

ARAB REPUBLIC OF EGYPT

Key conditions and challenges

Table 1	2020
Population, million	102.3
GDP, current US\$ billion	363.1
GDP per capita, current US\$	3549.4
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	106.4
Life expectancy at birth, years ^b	72.0
Total GHG Emissions (mtCO ₂ e)	352.3

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

Growth, foreign-income sources and government debt were adversely impacted by COVID-19, but are starting to improve due to favorable base effects, recovering global conditions, and easing restrictions. Sustaining the nascent uptick requires expediting vaccination, especially with risks from the Delta variant. Strengthening fiscal management to enhance social protection and human development spending whilst pushing ahead with structural reforms are crucial to unleash the private sector's potential for export-oriented growth and job-creation, and ensure an inclusive recovery path.

Egypt's macroeconomy continues to show resilience more than a year and a half through the pandemic. Stabilization reforms implemented in recent years and mobilization of international financing helped in weathering the crisis. Monetary easing and selected sectoral support partially alleviated pressures on households and private businesses, and contributed to the reduction of domestic borrowing costs. Egypt also continues to address entrenched economic problems, through taking steps to strengthen public debt management, enhance aspects of the business environment and promote financial inclusion. Nevertheless, long-standing challenges persist. Fiscal space is constrained by low revenue-generation and the burden of interest payments. Therefore, the country faces the dual challenge of continuing to pursue fiscal consolidation, whilst simultaneously boosting productive spending, notably on social protection, health, education and infrastructure to advance human and physical capital for the (largely youthful) population of above 102 million. Official estimates suggest recent gains in welfare, though poverty (reported for the period October 2019–March 2020) remained elevated at 29.7 percent.

The growth model that shifted over the years towards non-tradable lower productivity sectors contributed to below-potential outcomes in terms of poverty-

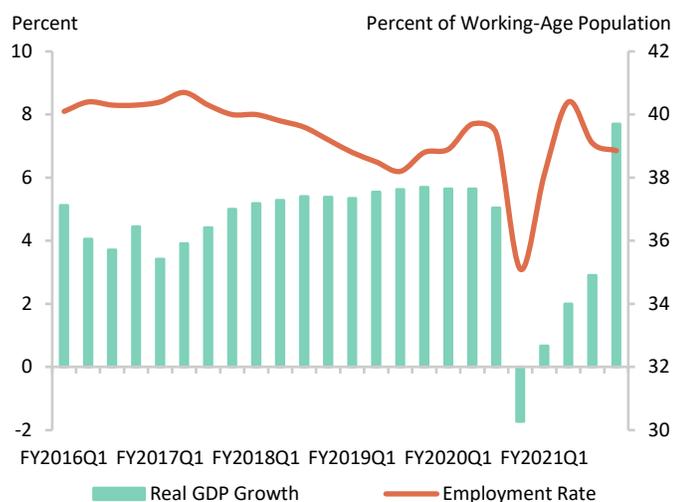
reduction and job-creation, notably for youth and women. The limited merchandise export penetration and sophistication, as well as the erosion of competitiveness during episodes of real exchange rate appreciation have altogether contributed to the chronic trade deficit. Structural reforms are underway to improve trading-across-borders and support Egypt's ability to expand its export-oriented growth, including a new Customs law aiming to simplify and automate customs clearance procedures.

In the near term, it is crucial to expedite vaccination (overcoming supply bottlenecks, improving logistics and tackling hesitancy) as less than 8 percent of the population had received at least one dose of the COVID-vaccine by end-August 2021. Further, a sustainable recovery requires pushing ahead with structural reforms to upgrade workers' skills and firm capabilities, improve governance and shift the role of the State towards regulatory functions, while preserving a level-playing-field to unleash the private sector's potential.

Recent developments

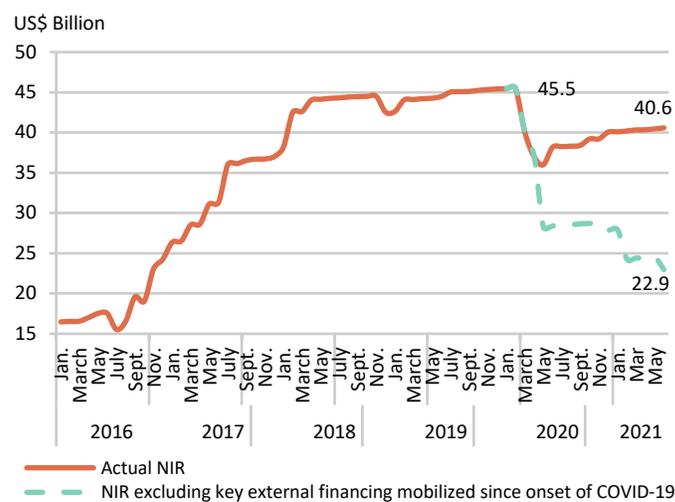
Growth declined from 3.6 percent in FY2019/2020 to 3.3 percent in FY2020/2021 (July 1, 2020–June 30, 2021), affected by the ongoing impact of COVID-19. However, exposed sectors that were contracting since the beginning of the pandemic (tourism, manufacturing, extractives, and Suez Canal) started rebounding during

FIGURE 1 Arab Republic of Egypt / Real growth and employment rates (FY2016Q1-FY2021Q4)



Source: Ministry of Planning and Economic Development and CAPMAS.

