Egypt

Highlights

- **Egypt's post-pandemic economic recovery was strong, but slowed in the wake of the war on Ukraine.** The subdued performance of the tourism and non-oil sectors weighed on growth in the second half of the 2021-22 fiscal year. Inflation surged and previous fiscal gains were reversed by increased social spending, although unemployment decreased slightly.
- **The country has become an attractive destination for renewable energy investments, which could help alleviate the precarious external-sector situation.** Prospects for a green transition by decommissioning domestic gas facilities in favour of renewables have gained traction, and COP27 offers an opportunity to translate high-level ambitions into concrete plans on the back of outside economic pressures.
- **The authorities have published a new draft state-ownership policy.** The policy highlights which sectors will be opened up for private investment, as well those where the public and private sectors will co-exist. A third group will be dominated by the public sector.

Key priorities for 2023

- **Macro-fiscal imbalances need to be addressed.** A staff-level agreement on a new International Monetary Fund (IMF) programme has been announced. Its implementation could help to alleviate external pressures and ensure debt sustainability.
- **Advancing the structural reform agenda is a top priority.** Key reforms that should be given immediate attention include strengthening competition and opening up state-owned enterprises (SOEs) for private investment, both of which would help support growth and attract foreign direct investment (FDI).
- **A strong green agenda could boost economic growth, complement efforts to strengthen food and energy security, and address the impact of climate change.** Key measures that the authorities should promote include further developing renewables, improving water and energy resource efficiency, and promoting sustainable agriculture.

TABLE Main macroeconomic indicators %

	2018	2019	2020	2021	2022 proj.
GDP growth	5.0	5.5	3.5	3.3	6.6
Inflation (average)	20.9	13.9	5.7	4.5	8.5
Government balance/GDP	-9.0	-7.6	-7.5	-7.0	-6.2
Current account balance/GDP	-2.3	-3.4	-2.9	-4.4	-3.6
Net FDI/GDP [neg. sign = inflows]	-2.8	-2.5	-1.9	-1.1	-1.7
External debt/GDP	35.2	34.2	32.3	31.3	32.2
Gross reserves/GDP	16.5	13.8	9.7	9.3	7.0
Credit to private sector/GDP	23.2	21.7	23.6	26.3	28.1

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Macroeconomic developments and policy response

Growth doubled in the 2021-22 fiscal year, but has levelled off in recent months. In the first three-quarters of 2021-22, gross domestic product (GDP) growth reached 6.6 per cent compared with 1.9 per cent in the same period the previous fiscal year. This was driven by strong manufacturing growth, a rebound in Suez Canal revenues and an expansion in construction activity. However, growth decelerated markedly in the fourth quarter to 3.2 per cent, held back by a muted private-sector recovery, although gas exports provided some counterweight to costlier oil imports. Annual inflation surged to 13.6 per cent in July 2022, fuelled by rising food and energy prices and by an exchange-rate devaluation of more than 20 per cent since March. Meanwhile, unemployment decreased slightly to 7.2 per cent in the second quarter of 2022, although it remains higher among women (17.8 per cent) and in urban areas (10.5 per cent).

In response to inflation, the authorities implemented a range of measures. In March 2022 the government announced a fiscal package of US$ 7 billion to mitigate the impact of global inflation, including expedited salaries and an inflation adjustment to pensions. In July 2022 the government raised diesel prices by EGP 0.5 (US$ 0.03) per litre to alleviate pressure on the general budget, although diesel subsidies for 2022-23 are still expected to reach EGP 55 billion (around US$ 2.8 billion). At the same time, the government announced a bonus of EGP 100 (US$ 5.30) on food subsidy cards for six months to help beneficiaries cope with rising food prices. The government also postponed reforms to its bread subsidy system, which has been supporting large segments of the population since the 1970s. In addition, the scheduled annual rise in electricity tariffs, which normally takes place in July, was postponed this year.

Fiscal and current account deficits have narrowed. The fiscal deficit shrank to 6.1 per cent of GDP in 2021-22 as revenues grew 9.8 per cent in the period from July 2021 to March 2022. However, government spending grew 10.2 per cent during the same period, reflecting continued fiscal stimulus. In parallel, government estimates show public debt decreasing to 85.3 per cent of GDP as of June 2022. Meanwhile, the current account deficit declined to an estimated 5.0 per cent of GDP by the third quarter of 2021-22, thanks to strong remittances and a recovery in tourism income. However, it probably widened in April to June 2022 as import prices rose. In parallel, FDI contracted and portfolio outflows increased significantly. As a result, foreign-exchange reserves decreased from US$ 41 billion in December 2021 to US$ 33.1 billion in July 2022, covering less than four months of imports.

A short-term slowdown in growth is expected. Continued global volatilities and the slow progress of essential structural reforms to create more space for the private sector are weighing on the economic outlook. We expect growth in 2022-23 to fall to 4.7 per cent and be held back by adverse global conditions and structural domestic factors that suppress the recovery of the non-oil private sector. As momentum for public mega projects will be constrained by limited fiscal space, a return to higher growth rates will require additional drivers beyond domestic demand, tourism and gas exports.

