ARAB REPUBLIC OF EGYPT

Table 1	2019
Population, million	101.2
GDP, current US$ billion	303.1
GDP per capita, current US$	2995.9
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.3
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) Most recent WDI value (2018).

COVID-19 is dampening growth, undermining external income sources, disrupting fiscal consolidation, and exacerbating long-standing challenges. Social hardship is aggravated by the ensuing job losses. Maintaining the recently-achieved macroeconomic gains is crucial for the economy's resilience against such a severe shock. This multi-faceted health and economic crisis underscores the urgency of advancing the human capital agenda and strengthening social protection, as well as adopting structural reforms to enhance private sector activity and job-creation.

Key conditions and challenges

COVID-19 and its disruptive repercussions intensified from March 2020 and has since interrupted an episode of a largely stabilized macroeconomic environment, characterized by relatively high growth, improved fiscal accounts, and a comfortable level of foreign reserves. At the same time, COVID-19 hit when long-standing challenges persisted, notably the elevated government debt-to-GDP ratio (despite its significant reduction over the previous two years), weak revenue-mobilization, an unfavorable structure of the government budget characterized by limited allocations to key sectors, such as health and education, sluggish job-creation in the formal sector, and underperformance of exports and non-oil FDI. The multi-dimensional health and economic crisis caused by the pandemic underscores the importance of advancing the human capital agenda and strengthening social protection. A pending second wave of reforms to unleash private sector activity and address the above challenges is crucial to create better employment opportunities and improve livelihoods.

Recent developments

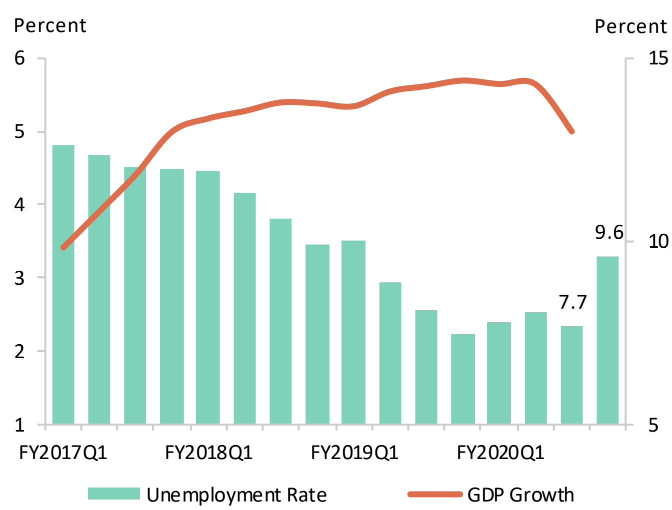
Economic activity slowed down, notably since the implementation of social distancing measures and the temporary suspension of air traffic. The Purchasing Managers' Index declined to 38.3 during April—June 2020 (Q4-FY2020), its lowest level on record, indicating a large contraction in non-oil private sector activity. Around 2.7 million jobs were lost during Q4-FY2020, pushing unemployment to 9.6 percent (from 7.7 percent in the previous quarter), with employment losses mainly reported in the retail and wholesale trade, manufacturing, tourism, transport and construction sectors, especially among informal workers.

An emergency response package worth LE100 billion (1.7 percent of GDP) augmented health expenditures and social protection programs, including a one-off cash grant to irregular workers and extending the existing cash transfer programs. Forbearance measures were introduced in the form of delayed tax filing and loan repayments, in addition to subsidized credit to targeted sectors. Further, the Central Bank of Egypt slashed policy rates by 300 basis-points to ease liquidity conditions.

Inflation was already moderating since early-FY2020, and has continued to decline, registering an average of 5.7 percent in FY2020 (from average 19.6 percent in the previous three years), reflecting subdued demand and the general decline in global commodity prices, including oil.

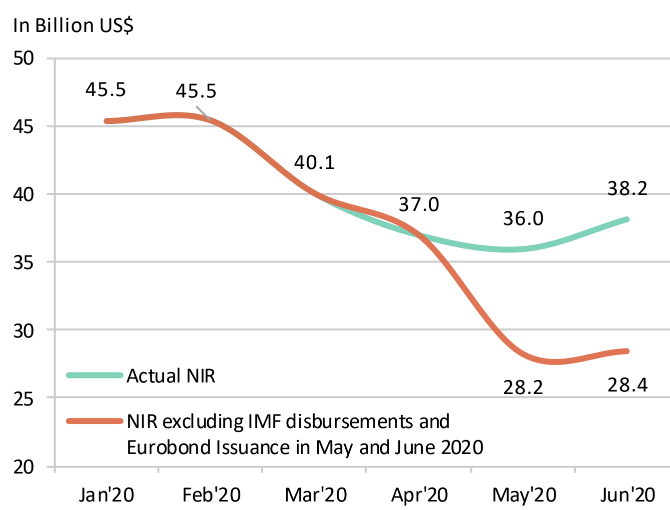
Foreign reserves depleted rapidly, due to large-scale capital outflows at the outset of the crisis, in addition to the sharp drop in tourism, Suez Canal revenues, and merchandise exports. Meanwhile, Egypt has mobilized external financing, including a US$2.8 billion stopgap loan under the

FIGURE 1 Arab Republic of Egypt / Real growth and unemployment rate (FY2017Q1-FY2020Q4)



Sources: Ministry of Planning and Economic Development & CAPMAS.

