21-year high of $41.45 a barrel (U.S. light crude). While OPEC managed to push production to over 29 mb/d, fears of supply disruption in several oil producing countries (for example Iraq, Russia, Venezuela, Nigeria, and Saudi Arabia - where most of the world's spare capacity resides) fuelled the rise in oil prices to record levels.

8. The oil price crunch in 2004 was a wake-up call for big oil consumers to accelerate energy-conservation steps and for oil producers to look more closely at the constraints on investment to boost capacity. It also highlights apparent trends that demand for oil was not very sensitive to price increases in the short term.

9. It is estimated that the dollar has fallen by 15 per cent in trade-weighted terms against a broad basket of currencies by 2004. It fell against the euro and the Japanese yen by 33 per cent and 15 per cent respectively. This has raised concerns about the impact of this trend on the world economic growth and on the performance of individual country economies.

10. Some countries intervened in the foreign-exchange market via dollar purchases with a view to holding down the value of their respective currencies against the dollar. Japan intervened through purchases of dollars; China adopted a fixed yuan-US$ dollar exchange rate; and the European Central Bank (ECB) sought to curb the rising euro against the dollar by trimming interest rates.

c) The End of the International Agreement on Textiles and Clothing

11. Global trade in textiles and clothing is expected to undergo a fundamental change after the ending of the Agreement on Textiles and Clothing (ATC), when the sector becomes fully integrated into the WTO and all quotas are phased out leading to a new form of global market without artificial comparative advantages. The expected relocation of trade and resources will have a considerable effect on textiles and clothing market shares and exports from producing and exporting countries in North Africa[2].

12. The Euro-Mediterranean Ministerial conference on the future of textiles and clothing organized in Tunisia (28 September) examined:

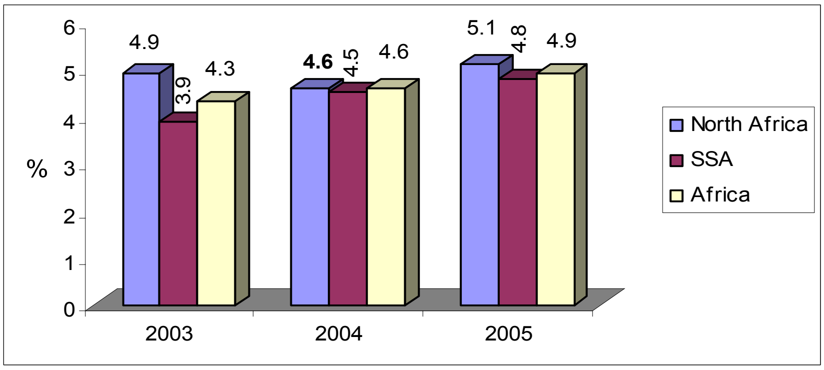
- the challenges facing the textiles and clothing industry after the elimination of the remaining WTO quotas on 1 January 2005;
- the means to reinforce the competitiveness of the Euro-med area so that it is capable of attracting much needed investment;
- issues related to sustainable development, competition and the fight against counterfeiting;
- issues relating to regional integration of the Euro-med area.

13. However, some concerns have been raised about the elimination of the Multifibre Agreement and the full implementation of the ATC. Due to lack of integration and lack of diversification of the Moroccan and Tunisian textile sectors, local producers will face stronger competition in their local and exports markets, after the elimination of the MFA. There is also fear of increased unemployment and oversupply of textiles and clothing in small local markets such as Tunisia. In view of such concerns, all the North African countries with an important textile industry have, like other textile producing countries, have adopted appropriate response strategies[3].

1.2 Highlights in the African Region: Good Macro-economic Fundamentals

14. Africa's performance in 2004 was also strong with real GDP growth estimated at 4.6 percent compared to the 4.3 percent registered in 2003. However, the performance of the five biggest African economies (which account for close to 60 percent of the region's output)[4], was weaker in 2004 at 4.0 percent down from 4.6 percent registered in 2003. The growth involved two important dimensions namely a) good macro-economic fundamentals and b) much improved external balances.

Figure 2: Real GDP Growth in Africa (percent), 2003-2005



Source: ECA

[2] Textiles and clothing is an important industrial activity, export item, and employer in Morocco, Egypt, Sudan and Tunisia:
[3] See details of such country strategies in "Comment Sauver le Textile Maghrebin?" ; (Séminaire UMA/CEA Tunis, 14 -15 Février 2005)
[4] In alphabetical order: Algeria, Egypt, Morocco, Nigeria, South Africa.

15. Macroeconomic stability continued to improve in Africa in 2004. Inflation— measured by consumer price index— fell back to single digit level of 8.4 percent down from 10.6 percent recorded in 2003 as the pressure from high oil prices were thwarted by good harvests in many parts of the continent. Central government fiscal deficit is estimated to have fallen from 1.5 percent of GDP in 2003 to 0.8 percent in 2004 largely helped by strong oil revenues.

16. The current account is estimated to have registered a surplus of US$2.8 billion in 2004 following the deficit for three consecutive years. Taken as a percentage of African exports of goods and services, regional current account balance has shown significant improvement from a deficit of 0.2 percent in 2003 to a surplus of 1.2 percent in 2004 due to rising oil and commodity prices. Countries that registered surplus in current account increased from 11 in 2003 to 14 in 2004 (eight of these fourteen countries were oil producers).

1.3 Some Sub-regional Dimensions

a) Developments in Regional Integration

17. In 2004, North African countries particularly those in the Union Maghreb Arab (UMA) experienced a continued freeze in the process of integration of the economies of the sub-region. Some countries in the UMA have tried to circumvent these difficulties through a number of bilateral arrangements as follows:

- in 2004, Morocco saw the ratification by the USA Congress of its Free Trade Agreement with the USA (July, 2004) as well as the signing of another Free Trade Agreement with Turkey (April, 2004).
- the conclusion of the Agadir Agreement signed on 25 February 2004 aimed at creating a Free Trade Area between Jordan, Egypt, Morocco and Tunisia by 2005 commits the parties to removing substantially all tariffs on trade between them by 1 January 2005, and to intensifying economic cooperation notably in the field of harmonizing their legislation with regard to standards and customs procedures.
- Tunisia and Turkey initiated the free trade agreement recently concluded between them.
- Egypt signed a preferential treatment agreement with Sudan in mid-2003 in the framework of COMESA.

