Egypt

Highlights

- **Growth has slowed amid foreign-currency shortages and a decline in natural gas production.** The subdued performance of the construction, manufacturing and natural gas sectors weighed on growth in the first three quarters of the 2022-23 fiscal year. Inflation surged to a record high and the exchange rate depreciated significantly, raising fiscal and external financing pressures.
- **The country has embarked on a programme to reduce the state's footprint in the economy and boost private investment.** The authorities published a State Ownership Policy to privatise state assets, amended the Competition Law to promote a level playing field, and enacted several regulatory reforms to attract foreign direct investment.
- **Egypt has raised its green ambitions.** Aiming to increase the contribution of renewables in the energy mix to 42 per cent by 2030 (from 31 per cent in 2021), the government launched a programme to decommission fossil-fuel plants and scale up renewable energy generation, while ensuring a just transition.

Key priorities for 2024

- **Addressing fiscal and external vulnerabilities is a top priority.** Following approval of an International Monetary Fund (IMF)-supported programme, progress has stalled amid increased fiscal and foreign-exchange pressures. Key requirements for macroeconomic stability include maintaining a flexible exchange-rate regime and ensuring fiscal and debt sustainability.
- **Progress on privatisation and structural reforms is essential for growth and investment.** Efforts have been made to strengthen competition and improve the business climate, but progress has been slow. Key priorities in the short term are to advance the country's state asset sales agenda and continue reforms to level the playing field and strengthen competitive neutrality.
- **Accelerating the green agenda is necessary to achieve Egypt's goal of becoming an energy hub.** The authorities should continue promoting investments in solar and wind energy, as well as infrastructure, to support the growth of the green hydrogen sector. This is especially important to ensure energy security and achieve Egypt's potential in light of declining natural gas production.

Main macroeconomic indicators[1] (per cent)

	2019	2020	2021	2022	2023 est.
GDP growth	5.5	3.6	3.3	6.6	4.1
Inflation (average)	13.9	5.7	4.5	8.5	24.1
Government balance/GDP	-7.5	-7.4	-6.8	-6.1	-6.0
Current account balance/GDP	-3.4	-2.9	-4.4	-3.5	-1.2
Net FDI/GDP [neg. sign = inflows]	-2.6	-1.9	-1.2	-1.9	-2.5
External debt/GDP	34.2	32.4	32.5	37.3	n.a.
Gross reserves/GDP	14.0	10.0	9.6	7.0	8.7
Credit to private sector/GDP	21.7	23.6	26.3	27.8	26.6

1. Data refer to fiscal year ending in June.

Macroeconomic developments and policy response

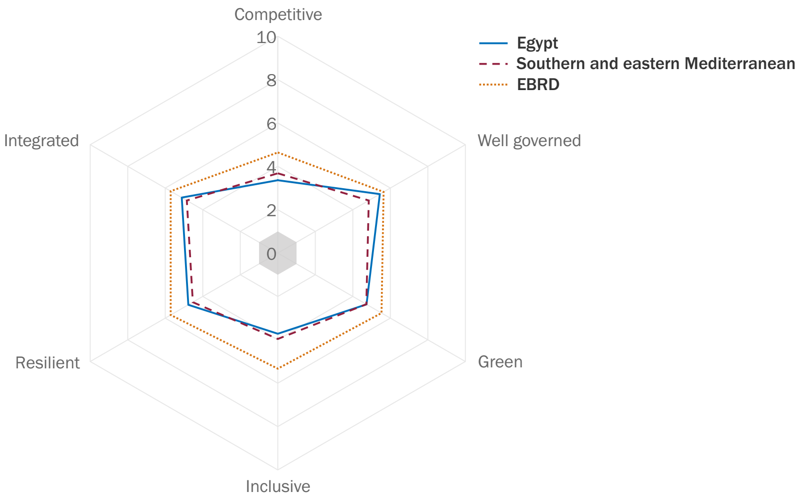
Growth slowed in the first three quarters of the 2022-23 fiscal year. Gross domestic product (GDP) grew by 4.1 per cent year on year in the first three quarters of the 2022-23 fiscal year (ending June 2023), down from 7.8 per cent in the same period of the 2021-22 fiscal year. Despite a recovery in revenues from the Suez Canal and from tourism, growth was weighed down by a deceleration in construction and manufacturing activity, as well as a contraction in gas production. Natural gas output is estimated to have declined by 10 per cent year on year in the first seven months of 2023, reaching a three-year low. Meanwhile, unemployment dropped slightly to 7.1 per cent in the first quarter of 2023, remaining at high levels among women (19.2 per cent) and in urban areas (10.3 per cent).

The authorities adopted several policies to control record-high inflation and mitigate its socioeconomic impacts. Egypt agreed to shift to a flexible exchange-rate regime as part of the IMF-supported programme, leading the central bank to devalue the pound multiple times since March 2022 (it has lost 50 per cent of its value against the US dollar since then). Inflation reached a record high of 38 per cent in September 2023. In response, the central bank has raised its key interest rates by a cumulative 1,100 basis points since April 2022. External financing risks and the uncertainty surrounding the exchange-rate regime have contributed to several international agencies downgrading Egypt's credit ratings since May 2022. Policies to mitigate the impact of inflation on citizens have included the launch of a new subsidised bread programme, as well as raising pensions, minimum wages for public and private employees, and the income-tax exemption threshold.

