EGYPT

Highlights

- **The economic situation continued to strengthen.** Real gross domestic product (GDP) grew by 5.6 per cent in the fiscal year 2018-19, the highest rate in 11 years; inflation declined markedly to one-digit levels; the fiscal and current account deficits narrowed; and unemployment has declined to its lowest level in eight years.
- **Reforms under the Egypt Tourism Reform Programme were reflected in an increase in competitiveness and attractiveness.** Egypt had the fourth-highest performance improvement in the World Economic Forum's Travel and Tourism Competitiveness Index 2019, the World Travel and Tourism Council awarded Egypt the annual "2019 Global Champion Award" for promoting tourism resilience, the United Kingdom lifted flight restrictions to Sharm El Sheikh, and tourism revenues increased to US$ 12.5 billion in the fiscal year 2018-19; a record high.
- **Structural reforms have progressed strongly.** The government has taken effective steps towards reforming energy subsidies, widening social protection coverage, strengthening tax collection, and deepening the efficiency of financial markets, in addition to amending the investment law.

Key priorities for 2020

- **Measures to improve private investment should be prioritised.** The laws encouraging private participation in certain public-dominated sectors should be implemented, and interest rates – led by Central Bank of Egypt (CBE) policy rates – should continue to be lowered, in line with the decline in inflation.
- **Sustained and advanced implementation of structural and fiscal reforms is essential to consolidating the gains in macroeconomic stabilisation.** Expected reforms in the coming year include conducting a medium-term revenue strategy, promoting a comprehensive privatisation of state-owned enterprises, improving the availability of and access to industrial land, reforming competition policies, and implementing e-public procurement.
- **Implementation of the National Water Resources Plan is needed to develop solutions for water scarcity.** Egypt is already below the United Nations' water poverty threshold and is approaching a state of "absolute water crisis". There is an urgent need to develop non-renewable subterranean water extraction methods, desalinate water, manage wastewater and ration water usage.

Main macroeconomic indicators %

	2015	2016	2017	2018	2019
GDP growth	4.4	4.3	4.2	5.3	5.6
Inflation (average)	11.0	10.2	23.5	20.9	13.9
Government balance/GDP	-11.4	-12.5	-10.9	-9.7	-8.2
Current account balance/GDP	-3.7	-6.0	-6.1	-2.4	-3.1
Net FDI/GDP [neg. sign = inflows]	-1.9	-2.0	-3.3	-3.0	-2.2
External debt/GDP	14.5	16.8	33.4	37.1	34.1
Gross reserves/GDP	5.9	5.1	13.0	17.4	14.5
Credit to private sector/GDP	25.5	26.3	28.3	24.4	22.9

* Data for Egypt corresponds to fiscal year, July to June, except for reserves and credit to the private sector.

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Macroeconomic performance

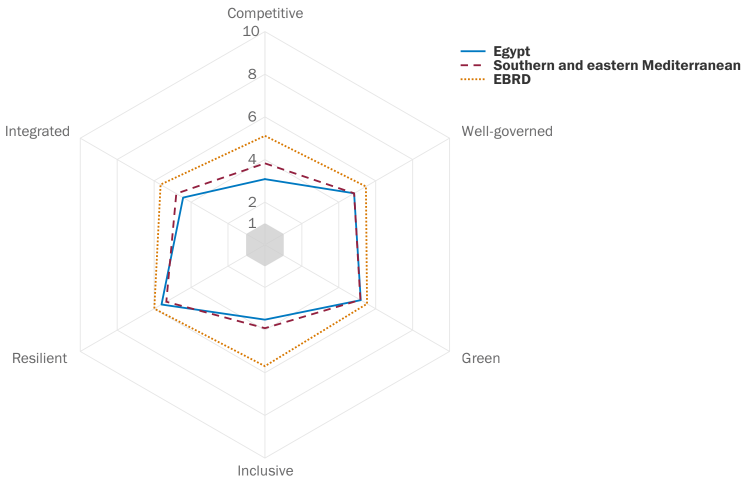
Real GDP growth continued to increase, reaching its highest level in 11 years. It reached 5.6 per cent in the fiscal year 2018-19, mainly driven by rising net exports and investments. The gas, tourism, trade and construction sectors were the main contributors to the strong growth. Meanwhile, unemployment dipped to 7.5 per cent in the second quarter of 2019, the lowest level since 2011, compared with its peak of 13.2 per cent in the fourth quarter of 2013. The continued contraction in the unemployment rate is mainly due to the sound implementation of economic and structural reforms – which resulted in a number of investment opportunities – and the implementation of major national development projects.

Inflation has decreased to its lowest rate in more than six years. Year-on-year inflation declined from its record high level of 33.0 per cent in July 2017 to 4.8 per cent in September 2019. The decline is mainly due to currency appreciation and a slowdown in food inflation. Following the moderation of underlying inflationary pressures, the CBE continued loosening its monetary stance by cutting its discount rate by 150 basis points in August and a further 100 basis points in September 2019, to 13.75 per cent.

The fiscal position continued to improve. In fiscal year 2018-19, the fiscal deficit narrowed to 8.2 per cent of GDP, from 9.7 per cent in the previous fiscal year, thanks to lower subsidies and lower interest payments (relative to GDP). The current account deficit widened slightly to 3.1 per cent of GDP in the fiscal year 2018-19, from 2.4 per cent in the fiscal year 2017-18. Lower remittances and non-oil exports – mainly gold – were only partially offset by a narrower oil trade deficit (due to Egypt's achievement of self-sufficiency in oil as of October 2018) and stronger tourism revenues. Inflows of foreign direct investment to Egypt are stable at US$ 10.2 billion in the fiscal year 2018-19, and are mainly in the oil sector. International reserves have increased to US$ 45.1 billion in September 2019, covering over eight months of imports.