18. There was also progress at a broader regional level with the coming into effect, at the beginning of 2005, of an Arab free trade zone eliminating customs duties on inter-Arab trade. This free trade zone has the overall objective of increasing inter-Arab trade as well as Arab and foreign investment in the region. This, in turn, is expected to boost the region’s economic growth and raise the standard of living of Arab citizens. The coming into effect of the zone involves the removal of customs duties on all products and merchandise traded between the zone's current 17 members that account for 94 percent of all Arab trade.

b) The Locust Invasion

19. Apart from the weather that was generally favourable the main event that affected the sub-region as a whole was the invasion of locusts. An outbreak of locusts developed in a number of countries of the sub-region during the period 2003-2004. Within the sub-region, the outbreak started in the autumn of 2003 in north-western Mauritania and north-eastern Sudan as a result of good rainfall and breeding during the summer. Thereafter, a few swarms moved into southern Morocco and adults moved into southern Algeria and Egypt.

20. The destruction due to the locust invasion was widespread in Mauritania where farms and livestock in parts of the country were adversely affected. In the southern and eastern regions of Mauritania, where dependence on agriculture is high, peoples' livelihoods were severely affected.

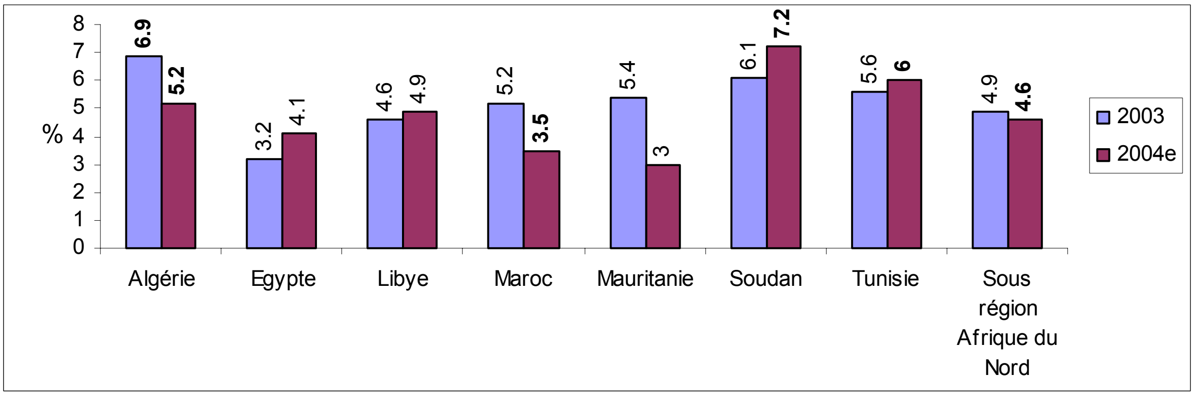
21. Elsewhere, the outbreak was generally effectively controlled. According to FAO, by the end of 2004, control operations were continuing against small swarms in southern and southeast Mauritania while intensive aerial and ground control operations continue against immature swarms in the valleys and plateaus of the Atlas Mountains in southwest and northeast Morocco and in the central and northern Sahara and Atlas in Algeria. Also, mature adult groups were treated in the Red Sea Hills west of Marsa Alam, Egypt.

II. PERFORMANCE ON SELECTED MACRO-PARAMETERS

2.1 Overall GDP Growth Rates

22. The North African countries taken as group recorded an estimated growth rate of **4.6** percent compared to 4.9 percent recorded for 2003. The deceleration in the sub-region's GDP growth rate in 2004 might seem surprising in view of the rebound in world economic growth and the sharp increases in oil prices. However, it is generally acknowledged that the explanation for the deceleration is the fact that 2003 was an exceptional year in terms of the region's agricultural performance while 2004 remained a relatively normal year. The deceleration or stagnation in GDP growth in 2004 for Algeria, Morocco and Tunisia also explains the slow down in GDP growth witnessed in the sub-region as a whole for 2004.

Figure 3: Evolution of GDP in North Africa; 2003-2004



Source: SRO-NA estimates from national sources, EIU, BMI

2.2 Sectoral Performance

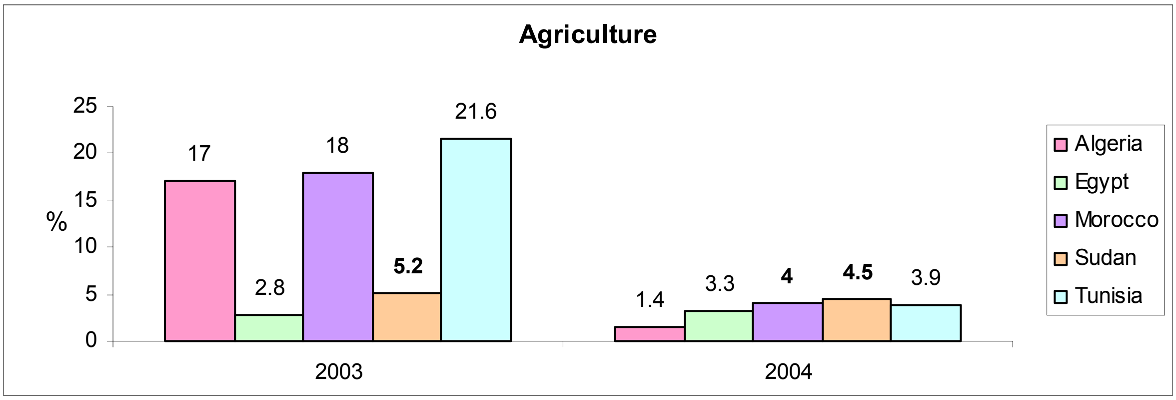
23. Detailed data on sectoral performance in the countries of the sub-region is not available for all the countries of the sub-region[5]. In addition, the statistical treatment (sectoral definitions and/or aggregations) is not standard across the countries of the sub-region. These realities have made a sub-regional analysis of sectoral aggregates very tenuous.

[5] For example for Libya and Mauritania

a) Agriculture

24. For most of the countries in the sub-region agricultural performance was decidedly lower in 2004 relative to 2003. Indeed, it is clear that the year 2003 was a very good year in terms of agricultural growth with a number of countries recording double-digit growth rates in agricultural growth in real terms.

