

ARAB REPUBLIC OF EGYPT

Key conditions and challenges

Table 1	2021
Population, million	104.3
GDP, current US\$ billion	404.1
GDP per capita, current US\$	3876.4
Lower middle-income poverty rate (\$3.2) ^a	28.9
National poverty rate ^a	29.7
Gini index ^a	31.5
School enrollment, primary (% gross) ^b	106.4
Life expectancy at birth, years ^b	72.0
Total GHG Emissions (mtCO2e)	348.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2011 PPPs.
b/ Most recent WDI value (2019).

Egypt undertook exchange rate, monetary and fiscal measures in response to adverse global developments (including soaring prices and tightening financial conditions), aggravated by the war in Ukraine. Yet, these policy actions also reflect underlying structural challenges. The surge in growth to 9 percent in H1-FY2021/22 (supported by rebounds in export-oriented sectors) is expected to slow down gradually through FY2022/23. Reforms to enhance private investment, exports and FDI remain crucial for the economy's resilience and competitiveness.

Egypt implemented macroeconomic stabilization and energy sector reforms, as well as structural measures to address entrenched problems through taking steps to strengthen public debt management and enhance aspects of the business environment. These concerted efforts since 2016—along with the measures undertaken at the onset of COVID-19 to ease monetary conditions, provide selected sectoral support and mobilize external financing—enabled the country to face the pandemic with relative resilience.

Nevertheless, the global economic consequences of the war in Ukraine and associated sanctions on Russia, along with ongoing COVID-related disruptions, threaten to exacerbate long-standing challenges facing Egypt's external balances, mainly through widening the current account deficit (given the country's net commodity importer status, and the concentrated nature of trade with Russia and Ukraine). Egypt's growth model that shifted over the past two decades towards non-tradable lower productivity sectors contributed to the relatively limited export penetration and sophistication, as well as below-potential labor market outcomes. Official estimates indicate recent gains in welfare; however poverty rates were at 29.7 percent, as reported for the period October 2019–March 2020. Despite significant fiscal consolidation, government

debt remains elevated. Financing requirements are thus high, at a time when global financial conditions are tightening as advanced economies unwind their accommodative monetary policies.

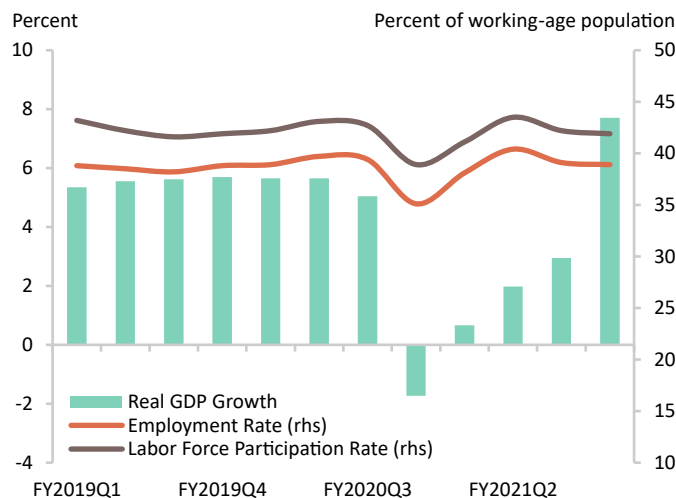
Going forward, enhancing public expenditure efficiency and revenue mobilization will be crucial to avail the fiscal space needed to advance human and physical capital for the population of above 103 million. Importantly, continuing to pursue structural reforms to unleash the private sector's potential in higher value-added and export-oriented activities are necessary to create jobs, and improve living standards.

Recent developments

On March 21, the Central Bank of Egypt (CBE) allowed the exchange rate to depreciate overnight by around 16 percent to stem the widening net exports deficit, and raised policy rates by 100 basis points to curb inflation and contain portfolio outflows. Meanwhile, the government introduced a mitigation package worth LE130 billion (1.6 percent of FY2022/23 GDP) to alleviate the impact of the rising prices through hikes to public sector wages and pensions, tax measures, and expanding coverage of the cash transfer programs, among other measures.

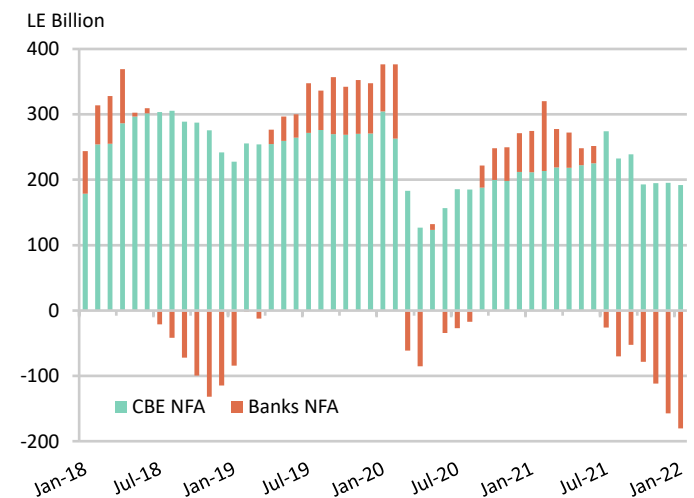
Prior to the external shock that triggered these policy measures, the economy was recovering, although pressures on external and fiscal accounts were building. Growth had surged to 9 percent during

FIGURE 1 Arab Republic of Egypt / Real GDP growth and labor market indicators



Sources: Ministry of Planning (MoP) and CAPMAS.

