Egypt

Highlights

- **Egypt has experienced a period of acute macroeconomic stress due to its policy mix and external shocks.** High indebtedness, unsustainable foreign exchange policy and subdued investor confidence following the war in Gaza led to high inflation and growth of a parallel foreign exchange market.
- **The macroeconomic situation has improved following the Ras al Hekma transaction and an augmented programme with the International Monetary Fund (IMF).** The sale of the development rights for the waterfront city of Ras al Hekma to Arab Gulf investors for US$ 35 billion (€31.8 billion) is the largest foreign direct investment transaction in Egypt's history.
- **Egypt is implementing monetary and fiscal reforms as part of an IMF programme.** These include the shift to flexible exchange rates and the introduction of a framework for monitoring and controlling all public investment. Green energy reforms include a strategy to develop the green hydrogen sector.

Key priorities for 2025

- **Fiscal consolidation and effective debt management are key priorities.** Implementing a framework for better monitoring and control of public investment would improve the state's finances and ensure that growth-enabling projects were prioritised.
- **The continued implementation of the State Ownership Policy (SOP) is necessary to encourage private investment.** Improving the governance of state-owned enterprises, empowering the Egyptian Competition Authority (ECA) to enforce competitive neutrality and divesting from state assets would all help rebuild investor confidence and enable a decisive shift towards private-sector-led growth.
- **Progressing green transition is key to Egypt's energy security and economic development, and would help resolve some issues in the energy sector.** Scaling up its renewable energy capacity and establishing a more diverse energy generation mix would leave the country less vulnerable to external shocks, help resolve supply disruption issues in the energy sector and achieve national climate objectives.

Main macroeconomic indicators (per cent)

	2020	2021	2022	2023	2024 proj.
GDP growth	3.6	3.3	6.7	4.1	2.4
Inflation (average)	5.7	4.5	8.5	24.4	32.5
Government balance/GDP	-7.5	-7.1	-6.2	-6.0	-7.1
Current account balance/GDP	-2.9	-4.4	-3.5	-1.2	-6.5
Net FDI/GDP [neg. sign = inflows]	-1.9	-1.1	-1.8	-2.5	-8.4
External debt/GDP	32.3	32.6	32.8	41.8	na
Gross reserves/GDP	9.7	9.3	6.6	8.3	na
Credit to private sector/GDP	25.8	28.2	30.8	29.3	na

CONTINUES ›

Macroeconomic developments and policy response

Growth has slowed in the past year. The rate of real GDP growth slowed to 2.4 per cent in fiscal year 2023/24 (FY24) compared with 3.8 per cent in the preceding year. The slowdown was driven by an acute foreign exchange shortage and weak investor confidence. Growth was supported by the wholesale and retail trade, tourism, agriculture, communications and real estate sectors. The gas and non-oil manufacturing sectors saw the sharpest declines in activity. Official unemployment remained relatively stable, standing at 6.7 per cent in the first quarter of 2024.

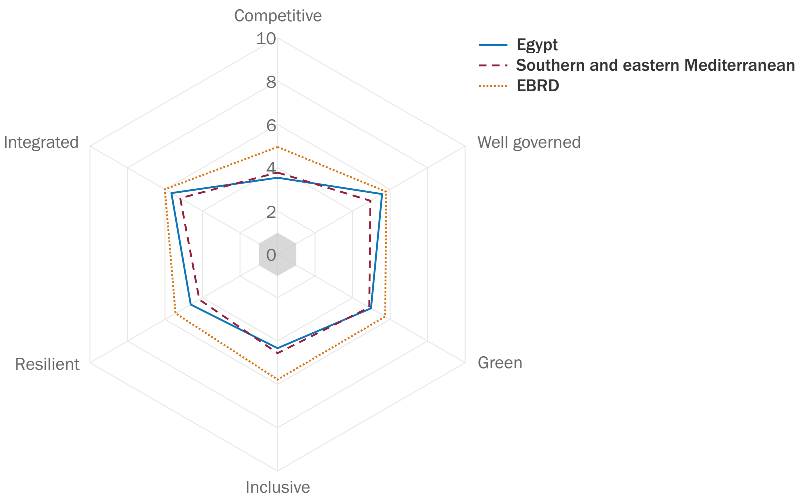
Inflation remains high but is on a downward trend. Inflation fell to 25.7 per cent in July 2024, its lowest level since December 2022. The Egyptian pound depreciated by 38.0 per cent in March 2024 after the Central Bank of Egypt (CBE) announced a shift to a flexible exchange rate regime. Pass-through was limited as the policy unified exchange rates and resolved the issue of goods shortages in the economy. Inflation was also moderated by a substantial hike in the CBE's policy rate (600 basis points in March 2024) and base effects. However, recent and planned increases to the prices of fuel, electricity, medicines and bread may push inflation up.

