ARAB REPUBLIC OF EGYPT

Table 1	2018
Population, million	99.4
GDP, current US$ billion	251.0
GDP per capita, current US$	2525
Lower middle-income poverty rate ($3.2)[a]	16.1
National poverty rate[a]	27.8
Gini index[a]	30.0
School enrollment, primary (% gross)[b]	105.0
Life expectancy at birth, years[b]	71.7

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2017).

Egypt is sustaining its robust growth, fiscal outturns are improving, and external accounts are stabilizing at broadly favorable levels. Inflation receded significantly, paving the way for monetary easing. Social conditions remain difficult, as the economy recovers from the preceding period of high inflation. Resolving long-standing challenges will be key to achieve structural transformation towards a vibrant economy where the business environment is conducive for competition, and the private sector is capable of generating more and better jobs.

Recent developments

Real GDP growth reached 5.6 percent in FY19, up from 5.3 percent in FY18. Data for the first nine months of FY19 show that this pickup is driven by net exports, as goods and services exports inched up in tandem with a contraction of oil imports (supported by the increase in natural gas production). Private investment is also picking up. On the sectoral side, gas extractives, tourism, wholesale and retail trade, real estate and construction have been the main drivers of growth.

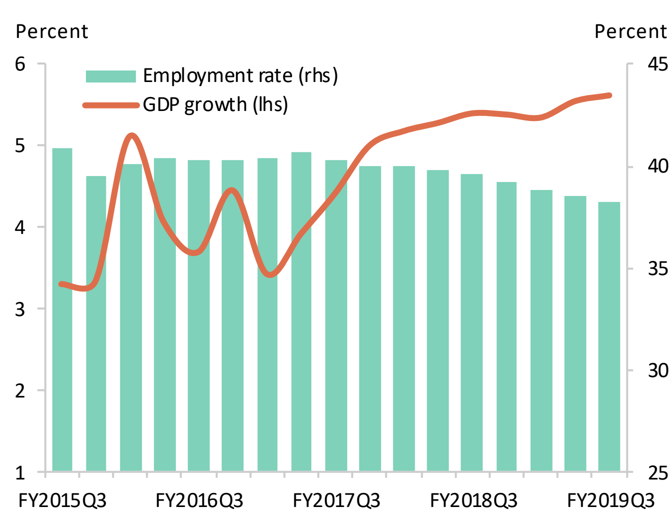
Unemployment decreased to 7.5 percent in Q4-FY19 (from 9.9 percent a year earlier), although accompanied by shrinking labor force participation. The share of employed individuals remained modest, at 39 percent of the working age population, indicating relatively weak private sector job-creation. Indeed, the credit extended to private businesses averaged only 22 percent of total domestic credit during FY19 (slightly lower than the previous year). Similarly, the Purchasing Managers' Index (PMI), an indicator for non-oil private sector activity, has been relatively feeble, averaging 49.3 throughout FY19.

The Central Bank of Egypt cut policy rates by 150 basis-points in August 2019, a move that should improve private sector cash flow via its impact on lending rates. Policy rates have decreased to 14.25 percent and 15.25 percent for the overnight deposit and lending transactions, respectively, albeit still 250 basis-points higher than their levels prior to the 2016 depreciation. The monetary easing was triggered by the remarkable decline in headline inflation in July 2019 to 8.7 percent, due to favorable base effects, as well as moderating food inflation; altogether diluting the inflationary impact of the July energy price hikes.

The budget and primary balances have improved to an estimated -8.3 percent and 1.9 percent of GDP, respectively in FY19, from -9.7 percent and 0.1 percent of GDP a year earlier. This comes on the back of the containment of energy subsidies and civil servants' wages, in addition to increased revenues collection (notably from the VAT and income tax). In tandem, government debt is estimated to have decreased to 90.5 percent of GDP in end-June 2019, from 97.3 percent of GDP in end-June 2018, with the decline mostly stemming from the domestic portion.

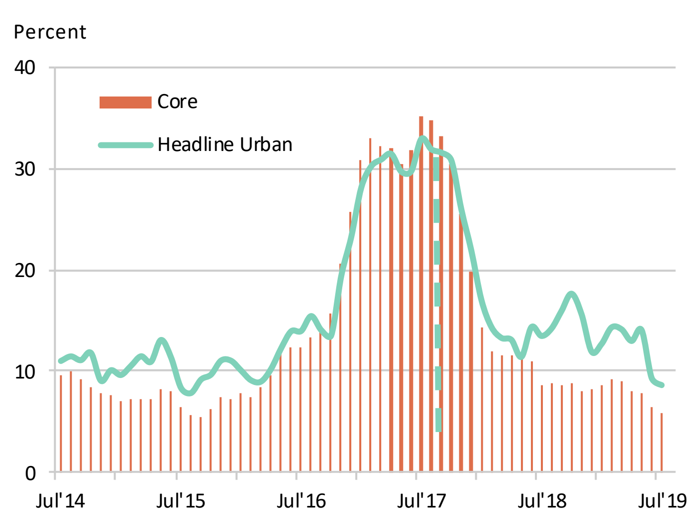
Egypt's external position has stabilized at broadly favorable levels, as foreign reserves reached US$44.97 billion in end-August 2019 (covering around eight months of merchandise imports). However, non-oil exports remain sluggish. FDI also remained modest and predominantly directed to hydrocarbons. Portfolio inflows were supported by the sovereign Eurobond issuances worth US$4 billion and EUR2 billion during H2-FY19, as well as continued foreigners' purchases of government securities. The Egyptian pound strengthened against the US$, reaching EGP/US$16.4 by mid-September 2019; cumulatively appreciating by around 16 percent since the Pound's weakest point around mid-December 2016. Another component of

FIGURE 1 Arab Republic of Egypt / GDP growth and employment rate, FY2015Q3-FY2019Q3



Sources: Ministry of Planning and CAPMAS.