FIGURE 2 Arab Republic of Egypt / Banking sector net foreign assets



Source: World Bank estimates based on CBE.

H1-FY2021/22 (July–December 2021), compared to a modest rate of 1.4 percent a year earlier. The resumption of international travel and trade, global pent-up demand and favorable base effects allowed for strong rebounds in the export-oriented sectors, such as tourism, the Suez Canal, non-oil manufacturing, and gas extractives. The communications and construction sectors also continue to be important contributors to growth. On the demand-side, consumption and investment improved, but the net exports deficit widened, partly because the steady and marked real exchange rate appreciation over the previous years favored imports growth, and the accelerating global commodity prices also inflated Egypt's import bill.

Domestic prices were gradually rising, and inflation spiked to 8.8 percent in February 2022 (more than 2.7 percentage points higher than its average since the beginning of FY2021/22), reflecting early repercussions of the war in Ukraine.

While international reserves are comfortable (at US\$41 billion at end-February), banks' net foreign assets position has been in deficit since the beginning of FY2021/22; indicating that external accounts have been under pressure prior to the escalation of the war in Ukraine, and

domestic banks may have partly borne the consequences.

Outlook

The recent surge in economic activity has set Egypt on track to achieve growth of 5.5 percent in FY2021/22. However, base effects and the demand overshoot are expected to start tapering off and economic activity will be adversely affected by the repercussions of the war in Ukraine. Thus, growth is expected to slow down to 5 percent in FY2022/23. Inflation is forecast to surpass the CBE's inflation target range (7 percent \pm 2 PPT) through the remainder of FY2021/22 due to the impact of the depreciation, imported inflation, possible supply bottlenecks, along with the potential continuation of upward adjustments to retail fuel prices. While some mitigation is expected from the recent fiscal package, existing food subsidy and cash transfer programs, as well as the relatively large reserves of wheat and other cereals, poverty may still increase as inflation undermines real incomes. The current account deficit-to-GDP ratio is expected to widen to 6 percent in FY2021/22, from 4.6 percent in FY2020/21, mainly

due to the higher imports bill, and the impact of the Ukraine war on tourism as well as on demand for non-oil exports (notably by Europe). Notwithstanding the pressures from the decline in portfolio investments, the capital and financial account can remain relatively buoyed by potential financing from the International Monetary Fund (requested on March 23). Other possible mitigating factors include the boost that higher international prices can provide to Egypt's gas exports, remittances from the GCC, and FDI inflows to oil and gas extractives. Egypt also issued a maiden Samurai bond worth US\$500 million in end-March 2022, and other sovereign issuances are expected to continue, including innovative Green bonds and Sukuk.

The budget deficit is forecast to increase in FY2021/22 on account of the additional mitigation measures introduced in March 2022, and soaring international prices and monetary tightening that are driving up the cost of government purchases, subsidies, wages and interest payments. Government debt will, in turn, also increase due to both the higher deficit and the adverse valuation impact stemming from the currency depreciation. Fiscal consolidation is, however, expected to resume over the medium term.

TABLE 2 Arab Republic of Egypt / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
Real GDP growth, at constant market prices	5.6	3.6	3.3	5.5	5.0	5.3
Private Consumption	1.0	7.3	7.1	5.7	4.0	4.1
Government Consumption	2.8	6.7	3.7	6.0	7.5	4.0
Gross Fixed Capital Investment	14.1	-20.9	-8.5	8.2	4.9	8.3
Exports, Goods and Services	-2.2	-21.7	-13.4	15.0	24.0	11.0
Imports, Goods and Services	-8.9	-17.9	0.2	13.5	13.0	5.5
Real GDP growth, at constant factor prices	5.1	2.5	2.0	5.4	4.9	5.3
Agriculture	3.3	3.3	3.8	4.5	4.5	3.3
Industry	5.8	0.6	-1.1	6.6	6.0	6.4
Services	5.1	3.6	3.5	4.8	4.3	5.0
Inflation (Consumer Price Index)	13.9	5.7	4.5	10.0	9.0	8.5
Current Account Balance (% of GDP)	-3.6	-3.1	-4.6	-6.0	-5.0	-4.0
Net Foreign Direct Investment (% of GDP)	2.6	1.9	1.2	1.5	1.8	2.0
Fiscal Balance (% of GDP)	-8.1	-7.9	-7.4	-7.9	-7.3	-7.1
Debt (% of GDP)	90.2	87.0	92.4	96.4	91.6	87.3
Primary Balance (% of GDP)	1.9	1.8	1.5	1.3	1.7	2.0
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	3.7	4.3	4.3	4.3	4.2	4.2
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	28.4	29.8	29.7	29.5	29.2	28.9
GHG emissions growth (mtCO₂e)	1.9	2.1	1.7	1.8	1.9	1.9
Energy related GHG emissions (% of total)	68.3	68.6	69.2	69.2	69.1	68.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on 2010-HIECS, 2015-HIECS, and 2017-HIECS. Actual data: 2017. Nowcast: 2018-2021. Forecasts are from 2022 to 2024.

b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.07 based on GDP per capita in constant LCU.