Figure 4: Agriculture Growth Rates at Constant Prices; 2003-2004 *(percent)*



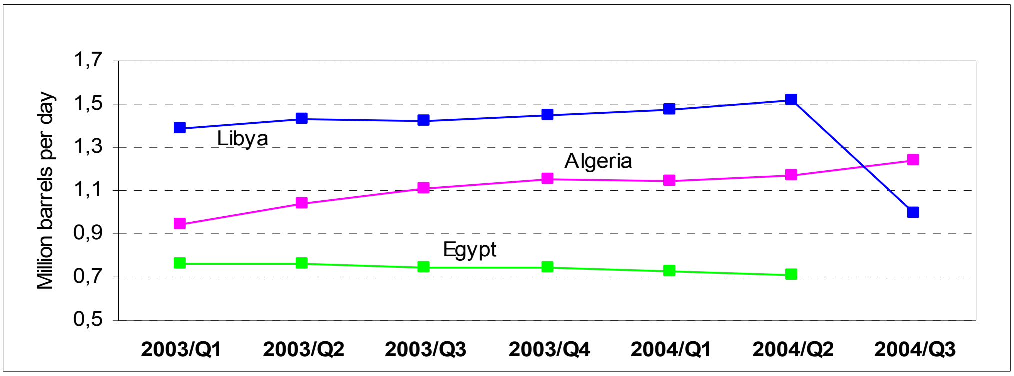
Source: Data Compiled by SRO-NA from national sources

25. In this respect, it should be stressed that the low growth rates of the agricultural sector for most North African countries in 2004 relative to 2003 should not be interpreted to mean that 2004 was a bad agricultural year. Relative to 2002, agricultural performance in 2004 was as good and, in some cases, even better than the performance in 2003.

26. There are two other important aspects of the agricultural sector that are important to draw attention to at a sub-regional level. These are: a) its continuing importance, in any given year, in determining the overall level of growth rate of GDP for the region as a whole; b) its continued reliance on weather conditions.

b) Oil and Gas sector

Figure 5: Quarterly Oil Production; 2003-2004 *(Million barrels per day)*



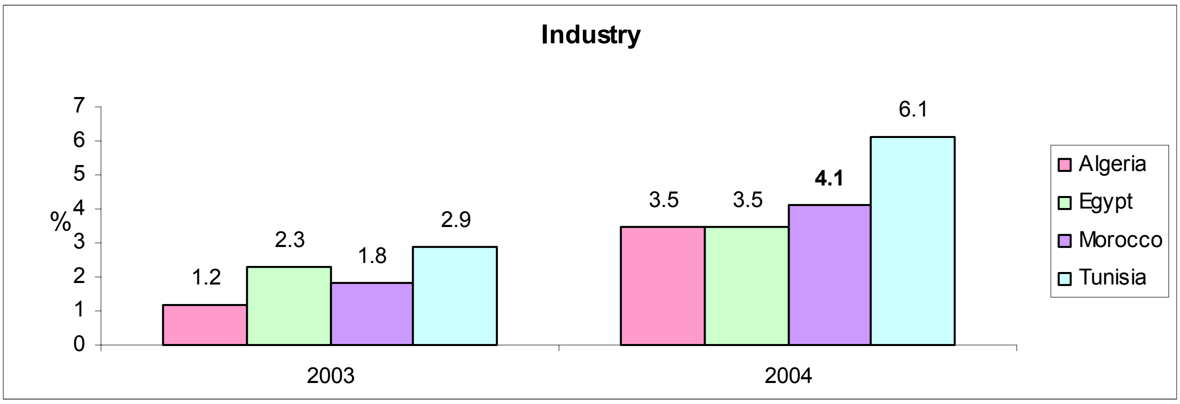
Source: EIU Country Reports, 2004

27. Besides the very high oil prices that prevailed globally throughout 2004, the following developments in the sector of oil deserve to be examined:

- It is estimated that Egypt's oil output has declined by an aggregate 12 percent since 2000 (although gas output continues to increase);
- Sudan's oil production continues on a steady path. In 2004, it increased by 21.1percent against 12 percent realized in 2003. At this steady rate the contribution of the oil sector in total GDP has been increasing and is estimated to have reached over 10 percent of GDP in 2003 and 11 % in 2004;
- Mauritania is on line to become an oil exporting country by 2006. However, to ensure that oil production in Mauritania will be accompanied by significant diversification of the economy and employment opportunities, it is urgent to carefully study the various economic policy challenges that oil production will entail;
- It would be interesting to evaluate the implications, for the sub-region as whole, of both Sudan and Mauritania becoming oil-exporting countries.

c) Industrial Sector (excluding oil)

Figure 6: Industry Growth Rates at Constant Prices; 2003-2004 *(percent)*



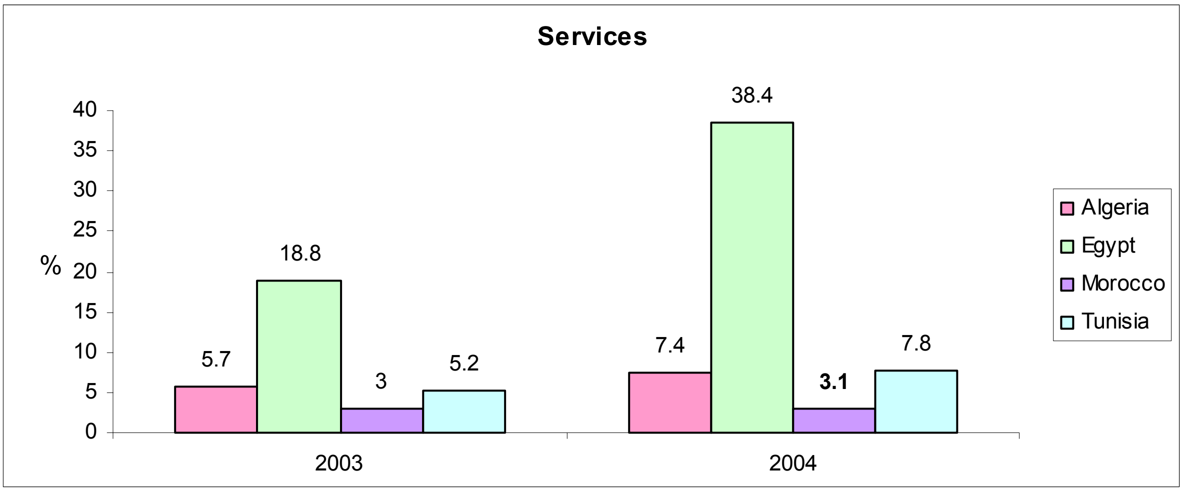
Source: Data Compiled by SRO-NA from national sources

28. The performance of the industrial sector for the region as a whole remains very sluggish especially for Algeria which continues to record very weak industrial growth particularly in the public sector industries. Morocco and Tunisia maintain a good rhythm of industrial growth. Morocco recorded notable acceleration in the growth of its secondary sector in 2003 at 3.8 percent compared to 3.3 percent in 2002 notably because of agro-industries and manufacturing other than textiles and leather which continued to decline due to weak domestic and international demand and hard competition on the international market. Similarly, Tunisia maintained a good record of industrial growth of over 5 percent due also to manufacturing industries other than textiles and leather which declined by an estimated -2.5 percent. Sudan's sugar industry (the most important industry in the country) had a very good performance registering a 4.4 percent growth in 2003 and operating at over110 percent capacity of the factories;

d) The Services

29. The services sector (including tourism) has continued to grow fast in the sub-region as a whole. For the sub-region as a whole there was a stabilisation or a picking up of the tourism industry relative to 2003.