Fiscal pressures increased, driven by higher public spending, despite a narrower current account deficit and pick-up in foreign-exchange reserves. The fiscal deficit reached 6 per cent of GDP in the 2022-23 fiscal year. Higher spending on public investment, public wages, subsidies and social welfare, as well as inflation, higher interest rates and the currency's depreciation pushed up expenditures, although tax-collection revenues also rose. Gross public debt was an estimated 94.7 per cent of GDP in the 2022-23 fiscal year (up from 88.5 per cent in the 2021-22 fiscal year). Meanwhile, the current account deficit narrowed to an estimated 1.2 per cent of GDP by the end of the 2022-23 fiscal year, driven by higher tourism, Suez Canal revenues and a contraction in import demand due to foreign-currency shortages. Natural gas exports declined by 75.6 per cent year on year in April 2023, driven by the drop in global prices and decline in domestic production. Foreign-exchange reserves recovered slightly to reach US$ 35 billion (€33.2 billion) in September 2023, covering 5.5 months of imports.

Growth is expected to pick up over the medium term. GDP is expected to grow by 4.8 per cent in the 2023-24 fiscal year, as external and fiscal vulnerabilities ease and recent reforms to boost private-sector growth start to pay off. Headwinds that might hold back growth include higher inflationary and currency pressures, tighter monetary conditions and potentially slower progress on the structural reforms necessary to empower the private sector. The recent decline in natural gas production and exports could present additional risks to the outlook.

Assessment of transition qualities (1-10)



Structural reform developments

The IMF approved a programme to support Egypt's economic reforms. The 46-month US$ 3 billion (around €2.9 billion) Extended Fund Facility was approved in December 2022, supporting a shift to a flexible exchange-rate regime, fiscal consolidation, debt sustainability and the implementation of structural reforms to encourage private-sector-led growth. The first review was scheduled for March 2023, but was delayed amid slow progress on the exchange-rate reform and privatisation programme. It is now expected to take place alongside the second review in autumn 2023.

Egypt embarked on a privatisation plan to reduce the state's footprint. A new State Ownership Policy was published in January 2023, aiming to increase the role of the private sector to 65 per cent and attract US$ 40 billion (€38 billion) in private investment by 2026. In February 2023 the government announced a plan to sell stakes in 32 state-owned enterprises (SOEs), which it later expanded to 35 SOEs in August 2023, either to strategic investors or through initial public offerings. Despite the slow progress, momentum started to pick up in the second half of the fiscal year, with the government announcing the sale of US$ 1.9 billion (€1.8 billion) in SOE stakes by July 2023 (almost meeting the announced US$ 2 billion target).

The government passed key regulatory reforms to improve the business climate and promote a level playing field. In line with the new State Ownership Policy, the government and the Egyptian Competition Authority (ECA) instituted several measures in late 2022 to promote fair competition. These included: (i) amending the Competition Law to empower the ECA to regulate mergers and acquisitions and prevent anti-competitive economic behaviour; (ii) issuing a new Competitive Neutrality Strategy; and (iii) establishing the High Committee for Competition Policy and Competitive Neutrality. The authorities also introduced another round of amendments to the public-private partnership (PPP) law in September 2022 to facilitate the process and improve communication on potential projects. Lastly, the central bank announced in November 2022 the discontinuation of subsidised lending schemes to limit credit-market distortions, in addition to cancelling the letters-of-credit requirement in December. These measures had been designed to ease pressure on foreign reserves, but had suppressed imports and created shortages in some products.

Measures to support the green economy transition are advancing. The authorities plan to generate 42 per cent of Egypt's electricity needs from renewables by 2030. To support this goal, the government launched the Country Platform for the Nexus on Water, Food and Energy (NWFE) on the sidelines of the COP27 climate conference, which was hosted in Egypt in November 2022. Under the NWFE's energy pillar, there are plans to decommission 5 GW of fossil-fuel capacity (9 per cent of Egypt's installed capacity) and replace it with 10 GW of private solar and wind energy by 2028, while ensuring a just transition. Moreover, in November 2022 the government launched the Sovereign Sustainable Financing Framework, an update of the 2020 Green Financing Framework, to expand green and sustainable financing by exploring the issuance of green, blue, social, sustainable and gender bonds. In parallel, Egypt is advancing the green hydrogen agenda to leverage its renewable energy potential and become a regional energy hub.

The central bank continues to promote financial efficiency and inclusion, including through digitalisation. In July 2023 a new reform programme was announced to enhance the efficiency of the financial sector, supported by a US$ 615 million (€583 million) loan from the Arab Monetary Fund. The programme aims to: (i) enhance the soundness and efficiency of the payment systems infrastructure; (ii) strengthen the supervisory and regulatory framework; (iii) enhance financial technologies and strengthen security; and (iv) improve financial inclusion and sustainability. In May 2023 the central bank launched the country's first payment service mobile application (Instapay) to promote financial inclusion, allowing users to instantly transfer funds from their bank accounts to any local bank account or digital wallet without additional fees.

The government embarked on a natural gas exploration programme to boost exports and improve energy security. In July 2023, in parallel to its green energy drive, the government announced a programme to mobilise US$ 1.8 billion (€1.7 billion) worth of investments to dig 35 new gas wells in the Nile Delta and Mediterranean. The government aims to increase oil and gas exports by 12 per cent in 2023 and an additional 15 per cent the following year, to reach US$ 24 billion (€23 billion) by 2024.