Robust economic growth is expected to continue in the short term. In the fiscal years 2019-20 and 2020-21, we expect GDP to rise by 5.9 per cent. Growth will be supported by the continued strengthening of the tourism sector and of exports, large public construction projects including the building of the new administrative capital, natural gas production from the Zohr field and other new discoveries, the reengagement of private investors – both domestic and foreign – following the recent trend of interest rate cuts and the continued implementation of business environment reforms and prudent macroeconomic policies. The main risks to the outlook arise from a persistent wait-and-see approach taken by foreign investors, the erosion of competitiveness because of the recent appreciation of the pound, and the negative outlook for the economy of the European Union, Egypt's main trading partner. The risks are partially mitigated by the authorities' demonstrated commitment to the implementation of structural reforms.

Assessment of transition qualities (1-10)



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Major structural reform developments

The government continued to implement fuel and electricity subsidy reforms, and has increased metro ticket prices. In June 2019, the government hiked the ticket price on the third Cairo metro line after adding three new stations. Ticket prices had tripled in May 2018, which also saw the pricing scheme change to a tier system based on distance travelled. In July 2019, electricity tariffs for residential consumers increased by 14.9 per cent on average, and tariffs for commercial consumers rose by between 7.0 and 22.0 per cent. Electricity subsidies will be phased out fully by the middle of 2022. In July 2019, the government also raised fuel prices between 16.0 and 30.0 per cent in order to achieve cost-reflective prices, improve energy consumption efficiency and free up fiscal resources for development spending. The government will start applying the new fuel pricing indexation mechanism to all petroleum products in the fourth quarter of 2019.

The Central Bank of Egypt introduced the benchmark Cairo Overnight Index Average. The introduction of the risk-free interest rate benchmark in August 2019 will lay the foundation for the enhancement and improved efficiency of the market. The new benchmark was developed by the Egyptian Money Market Contact Group, which brings together the central bank, selected commercial banks and the EBRD.

Plans are advancing for a sharp increase in the minimum capital base requirements. Under a draft bill on banking and financial institutions, presented to the parliament in May 2019, the capital base of local banks will be raised tenfold to EGP 5 billion (around US$ 300 million), while the subsidiaries of foreign banks will face a threefold increase to US$ 150 million. The banks will have a three-year deadline to comply with the new regulations. The proposed bill aims to boost the banks' financial strength and ability to withstand competition from other banks in the region.

Social protection measures have been widened. The government has increased spending allocations to commodity goods – including bread – and pension funds, as well as the *Takaful* and *Karama* (solidarity and dignity) programmes, in addition to increasing salaries and pensions in the fiscal year 2019-20. Furthermore, the government has started the *Forsa* (chance) programme, which helps create job opportunities, the *Mastoura* (covered or guaranteed) programme, which helps with microcredit for women, and the *Sakan Karim* (decent accommodation) programme, which promotes access to clean drinking water and sanitation. Meanwhile, in July 2019 the Ministry of Health launched a new comprehensive healthcare insurance system for all segments of society.

The Ministry of Petroleum and Mineral Resources has proposed new terms and rules on mining gold and mineral resources. In July 2019, the parliament approved amendments to the law, which aim to attract reliable investments, especially in gold mining, by granting licences to investors and offering more flexible terms for exploring and bidding.

The Investment Law is being amended. The objective of the amendments, approved by the parliament in July 2019, is to attract more investments in the most economically disadvantaged provinces, improve the standard of living of citizens and diversify the sources of growth nationwide. The amendments also aim to grant incentives for the expansion of existing investment projects, set new conditions for establishing new production lines and create new business opportunities. In addition, the General Authority for Investment will monitor foreign inflows of direct investment in order to reach accurate figures on the volume of investment.

Credit ratings for SMEs are being enabled. In September 2019, the Egyptian Financial Regulatory Authority approved the offering of licences to credit rating companies specialising in SMEs. These licences will enable SMEs credit rating companies to practice their activities in the Egyptian market and provide SMEs with the required funds for their projects. This will be achieved through acquiring loans and issuing various kinds of bonds, including medium-term bonds for capital asset financing and short-term bonds for working capital financing.

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Tax laws are being consolidated. In June 2019, the cabinet approved a draft unified tax law, and committed to implementing a new tax system by June 2020. The unified tax law regulates the procedures for linking and collecting income tax, value added tax, the development of revenues, stamp duty, and other taxes of a similar nature. The law aims to consolidate the provisions governing these procedures and facilitate their application, depending on modern technical means. The Ministry of Finance is planning to issue a small and medium tax treatment law to create incentives for firms in the informal economy to register their businesses.

Significant progress has occurred in the tourism sector. In November 2018, the Ministry of Tourism launched the Egypt Tourism Reform Programme (E-TRP). The vision was to achieve a sustainable tourism sector through implementing structural reforms that strengthen the sector's competitiveness, in line with international best practices. Historically, tourism accounted for over 15 per cent of GDP, and was mainly driven by the private sector, which accounts for 98 per cent of the sector. Travel and tourism revenues contributed 51.5 per cent of total services exports in the fiscal year 2018-19. E-TRP was designed as a comprehensive, coherent and consistent policy framework, with structural reforms established on five reform pillars; institutional reforms, legislative reforms, promotion and marketing, infrastructure and tourism development, and global tourism trends. These efforts were reflected in Egypt being granted the fourth-highest performance improvement in the World Economic Forum's Travel and Tourism Competitiveness Index 2019. The World Travel and Tourism Council awarding Egypt the annual "2019 Global Champion Award" for promoting tourism resilience. Moreover, this has also been reflected strongly in tourism revenues increasing to US$ 12.5 billion in the fiscal year 2018-19; an all-time high.