Figure 7: Services Growth Rates at constant Prices; 2003-2004 *(percent)*



Source: Data Compiled by SRO-NA from national sources

30. Indeed, Egypt's phenomenal growth of the services sector of 38.4 percent is a result of the pick-up in tourism flows that attained unprecedented levels, in terms of i) the number of arrivals (which reached 1.9 million, with an increase of 23.8 percent); ii) the number of tourist nights (which reached 21.8 million or an increase of 119.8 percent); and iii) the average stay for all departure groups (which went up by 75.4 percent, against a 1.4 percent in 2003).
For Morocco, the rate of increase in the services (not included/understood non-commercial services) accounts for 3.1 percent in 2004 against 3 percent in 2003. However, it should be stressed the notable resumption of the tourist activities, which increased of almost 5.8 percent into 2004 against a fall of 4.7 percent in 2003 and 7.5 percent in 2002, following the difficult international economic situation after the attacks of September 11 in the United States.

31. However, a fuller evaluation of this sector at a sub-regional level is made difficult by the fact that what is covered in the sector varies widely among the seven countries of the sub-region. Any assessment of the sector in aggregate must therefore be taken as being only indicative of the general trends and should not be taken as comparable across the different countries.

2.3 Inflation

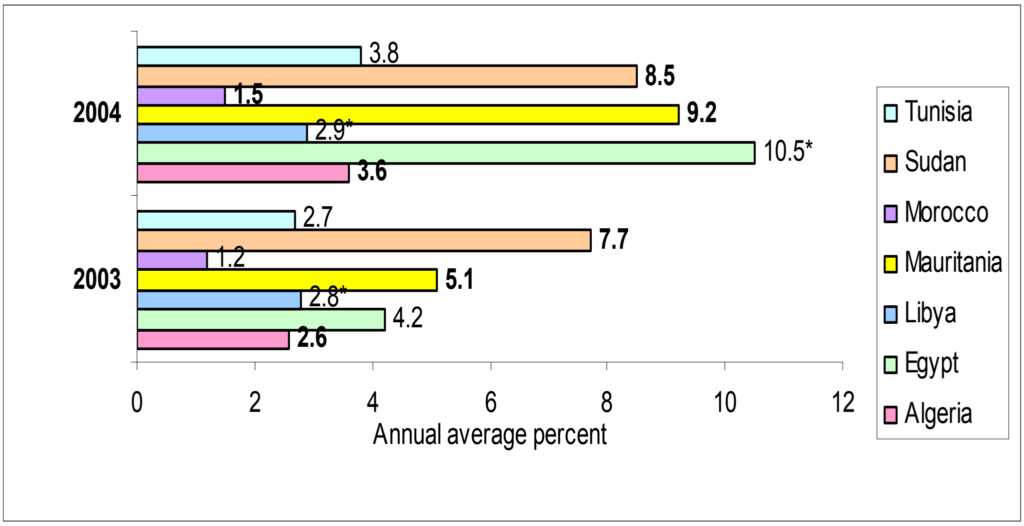
32. The region as a whole experienced an inflationary trend. All the seven countries of the sub-region had an inflation rate in 2004 that was higher than the rate recorded in 2003 as shown in the Figure 8 below. The reasons for this trend appear to have been both external and internal.

33. Globally, inflationary pressures were stronger than generally expected although this trend was less alarming in the face of a solid economic recovery. It is to be further noted that from end-2003, with global output growing rapidly and commodity prices rising sharply, headline inflation turned up significantly almost everywhere in the world.[6]

[6] World Economic Outlook, IMF, September 2004

34. Internally, the individual countries of the sub-region, have reported a number of factors behind inflationary pressures in 2004 including: foreign exchange market difficulties (Egypt); rising domestic demand exerting pressure on consumer prices (Libya); sharp rises in world market energy prices and upward price movement of most other industrial raw materials (Morocco and Tunisia); the impact of the rate of exchange compared to Euro (Mauritania); adoption of an index harmonized of the price the consumer in conformity with the international standards and fascinating in consideration more products (Mauritania).
It would have to be announced that Morocco knew an inflation controlled at a rate of 1.7 percent on average since 1996, and that in 2004 the rate of inflation was limited to 1.5 percent. The rise of the prices could have been accentuated in 2004 if had not been the intervention of the State to attenuate the impact of the rise of the invoice of the oil imports by the mechanisms of the compensation, by increasing the public expenditure of support for the price the consumer.

Figure 8: Rates of Inflation 2003-2004 *(Annual average percent)*



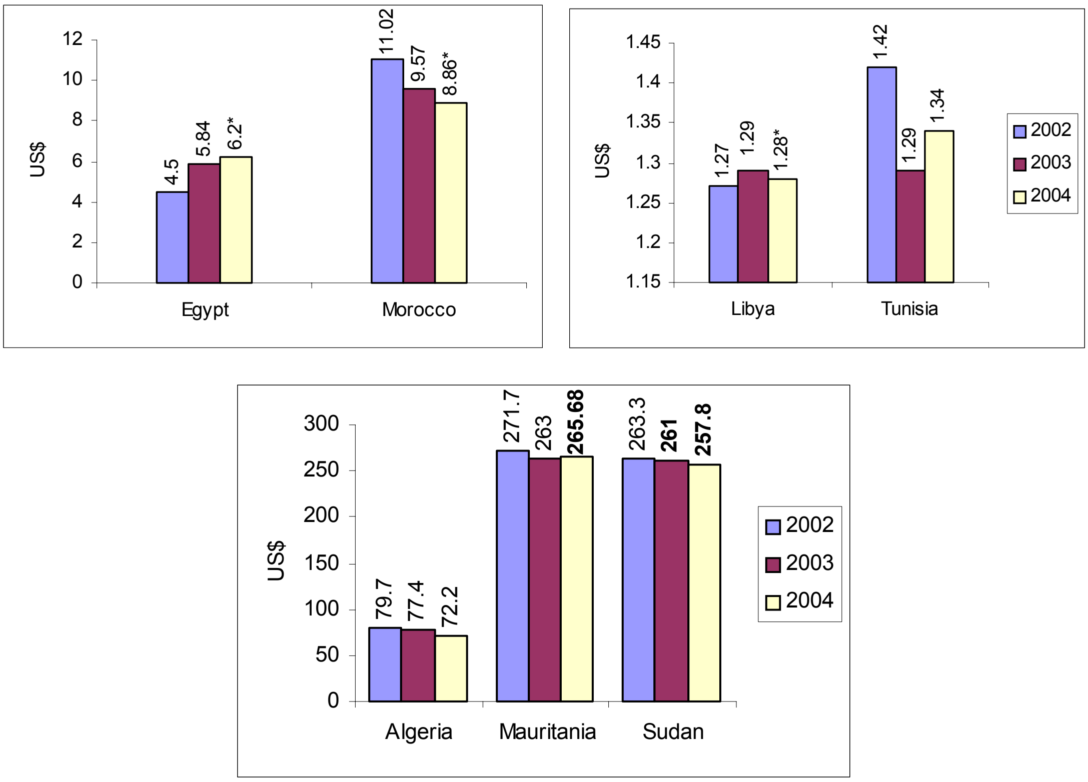
Source: Data Compiled by SRO-NA from EIU ** Estimates*