External accounts have recovered to pre-crisis levels following the deal to sell development rights in Ras al Hekma (RAH), and financial inflows from international financial institutions and investors. In parallel, financing packages from the IMF and European Union amounted to US$ 16 billion (€14.5 billion) in March 2024, with additional commitments from the World Bank and others. Portfolio inflows into Treasury bills amounted to over US$ 23 billion (€20.9 billion) following the exchange rate shift. As a result, net international reserves rose to US$ 46.6 billion (€42.4 billion) in August 2024, their highest level in five years and covering around 7.4 months of imports. In parallel, the financial system's net foreign assets have risen from US$ -22.0 billion (€-20 billion) to US$ 13.3 billion (€12.1 billion) as of August 2024. Egypt has already received both tranches (US$ 24 billion or €21.8 billion) of the RAH deal and converted a deposit from the United Arab Emirates (US$ 11 billion or €10 billion) into local currency. Against the backdrop of regional geopolitical instability, tourism has held up relatively well (rising 6 per cent in the first half of 2024 year on year) but Suez Canal revenues have fallen by 60 per cent, more than €4.7 billion, over the first eight months of 2024.

Debt levels remain burdensome. Servicing costs are expected to absorb 50-60 per cent of the FY25 budget and the debt-to-GDP ratio was 96 per cent as of FY24. The budget deficit stood at 3.6 per cent of GDP in FY24 and debt-to-GDP is expected to fall to 83 per cent in FY25. The government has announced a budgetary limit of EGP 1.0 trillion (US$ 21 billion) on public investments in FY25. Following several rating downgrades, Fitch upgraded Egypt's rating to B (from B-) while Moody's and S&P upgraded the country's outlook to positive.

Growth is expected to remain muted, at 2.4 per cent, in FY24 as a result of macro-structural challenges and external risks. Domestic and foreign investors will likely watch for progress on the government's reform programme before sentiment durably improves. Regional developments will also likely weigh on growth, at least until the war in Gaza has been resolved.

Assessment of transition qualities (1-10)



CONTINUES ›

Structural reform developments

The IMF augmented its programme in Egypt to support structural reforms. In March 2024, the IMF increased its loan under the Extended Fund Facility (EFF) from US$ 3.0 billion (€2.7 billion) to US$ 8.0 billion (€7.3 billion) and completed the first, second and, later, third reviews under the programme. Reforms will focus on shifting to a flexible exchange rate regime, improving debt management and fiscal stability, and expanding the role of the private sector. Discussions are under way for a US$ 1.2 billion (€1.1 billion) loan under the Resilience and Stability Framework. The 46-month EFF was initially approved in December 2022.

Exchange rate liberalisation is a key area of reform. The CBE allowed the Egyptian pound to trade freely in March 2024 as a condition for completing the first and second reviews under the IMF-supported programme. The spread between the official and parallel market rates has since closed, foreign exchange demand backlogs at banks have been cleared, and trading in the foreign exchange interbank market has resumed. The credibility of the liberalisation policy could be reinforced if it is sustained through future episodes of market stress.

Implementation of the SOP is under way. The SOP was a landmark document published in January 2023 that outlined the rationale for the state's involvement in the economy and ambitions for divesting from state-owned assets, improving governance at state-owned enterprises (SOEs) and strengthening private sector competitiveness by enforcing competitive neutrality. Recent developments include: (i) submitting legislation to embed the SOP into law, (ii) establishing a unit under the prime minister's office to oversee governance improvements in more than 700 SOEs with potential divestment of over 30 companies, and (iii) drafting amendments to align the independence of the ECA with other regulators such as the CBE and the Financial Regulatory Authority.

Divestments have slowed as the government takes a more strategic approach. Proceeds from privatisation over FY24 amounted to US$ 2.2 billion (€2 billion), with significant sales or divestments to state-owned investors from the Arab Gulf region in the hospitality, manufacturing and petrochemical sectors. Progress slowed in the second half of 2024 as the government took a more targeted approach, focusing on aviation, financial services and telecommunications. Other transactions, particularly those involving military-owned companies, have stalled in their final stages.

The government has taken steps to consolidate all economic authorities into general government fiscal reporting. The executive regulation of the Public Financial Management Law was enacted in March 2024, integrating the spending of 59 economic authorities (EAs), which are now required to report financial performance to the Ministry of Finance. Debt ceilings for EAs will also be introduced and included in the annual budget law. The next phase will involve classifying EAs by sector and retaining only non-market producers in the general government. These measures should enhance monitoring and control over EA investment and enable the transparent integration of some off-budget expenditures in policymaking, a key challenge of the past period.

Much-needed energy sector reforms are under way. FY24 was characterised by frequent disruptions in the energy sector, including electricity blackouts owing to a fall in domestic gas supply and the accumulation of arrears to international oil and gas companies due to the foreign exchange shortage. The government has taken steps to improve the economics of the energy sector by raising the prices of electricity and fuel products, committing to reaching cost recovery by the end of 2025. The government has also launched a national low carbon hydrogen strategy, passed a law to incentivise investments in the sector, and approved regulations opening up the private-to-private renewables market, allowing for a move away from the single buyer model Egypt had been following. Egypt will likely require greater investment in grid infrastructure and/or sector liberalisation to meet its renewable electricity generation target by 2030. Concurrently, increasing renewable capacity and diversifying the generation mix as well as improving the quality, efficiency and sustainability of infrastructure will also be critical to meet these goals.