News release

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North Africa's unfinished revolution

It's been almost five years since the beginning of the 'Arab Spring' which brought about significant change in North Africa and the wider region.

With this milestone approaching, PwC economists have taken a look at the five largest North African economies – Egypt, Algeria, Morocco, Sudan and Tunisia – and highlighted some of the key points that businesses and policymakers should consider when thinking about North Africa

Most North African countries have quietly addressed the tough task of reforming their economies; but political and security concerns remain the biggest risks on the horizon, acting as stumbling blocks to the creation of future prosperity.

"Businesses need to have North Africa on their radar," argues PwC senior economist Richard Boxshall. "After all, the five largest North African economies are populous - home to slightly over 200 million people, similar to the population of Brazil – relatively well-educated and geographically positioned to access markets in Europe, the Middle East and the rest of Africa."

PwC economists have identified three main factors that will influence the economic future of the region:

The good news: Most of the North African countries have been pushing ahead with economic reform, particularly in their public sectors. For example, the largest economy in the region, Egypt, has largely eliminated energy subsidies, freeing up resources for other purposes ranging from education to a gradual reduction in corporate tax rates. Others have focused on stimulating their private sector by becoming more business friendly; for example Morocco has set up the Casablanca Finance City aimed at bolstering intra-African trade, and Tunisia is planning to take bold steps to open up around half of its economy to outside investors.

The long-term challenge: The relatively highly educated workforce is one of the best assets that many of the countries in the region have. But generating adequate economic opportunities for the skilled workforce continues to be a challenge. With the working-age population set to rise by around 68 million - more than Germany's current workforce - by 2050 (see Figure 1), policymakers need to work hard to create an economic environment that businesses will want to invest in.

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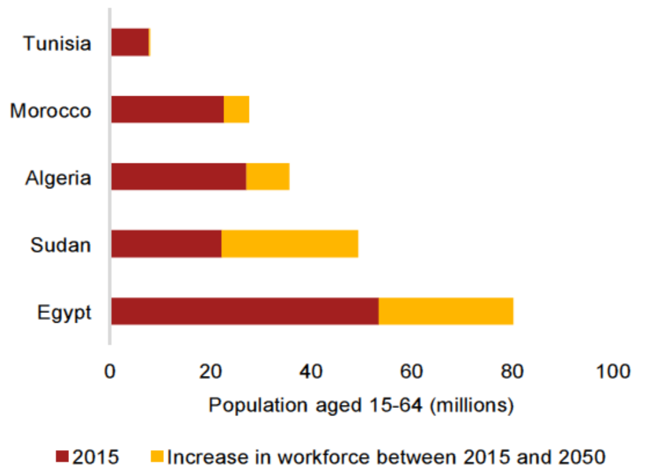
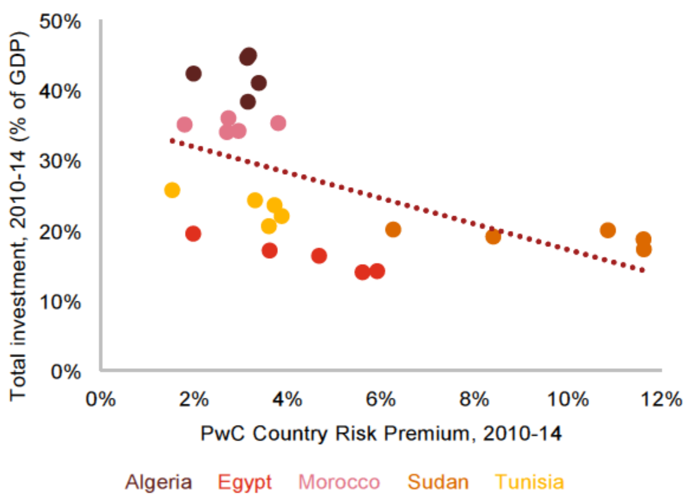
Fig 1: North Africa needs to create an additional 68 million jobs by 2050



Source: PwC analysis of UN World Population Prospects figures

The short-term challenge: Political and security concerns remain the biggest risks on the North African horizon, posing stumbling blocks for public and private investment. Figure 2 below shows the negative correlation between investment rates and the PwC in-house country risk premium measure.

Fig 2: High levels of political risk lead to higher risk premiums at the expense of investment rates



Note: The Sudan country risk premium also includes South Sudan
Sources: PwC, IMF

One opportunity for businesses wanting to invest in North Africa is tourism. For example, in Morocco tourism contributes almost one fifth of its economic activity. If Egypt and Tunisia were to replicate this success, then it could unlock an additional $16 billion of economic activity in these two countries combined, helping to kick-start growth and create further opportunities in other sectors of the economy, ranging from light manufacturing to logistics to restaurants and catering services. Morocco also has a strong financial services sector which could serve as an attractive entry point for businesses in this industry which are aiming to establish a presence throughout Africa.

Says Richard Boxshall: "Addressing the political and security concerns head-on, in order to realise these potential benefits, could be the unfinished revolution that North Africa is waiting for."

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Notes:
The June edition of PwC's *Global Economy Watch* can be found at www.pwc.com/gew

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