2.4 Exchange Rate

35. Although the decline in the value of the dollar was widespread at least vis-à-vis most world currencies, the national currencies of the North African sub-region had a mixed reaction.[7] Two of the national currencies (Algeria Dinar Sudanese Dinar) recorded some appreciation against the US dollar in 2004. Moroccan Dirham on the other hand recorded a strong appreciation vis-a-vis the dollar of about 7.4 percent. The other currencies (the Egyptian pound, the Libyan Dinar and the Mauritanian Ouiguiya and the Tunisian Dinar) recorded different depreciation rates vis-à-vis the US dollar (see Figure 9 below).

[7] Due to the persistence of the decline of the US dollar and considering that a significant proportion of the sub-region's trade is with Europe, future analysis of exchange rates should perhaps put emphasis on the Euro trends.

Figure 9: Average Exchange Rates 2002-2004



*Source: Data Compiled by SRO-NA from EIU * Estimates*

36. Wherever it occurred in the countries of the sub-region, the appreciation of national currencies vis-à-vis the US dollar was exclusively a result of the global weakness of the dollar as opposed to an increase in the strength of the national currency. This fact is shown by the relationship of the national currencies to other major world currencies such as the Euro. In this respect, for countries that appreciated against the dollar, the Algerian Dinar experienced a quasi stability relative to most world currencies and the Morocco Dirham depreciated by 1.9 percent against the Euro. The other countries that recorded depreciations against the US dollar also recorded depreciations against other currencies: Mauritania had a very sharp depreciation of the Ouguiya relative to the Euro; Tunisia's Dinar by 0.7 percent against the Euro; and Egypt's pound depreciated significantly against all currencies.

37. At the policy level the most significant developments included: indications by the Banque d'Algérie to allow depreciation in the value of the Dinar in order to boost non-oil export competitiveness while maintaining a low inflation environment; Egypt's liberalization of the exchange rate of the Egyptian pound so as to combat speculation and eliminate the unofficial foreign exchange market; hints at a change in Libya's peg away from the IMF's special drawing rights to a more euro-denominated basket; and Sudan's tight operation of a managed float of the Sudanese Dinar against the US dollar resulting in a much increased stability of the Dinar.

III. EXTERNAL TRADE AND BALANCE OF PAYMENTS

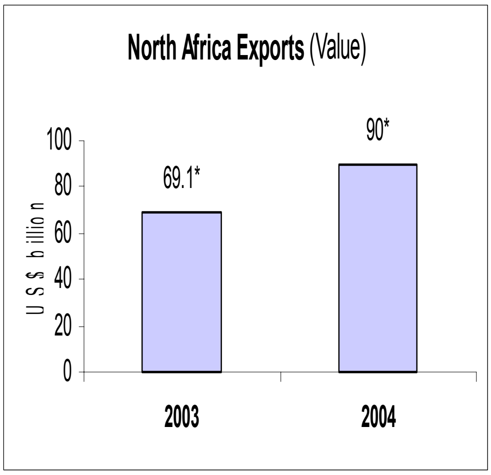
3.1 Value of Exports and Imports

38. The high growth in world trade in 2004 was reflected in the increase in the value of exports and imports of the sub-region as a whole. The trends in the value of North African trade are shown in Figures 10 and 11 respectively below.

39. The value of total exports of all countries of the sub-region estimated to have risen from US $69.1 billion in 2003 to an estimated US$ 90.0 billion in 2004 representing a growth rate of 30.2 percent during the year. However, this rate of exports growth for the sub-region as a whole was strongly affected by the growth in the value of exports of the oil exporting countries: Algeria 30.0 percent; Libya 42.1 percent; and Sudan 56.0 percent.

40. Also, the value of total imports into the sub-region as a whole rose steeply in 2004 from a total of US$ 60.9 billion in 2003 to US$ 76.7 billion. This represents an import growth of 25.9 percent compared to a relatively modest growth of 7.4 percent in 2003. An important national trend to signal is the reversal of the negative growth in value of imports recorded in Libya in 2003 (-14.9 percent) to a positive growth rate in 2004 of 25.9 percent.

Figure 10: Exports Value and Growth



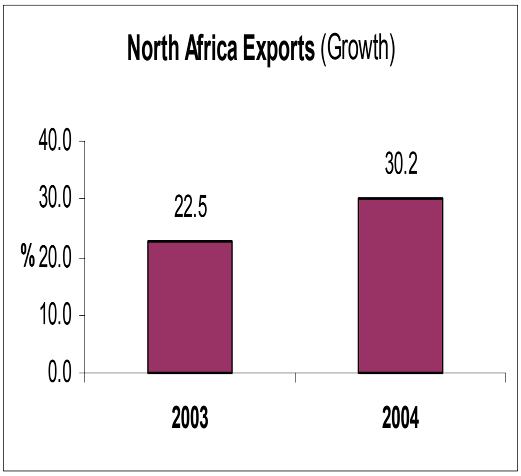
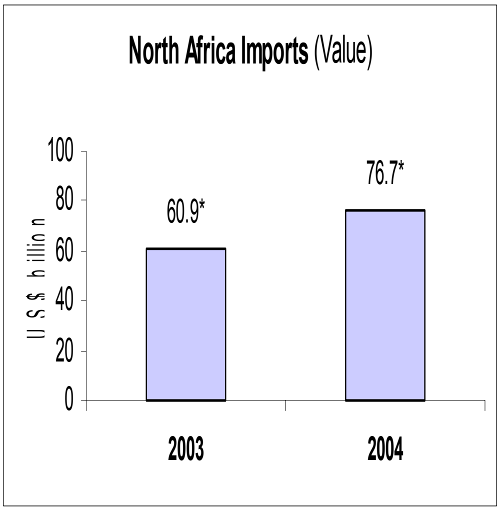
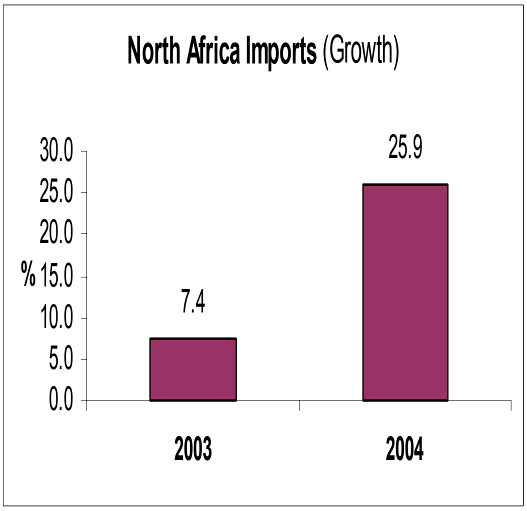