FIGURE 2 Arab Republic of Egypt / Net international reserves (Jan-Jun 2020)



Sources: CBE and Author's calculations.

IMF's Rapid Financing Instrument, a US$5.2 billion Stand-by Arrangement (of which the first US$2 billion tranche was disbursed), as well as a US$5 billion sovereign Eurobond and a US$2 billion loan from a UAE-led commercial bank consortium. Reserves hence remained ample at US$38.2 billion in end-FY2020 (7 months of merchandise imports), albeit still below its pre-crisis peak of US$45.5 billion in end -February 2020. The exchange rate depreciated marginally from LE15.7/US$ in February 2020 to around LE16/US$ as of August 2020, with the authorities tolerating a reserve drain in the intervening months to absorb some of the pressure experienced by many emerging markets.

The budget deficit widened to an estimated LE476.8 billion (8.2 percent of FY2020 GDP) close to the FY2019 level, but not reduced as previously expected. This was mainly due to the decline in the tax-to-GDP ratio (even prior to the crisis), which was exacerbated by the economic contraction and the postponed tax payments during Q4-FY2020.

Outlook

Under the scenario that the pandemic will persist through early-2021, COVID-19 impact will be spread across two fiscal years, with the adverse effect expected to be more severe in FY2021. Thus, growth is expected to have remained positive, but declined from 5.6 percent in FY2019 to 3.5 percent in FY2020, and then further to 2.3 percent in FY2021, before rebounding in FY2022. Private consumption in the near-term is expected to remain constrained as households' incomes are affected by increased joblessness and salary cuts. Subsequently, poverty is forecast to increase, particularly in urban areas. Since high-skilled formal sector jobs were relatively shielded during the crisis, inequality is also expected to rise. Private investments will remain subdued given disrupted production and international trade.

Exports are projected to decrease with the global recession and restricted tourism, but COVID-19 has also seen compression of imports. While remittances may initially react countercyclically (as expats may increase one-off transfers), they are expected to eventually decline with the downturn in Gulf countries. Thus, the current account deficit may deteriorate as the decline in remittances supersedes the expected narrowing of net exports. On the other hand, the capital and financial account is projected to remain buoyed by foreign borrowing, although FDI may decline, exacerbating a long-standing weakness in FDI into traded goods sectors.

Government debt is projected to increase from 90.2 percent of GDP in end-FY2019 to 93.8 percent of GDP in end-FY2020. However, the one-off cancellation of the debt owed by the government to the Social Insurance Funds (SIF) worth LE371 billion (6.4 percent of GDP) is estimated to bring down government debt to 87.4 percent of GDP in end-FY2020.

Measures were introduced to mobilize domestic resources (including increased fees on some government services, a one -year deduction of 1 percent from salaries of public and private sector employees and 0.5 percent from pension payouts, in addition to amending the income tax law to enhance its progressivity), although these may not be sufficient to raise the revenues-to-GDP ratio. Thus, the deficit is projected to continue widening, before fiscal consolidation is resumed in FY2022.

Risks are dominated by pandemic scenarios. Under a dismal scenario where this health crisis becomes protracted and lockdowns are re-imposed, the recovery may be delayed, and recently-achieved gains from the macroeconomic reforms may be undermined and long-standing challenges may be aggravated.

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

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.2	5.3	5.6	3.5	2.3	5.8
Private Consumption	4.2	1.0	0.9	1.1	0.8	2.9
Government Consumption	2.5	1.7	2.8	4.3	5.0	5.0
Gross Fixed Capital Investment	11.9	16.4	13.7	4.0	3.9	16.5
Exports, Goods and Services	86.0	31.6	-2.1	-15.0	-7.2	9.9
Imports, Goods and Services	52.5	10.6	-8.9	-16.0	-7.5	6.6
Real GDP growth, at constant factor prices	3.6	5.3	5.1	3.4	2.2	5.7
Agriculture	3.2	3.1	3.3	3.3	3.3	3.0
Industry	2.1	6.4	5.8	2.0	0.2	7.0
Services	4.6	5.1	5.1	4.2	3.3	5.5
Inflation (Consumer Price Index)	23.3	21.6	13.9	5.7	9.5	10.0
Current Account Balance (% of GDP)	-6.1	-2.4	-3.6	-4.1	-4.4	-3.3
Net Foreign Direct Investment (% of GDP)	3.3	3.0	2.6	1.7	1.0	2.2
Fiscal Balance (% of GDP)	-10.9	-9.7	-8.1	-8.2	-8.4	-6.9
Primary Balance (% of GDP)	-1.8	0.1	1.9	1.6	0.6	1.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.8	3.9	4.1	4.3	4.4	4.2
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	28.9	29.5	30.0	30.5	31.1	30.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.
(a) Calculations based on 2017-HIECS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022. Poverty rates prior to 2010 are based on a different consumption aggregate.
(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.