FIGURE 2 Arab Republic of Egypt / Headline and core CPI inflation, Jul 2014 – Aug 2019



Source: Central Bank of Egypt.

exchange rate liberalization was achieved in September 2019 with the abolition of the "customs dollar" – a fixed exchange rate applicable to trade transactions.
While the macroeconomic environment has improved, social conditions remain difficult. Between 2016 and 2018, nominal wage growth fell below inflation. Official reports indicate that 32.5 percent of the population lived below the national poverty line in FY18, with the highest poverty rates in rural Upper Egypt. If the World Bank's internationally comparable poverty line of US$3.20 per person per day (2011 PPP) for lower middle-income countries is used as the threshold, then simulations using per capita private consumption growth rates suggest that 15.8 percent of the population was poor in 2019.

Outlook

Assuming a continuation of macroeconomic reforms and a gradual improvement in the business environment, economic growth is expected to reach 6 percent by FY21, supported by a recovery in private consumption, investments and exports (notably in tourism and gas). If overall growth is reflected in a per capita private consumption growth (of at least 0.7 percent) that is distributed across all the income groups, then poverty rates – at the international poverty line of US$3.20 – could be reduced from 15.80 percent to 15.67 percent, during the forecast horizon.
The overall fiscal deficit is also expected to continue declining gradually over the medium term. The newly adopted fuel indexation mechanism should (partially) shield the budget from exchange rate movements or shocks in global oil prices. The external accounts are expected to remain stable over the forecast trajectory. The current account deficit is expected to hover around 2.6 percent of GDP (compared to 2.4 percent in FY18), due to the balancing effects of an expected improvement in the services trade surplus, against a decline in private transfers (if remittances – especially from the Gulf – continue to inch downwards).

Risks and challenges

Following the final review of the IMF program in July 2019, Egypt needs to sustain its macroeconomic stabilization path. The softening global growth and trade outlook may negatively impact Egypt's prospects. This further emphasizes the urgency for a new wave of structural reforms that can translate into higher productivity and job-creation. These should focus on core institutional constraints to effective policy implementation, lifting non-tariff barriers, and creating space for the private sector to expand in more sophisticated products and exports.
While fiscal outturns improved, the budget structure remains challenging, dominated by large interest payments (surpassing 10 percent of GDP in FY19), while tax revenues remain low at below 14.5 percent and insufficient to finance Egypt's developmental needs, especially in the health and education sectors. Despite the declining debt-to-GDP ratio, the external debt service-to-exports ratio increased to 28 percent in end-FY2018, from an average 15.7 percent in the previous three years, indicating that the external debt has grown faster than the economy's basic source of foreign income. Further, contingent liabilities (20.4 percent of GDP in end -December 2018) represent another source of fiscal risk.
On the inclusion front, challenges emanate from eroded real incomes, high youth unemployment, informal- and under-employment. These are exacerbated by high population growth, sluggish job-creation and low participation in the labor force, especially among females.

TABLE 2 **Arab Republic of Egypt** / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2016	2017	2018	2019 e	2020 f	2021 f
Real GDP growth, at constant market prices	4.3	4.2	5.3	5.6	5.8	6.0
Private Consumption	4.7	4.2	1.1	0.7	2.0	2.5
Government Consumption	3.9	2.5	1.7	2.4	5.0	2.5
Gross Fixed Capital Investment	11.9	11.9	16.4	13.7	14.8	16.0
Exports, Goods and Services	-15.0	86.0	32.2	1.2	6.5	8.5
Imports, Goods and Services	-2.2	52.5	11.3	-7.5	0.5	3.5
Real GDP growth, at constant factor prices	2.3	3.6	5.2	5.6	5.8	6.0
Agriculture	3.1	3.2	3.1	3.0	3.0	3.0
Industry	0.8	2.1	6.4	7.5	6.4	6.8
Services	3.2	4.6	5.0	5.0	6.0	6.0
Inflation (Consumer Price Index)	10.2	23.3	21.6	13.9	11.0	10.0
Current Account Balance (% of GDP)	-6.0	-6.1	-2.4	-2.6	-2.6	-2.6
Net Foreign Direct Investment (% of GDP)	2.0	3.3	3.0	2.1	2.3	2.7
Fiscal Balance (% of GDP)	-12.5	-10.9	-9.7	-8.3	-7.5	-7.0
International poverty rate ($1.9 in 2011 PPP)[a,b]	1.4	1.4	1.4	1.4	1.4	1.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	15.9	15.7	15.8	15.8	15.7	15.7
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	61.0	60.2	60.4	60.5	60.2	60.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on 2012-HIECS and 2015-HIECS. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.
(b) Projection using point-to-point elasticity (2012-2015) with pass-through = 0.5 based on private consumption per capita in constant LCU.