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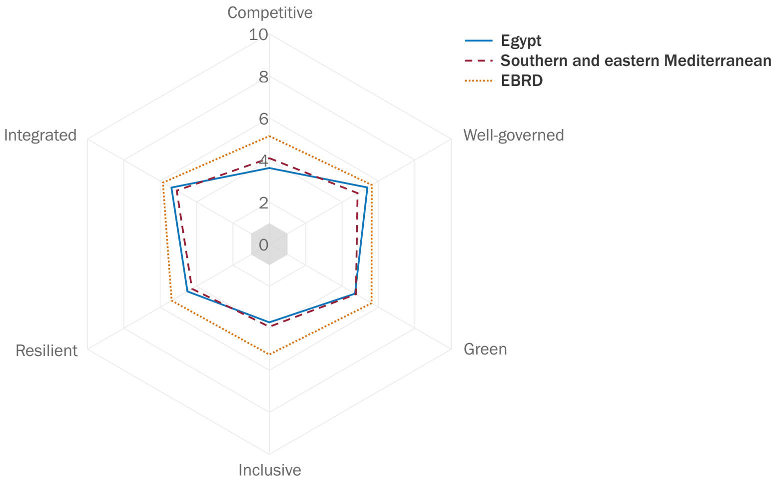
CHART Assessment of transition qualities (1-10)



Structural reform developments

Egypt has achieved a staff-level agreement with the IMF on a new programme. Key pillars include objectives on foreign-exchange policies, fiscal and debt management, and structural reforms, notably in the SOE sector and with a view to supporting the private sector as an engine of growth. Following its staff visit in July 2022, the IMF highlighted the need for decisive progress on fiscal and structural reforms.

The government published a draft of its first state ownership policy. The new policy, published in May 2022, classifies sectors into three groups: (i) the government mostly withdraws; (ii) the government remains partly involved; and (iii) the government remains fully involved and/or expands its presence in the coming years. Key sectors where private investment and privatisation will be encouraged include textiles, mining, chemicals and food processing. In contrast, the authorities are aiming for an increased presence in transport and in financial and insurance activities. The plan aims to attract US$ 40 billion in private investment over the next four years, but specific implementation arrangements have not yet been published. Consultations with the public and private sectors have been ongoing over summer 2022.

An Emergency Food Security and Resilience Project was launched. This programme, introduced in June 2022, will help mitigate the impact of the war on Ukraine on food security in Egypt. Supported by a US$ 500 million loan from the World Bank, the project will finance the public purchase of imported wheat, equivalent to one month's supply for the bread subsidy programme, which supports approximately 17 million low-income households, including about 31 million people living below the national poverty line. The plan will also support national efforts to reduce waste and losses in the wheat supply chain through the upgrade and expansion of climate-resilient wheat silos, thereby sustainably improving domestic grain production and strengthening Egypt's preparedness for and resilience to future shocks.

Egypt has developed a National Climate Change Strategy in the run-up to hosting COP27. Announced in May 2022, the strategy aspires to include adaptation and mitigation programmes in all sectors until 2050, with a focus on energy, transport, agriculture and water resources. The strategy also aims to improve access to green finance and infrastructure, strengthen research into green technologies and raise public awareness of climate change. Egypt is hosting COP27 in November 2022, which is widely seen as an opportunity to focus more on the impact of climate change on the world's least-developed countries, notably in Africa. Egypt will also aim to raise its profile as a leader in emerging green technologies, such as green hydrogen production (and associated renewable energy production) and industrial-scale desalination.

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A Women's Economic and Social Empowerment Programme is in place. Female labour force participation has been historically among the lowest in the region (on a par with Morocco and below Tunisia). The five-year programme, introduced in June 2022, aims to provide 200,000 women in seven Egyptian governorates with increased employment opportunities, strengthen financial inclusion and reduce violence against women and girls. The programme is looking to develop, scale up and advocate innovative solutions to realise the economic and social benefits of gender-responsive empowerment policies and practices.

The Ministry of Finance has started to automate the tax management system to improve the efficiency of tax administration. It is part of the government's strategy to digitalise the country's tax processes and procedures, as well as to integrate the informal economy into the formal economy, enhance governance over tax returns and expand the tax base. Tax revenues accounted for nearly 20 per cent of GDP in 2021-22 and for more than 75 per cent of general state revenues. However, facilitating tax payments to encourage the informal sector to contribute to the tax base could help maintain fiscal space without raising tax rates. The system was successfully piloted in 10 tax offices in Greater Cairo and will continue to expand across Egypt in 2022.

The government has announced a reform of ration cards. Egypt remains committed to improving the allocative efficiency of its social safety expenditure, which was set up during the previous IMF programme of 2016-20, including through reduced subsidies. Under the new scheme announced in June 2022, the Ministry of Supply and Internal Trade plans to stop issuing subsidy ration cards for Egyptians travelling outside the country, including those who have been abroad for more than three consecutive months (an estimated half a million citizens). New eligibility conditions for subsidies have been established. Citizens earning more than US$ 500 per month, households spending more than US$ 1,000 per month on their children's education and farmers owning more than 10 acres of land will no longer be eligible.