Figure 11: Imports Value and Growth





*Source: SRO-NA Data from EIU * Estimates*

3.2 Improved Trade and Current Account Balances

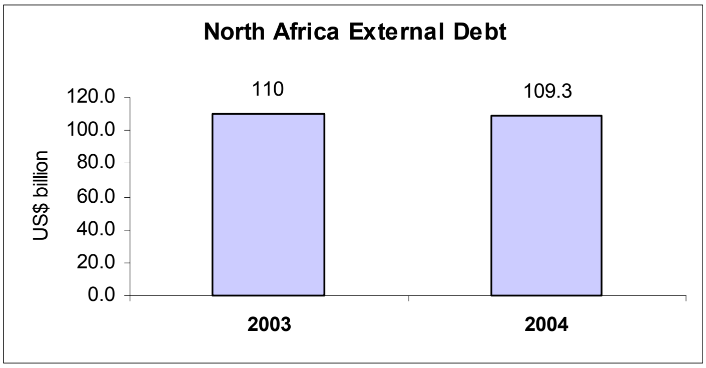
41. The high export performance for the region as a whole resulted in an important improvement for the trade balance of the region as a whole. The estimated trade balance increased from US$ 8.2 billion in 2003 to US$ 13.3 billion in 2004. However, like the export situation, the improvement in the sub-region's trade balance is dominated by Algeria and Libya which together recorded a trade balance of US$ 30.1 billion implying that Egypt, Mauritania, Morocco and Tunisia had a combined trade deficit amounting to US$ -17.5 billion. Sudan, on its part, is estimated to have a positive trade balance of US$ 0.7 billion.

42. In view of the positive trade balance for the region as a whole in 2004, the current account of is also estimated to have improved substantially. For the region as a whole, the current account balance was positive at US$ 25.4 billion compared to a positive of US$17.8 billion in 2003. Reflecting their good export performance, the current account balance for Algeria and Libya in 2004 stood at US$ 12.7 billion and US$10.3 billion respectively.

3.3 External Debt

43. All indications are that the debt situation for the sub-region as a whole is improving. The estimated debt levels as outlined in Figure 12 below are clear indications of this general pattern for the individual countries of the North African sub-region. It is estimated that for the sub-region as a whole (excluding Mauritania), total external debt recorded a decrease of around US$ 0.7 billion between 2003 and 2004.

Figure 12: Debt 2003-2004



Source: Compiled by SRO-NA from various sources (EIU, IMF)

44. The most dramatic developments on debt occurred in Algeria where the improvement in the external accounts is estimated to have led to a decline in the external debt-to- GDP ratio from 35 percent in 2003 to 16.5 percent in 2004. The reserves of exchange correspond to close to double of the debt stock, that is to say more than two years of imports of goods and services. It should besides be noted that Algeria is reported to have repaid US$0.9 billion ahead of schedule to the African Development Bank and Saudi Arabia, and to have continued discussions on early repayment of Paris Club debt.

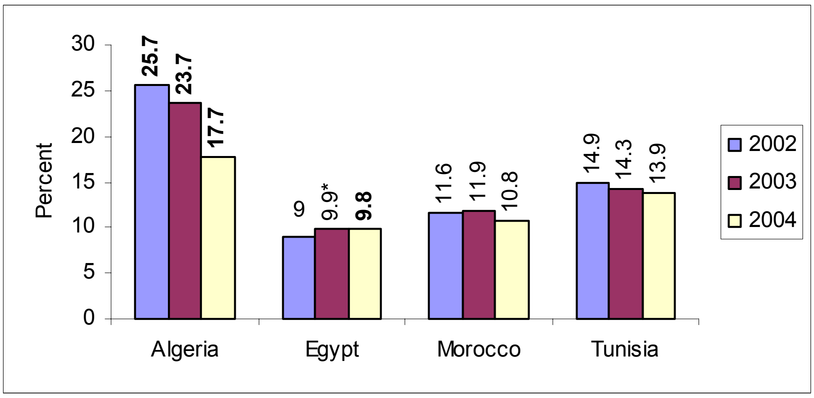
IV- EMPLOYMENT

45. Although estimates of unemployment rates are available for only limited number of countries in North Africa as summarised in Figure 13 there is a discernible trend of a growing unemployment problem in the sub-region. In almost all the countries of the sub-region unemployment rates are higher than 10 percent of the economically active population. The rate remains high in Algeria where approximately 17.7 percent of the working population is with unemployment in 2004. The situation is also precarious in Tunisia, Egypt and Morocco where unemployment rates are estimated to be 13.9 percent, 11.0 percent and 10.8 percent in 2004 respectively.[8]

46. There are signs of a slow decline in the unemployment rates over time in the countries of the sub-region except for Egypt. Thus, in Algeria, the unemployment rate has recorded a steady decrease from the high 25.17 percent in 2002 to 17.7 percent in 2004. Morocco and Tunisia have also experienced a decline in their respective unemployment rates since 1999. Egypt's unemployment rate is estimated to have increased from around 9 percent in 2002 to around 9.8 percent in 2004.
In Mauritania, the unemployment rate was 28.9 percent in 2000 (33.9 percent among women against 25.7 percent for men). The phenomenon is probably related on the rural migration and thus to the arrival of increasingly many young people on the labour market.

47. Given the major potential social implications of high rates of unemployment, governments have pursued a number of policy measures to specifically address the unemployment problem. These policies have included: aaccelerating economic growth while concomitantly improving and optimizing the employment content of such growth; promoting investment through, inter alia, supporting in a variety of ways private sector initiatives; aadopting active labor market policies and new labour codes so as, among others, to match labor supply and demand involving; reducing the mismatch between market needs and qualifications of new labour market entrants and development of training programs to facilitate adaptation to changing employment needs.

Figure 13: Unemployment Rates (percent); 2002-2004



*Source: Data Compiled by SRO-NA from national sources, EIU, ONS and IMF * Estimates*

[8] Even Libya is estimated to have 270,000 unemployed Libyans which would give an unemployment rate of Libyans of 11 percent. But this is to be taken against the 2 million non-Libyans working in Libya.

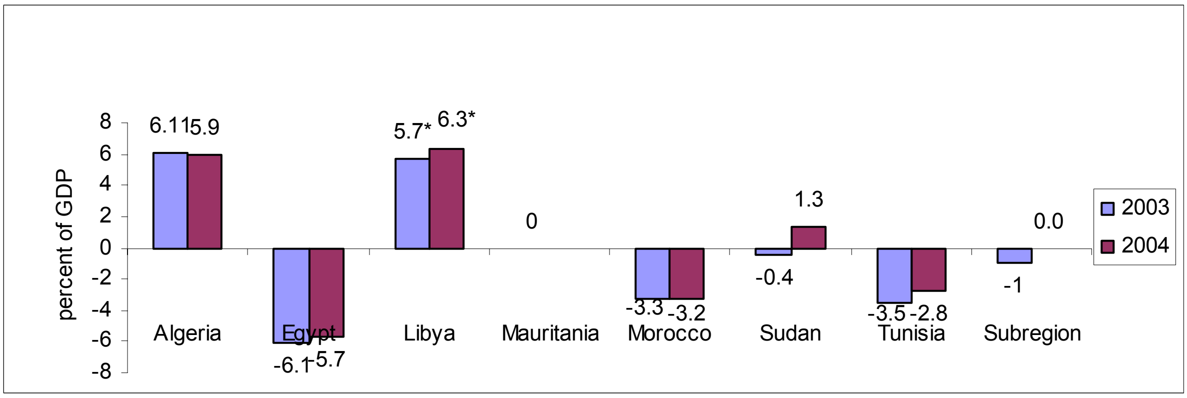
V- PUBLIC FINANCE

48. The fiscal performance of the North African region as a whole improved substantially in 2004 with a much lower budget deficit for the sub-region as a whole estimated at 0.5 percent of the region's total GDP compared to a deficit of 1.0 percent in 2003 (see Figure 14). In the main, the particularly good fiscal performance for the region is a result of the good fiscal outturn in the oil exporting countries in the sub-region namely Algeria, Libya and Sudan. But, even the oil-importing countries had relatively good fiscal performance especially considering the impact of high oil prices on their respective budgets.

49. The three North African oil exporting countries recorded increases in fiscal revenues as a result of gains in high oil prices. The effect of the unexpectedly high oil revenues in the actual budget performance of the oil-exporting countries is outlined below:

- Algeria's government budget for 2004 had envisaged an overall budget deficit of 6.3 percent compared to 4.1 percent in 2003. However, as a result of very high oil prices in 2004, it is estimated that Algeria registered an overall surplus of 5.9 percent of GDP.
- Libya is estimated to have recorded a significant jump in its government surplus from 5.7 percent of GDP in 2003 to 6.3 percent of GDP in 2004.
- Sudan had a sharp increase in non-fiscal revenues which jumped from DS452 billion in 2003 to DS 603.6 billion representing a an increase of 35.5 percent relative to 2003. At this rate of increase in revenue, the budget deficit which was reported at around 0.4 percent of GDP in 2003 is estimated to have turned into a surplus in 2004 equivalent to about 1.3 percent of GDP.

Figure 14: Budget Deficits of North African Countries, 2003-2004 *(percent of GDP)*



*Source: Data Compiled by SRO-NA from national sources - * EIU estimates*

50. Some of the non-oil exporting countries in the sub-region also had relatively good fiscal performances in 2004 as outlined below:

- Egypt which, since a few years ago, has had an expansionary fiscal policy with increasing public expenditure saw its state budget deficit decrease albeit slightly from 6.1 percent of GDP in 2003 to 5.7 percent of GDP. In addition, for the first time in years, growth in government revenue exceeded growth in expenditures at 12.2 percent and 10.5 percent respectively.
- Morocco saw its deficit in 2004 decrease slightly as a percentage of GDP to 3.2 percent compared to 3.3 percent in 2003. Still, government had good results in terms of strong revenue collection results.
- Tunisia's Central government balance showed an improvement in 2004 relative to 2003 in spite of very significant pressures on government expenditures due to higher oil prices throughout 2004. The overall deficit is estimated to have declined as a percentage of GDP from 3.5 percent in 2003 to 2.8 percent in 2004.

VI- MONEY AND INTEREST RATES

51. Broadly, monetary developments in the sub-region can be summed up by the following three main trends:

- Significant increases in the liquidity of the economies especially those positively affected by high increases in external reserves as a result of high oil prices;
- Increasing concerns, in applying monetary policy, about the need for the effective control of domestic inflation;
- The aim of monetary policy to maintain the stability of the national currencies features in a number of countries;

52. At national level, the following are the most salient features of monetary policies during the 2003/2004 period.

53. In Algeria, external assets resulting from the high oil prices are reported to have been the main source of money creation in the Algerian banking system in 2004. Further, the increase in government spending witnessed (also as a result of huge oil revenues) has generated excess liquidity.
The trend of high liquidity is accompanied by a rise by the saving by 23 percent that is to say 46 percent of the GDP against 44 percent in 2003. Algeria is an exporter of capital.
The trend of high liquidity coupled with limited attractive investment opportunities and modest savings rates, has translated into higher consumption growth as approximated by M1 expansion.

54. Egypt's monetary aggregates during 2004 revealed a rise in domestic liquidity (M2). The growth in domestic liquidity during the period was traced to the increase in both money supply (M1) and quasi-money. On its part, the rise in money supply (M1) stemmed from the increase in currency in circulation outside the banking system as a direct result of the pickup in the deposits of both the household and the private business sectors. The Central Bank of Egypt (CBE), has introduced more coherence into monetary management involving, among others, higher interest rates on treasury bills and other savings instruments so as to counter inflation and support the Egyptian pound. Further, the Bank is making efforts to move away from direct intervention to more indirect tools to influence monetary conditions.

55. Libya's use of active monetary policy to influence its macroeconomic framework is very limited. However, in 2004, the discount rate was lowered to 3 percent from 5 percent in 2003. This might be taken as an indication of the intention of Central Bank of Libya to move towards a more active monetary policy. This possibility is further strengthened by the fact that these moves seem to stem from recent recommendations advanced in the IMF's Article IV report encouraging a more positive monetary stance with a wider range of market-based instruments including treasury bills.

56. Mauritania's main monetary focus is to keep inflation under control and maintain an appropriate exchange rate. As a result, the Banque centrale de Mauritanie current policy is to target broad money supply growth. One other issue that the monetary authorities face relates to how the exchange rate will be affected when oil exports start. Exchanging these inflows into local currency will add pressure to the currency to appreciate.

57. In Morocco, money supply was greatly influenced by the rapid increase of 21.8 percent in net external assets as well as the growth in the economy. However, the 10 percent decline in government borrowing attenuated the overall increase in total money supply (M2). An important feature to stress is that the Dirham's fixed peg to a basket of currencies dominated

by the euro has provided a nominal anchor for the economy and allowed the easing of monetary conditions without serious inflationary consequences 2004.

58. The main aims of Sudan's monetary policy include reducing inflation, maintaining the stability of the Dinar and increasing domestic credit to the private sector. To this end, the Bank of Sudan has pursued a monetary policy that involves promoting minimum reserve requirements and prudent capital adequacy levels for banks. These moves have contributed to the reduction of inflation from the high rates experienced for much of the 1990sBuit the concerns over asset quality appear not to have curbed lending policies as credit to the private sector is estimated to have recorded as much as 25 percent growth.

59. Tunisia's financial system was marked by a continuous firming up in net claims on abroad and an increase in the indebtedness of government with respect to the financial system and financing to the economy. In a bid to stimulate economic growth, the Banque centrale de Tunisie had, in 2003, slightly loosened the stringent approach to liquidity management that it had been following. Despite this relaxation, monetary policy stayed sufficiently tight to keep expansion in broad money (M2) within a relatively manageable rate of 7.7 percent over the first nine months of 2004 compared to a rise 6.3 percent in the same period of 2003. This increase in M2 was attributable, mainly, to faster progress in quasi-money which rose by 8.8 percent compared to a 5.2 percent rise over the same period in 2003.

CONCLUSIONS AND RECOMMENDATIONS

A. Some Conclusions

60. Growth in terms of GDP for the sub-region as a whole did not seem to be affected by the huge rises in oil prices. This is true for both the oil-exporting countries as for the oil-importing countries. Two conclusions derive from this:

- In the North African oil-exporting countries, increases in world oil prices take time to affect domestic output growth even of the oil sector alluding to low elasticities of GDP and the oil sector or possibly a lagged growth response;
- In oil-importing countries, stronger and more resilient structures have been developed to effectively withstand shocks of high oil prices even at the fiscal level.

61. Growth in terms of GDP for the sub-region as a whole was not significantly affected by the rapid growth in the world economy although it did affect the trade balances significantly and positively. This leads to two possibilities:

- The sub-region is adequately linked to the global economy through trade but not adequately linked to it through investment for growth to filter through from the world to the sub-region;
- The transmission of the benefits of world recovery has a lag mechanism.

62. The sub-region is experiencing a recent inflationary trend which requires appropriate measures to control.

63. Unemployment remains a structural problem that must be addressed at the level of economic structures.

B. Some Recommendations

64. Data ‘normalisation’ is required to facilitate the sub-regional analysis and thereby increase the value added of the present report.

65. An additional structural analysis, as the one attempted in Part II, should be undertaken focussing on explaining the reasons for the growth of the North African economies in 2004 as outlined in conclusions 1 and 2 above.

Table: Millennium Development Goals: Progress in North Africa

MDG Citation	Set Targets	Situation in North African Sub-region
1. Eradicate Extreme Poverty And Hunger	*1. Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.*	⇒ Poverty data (International Poverty Lines) is not available for Libya, Mauritania and Sudan; ⇒ Tunisia reached the objective since 2001 ⇒ Presently, extreme poverty affects 2 percent-3 percent of population in Algeria ,Egypt and Morocco
	2. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.	⇒ Presently, malnutrition affects 2 percent-6 percent of populations for Algeria, Egypt, Libya, Morocco and Tunisia; 10 percent for Mauritania; 20 percent for Sudan ⇒ Trends show slow progress in realization of this target
2. Achieve Universal Primary Education	*3. Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.*	⇒ Four countries are well advanced on this target (Tunisia - 99 percent; Algeria and Libya -98 percent; Egypt -93 percent ⇒ With 92.2% in 2004, Morocco will be on track. ⇒ Mauritania (64 percent) and Sudan (58 percent) require massive efforts to attain the objective.
3. Promote Gender Equality And Empower Women	*4. Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.*	⇒ At the sub-regional level, substantial progress has been made for reducing gender disparity ⇒ Parity indices are as follows: Libya: .97; Mauritania: .92; Tunisia: .91; Algeria: .88; Egypt: .88; Morocco: .84 and Sudan: .82
4. Reduce Child Mortality	*5. Reduce by two thirds, between 1990 and 2015, the under-five mortality rate*	⇒ Trends show remarkable progress for Tunisia 26/1000) and Libya (19/1000); ⇒ Algeria, Egypt, Morocco have rates of around 40/1000 but are on track to realize the target; ⇒ Progress is slow in Mauritania (rate is 183/1000 since 1990) and Sudan (94/1000 in 2002)
5. Improve Maternal Health	*6. Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio.*	⇒ There are important disparities among countries of sub-region; maternal death rates range from low 55/100000 (Tunisia) to high 747/100000 (Mauritania) ⇒ Other rates per 100000 are: Algeria: 117; Egypt: 84; Libya: 97; Morocco: 220; Sudan: 590
6. Combat HIV/Aids, Malaria And Other Diseases	*7. Have halted by 2015 and begun to reverse the spread of HIV/AIDS*	⇒ Current infection rates are low at around only 1 percent;
	8. Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases	⇒ Malaria and tuberculosis are not major issues for most countries in the sub-region; they are a public health issue in Sudan and Mauritania to a limited extent; ⇒ Efforts needed to reduce effects of all diseases on infant mortality rates.
7. Ensure Environmental Sustainability	*9. Integrate the principles of sustainable development into country policies and programmes and reverse the losses of environmental resources.*	⇒ Preventing loss of environmental resources is a serious issue for the sub-region: deforestation, soil erosion and degradation, desertification are the basic challenges; ⇒ Integration of sustainable development policies still to be effective
	10. Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation	⇒ Trends show attainability of target at least in urban zones; ⇒ Algeria, Egypt, Morocco and Tunisia assure water to over 90 percent of population; Sudan (86 percent); Libya (72); Mauritania (less than 50 percent)
	11. Have achieved by 2020 a significant improvement in the lives of at least 100 million slum dwellers.	⇒ Indicator has been linked to urban population having access to sanitary facilities which gives following picture: Algeria, Egypt Libya and Tunisia have over 90 percent while Morocco and Sudan have around 80 percent and Mauritania has less than 50 percent

Source: SRO-NA, 2005