FIGURE 2 Arab Republic of Egypt / Net international reserves (Actual vs Counterfactual)



Sources: World Bank calculations based on CBE data.
 Note: In the counterfactual scenario, the IMF RFI and SBA, Green-bond and Eurobonds issued since onset of COVID-19 are excluded.

April–June 2021 (Q4-FY2020/2021); in part reflecting base effects, easing restrictions and the gradual resumption of economic activity, international travel and trade. Unemployment declined to 7.3 percent by Q4-FY2020/2021, from the 9.6 percent peak a year earlier at the height of the COVID-shock. Yet, labor force participation and employment rates remain low at 41.9 percent and 39 percent of the working-age population, further hindering poverty reduction.

Inflation remained relatively subdued at 4.5 percent during FY2020/2021, from 5.7 percent a year earlier (below the CBE's inflation range of 7 percent +/-2 PPT), reflecting the output gap created during the pandemic. Nevertheless, the monetary easing cycle kickstarted at the outset of the pandemic has been on hold since end-2020, in light of looming increases in international commodity prices, and unfavorable base effects expected to start taking effect. This pause also helps preserve robust portfolio investment inflows, a key source of foreign income.

International reserves are below their pre-pandemic peak of US\$45.5 billion due to the crisis' impact on foreign-income activities, but remain ample at US\$40.7 billion in end-August 2021 (covering 7 months of merchandise imports); supported by remittances, portfolio inflows, and external

financing. The budget deficit-to-GDP ratio declined from 8 percent in FY2019/2020 to 7.5 percent in FY2020/2021, driven by the uptick in government revenues. But, the government debt-to-GDP ratio is expected to have increased from 87.5 percent at end-June 2020 to around 91 percent at end-June 2021, despite the sustained fiscal consolidation. This partly reflects continued fiscal pressures arising from arrears and/or extra-budgetary items.

Outlook

The outlook remains uncertain given the slow vaccination rate, the emergence of the Delta-variant and the resurgence of COVID-19 cases, which could threaten the recovery, especially for Egypt's exposed sectors. Nevertheless, under the baseline scenario that assumes that the pandemic continues to ease, and lockdown measures are not reinstated, growth is expected to rise from 3.3 percent in FY2020/2021 to 5 percent in FY2021/2022; supported by favorable base effects and global growth. Domestic economic activity is expected to be supported by the gradual return of tourists (especially with the resumption of flights from Russia after a 6-year hiatus), continued growth in the ICT sector, an

uptick in gas extractives and exports, in addition to the public investments.

The current account deficit-to-GDP ratio is forecast to widen from 3.1 percent in FY2020/2021 to 4.1 percent in FY2021/2022, before narrowing again to 2.8 percent of GDP over the medium term, as the Suez Canal revenues improve with the restoration of global trade, tourism rebounds with the resumption of international travel, and gas exports improve. The capital and financial account is projected to remain buoyed, supported by the recent IMF SDR allocation. Portfolio inflows will depend on the attractiveness of yields on Egyptian debt instruments, and more generally on investors' sentiment towards emerging markets, but are still expected to be supported by sovereign issuances. FDI inflows to the extractives sector are expected to inch up with the global recovery.

Efforts to improve public expenditure efficiency will be key to create room for increased spending on priority areas, while potential reforms – for example to food subsidies – must be accompanied by adequate measures to protect the poor. Finally, the debt-to-GDP ratio should resume its downward path, with the continued fiscal consolidation and as the need for external borrowing declines in tandem with the improving foreign-income sources, as the pandemic gradually abates.

TABLE 2 Arab Republic of Egypt / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
Real GDP growth, at constant market prices	5.3	5.6	3.6	3.3	5.0	5.5
Private Consumption	1.0	1.0	7.3	8.6	4.5	4.3
Government Consumption	1.7	2.8	6.7	5.0	4.4	4.4
Gross Fixed Capital Investment	16.9	14.1	-20.9	-24.0	2.5	10.0
Exports, Goods and Services	31.6	-2.2	-21.7	-22.0	9.0	10.0
Imports, Goods and Services	10.6	-8.9	-17.9	-9.0	3.0	4.0
Real GDP growth, at constant factor prices	5.3	5.1	2.5	2.0	4.9	5.4
Agriculture	3.1	3.3	3.3	3.7	3.3	3.3
Industry	6.4	5.8	0.6	-2.4	4.3	6.0
Services	5.1	5.1	3.6	4.4	5.7	5.5
Inflation (Consumer Price Index)	21.6	13.9	5.7	4.5	7.0	8.0
Current Account Balance (% of GDP)	-2.4	-3.6	-3.1	-4.1	-3.6	-2.8
Net Foreign Direct Investment (% of GDP)	3.0	2.6	2.0	1.6	1.7	1.9
Fiscal Balance (% of GDP)	-9.7	-8.1	-8.0	-7.5	-7.2	-6.8
Primary Balance (% of GDP)	0.1	1.9	1.8	1.5	1.8	2.0
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	3.9	4.2				
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	29.6	30.3				
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	73.1	73.7				
GHG emissions growth (mtCO₂e)	2.8	3.5	3.4	3.5	3.5	4.1
Energy related GHG emissions (% of total)	68.5	68.7	69.5	69.9	70.1	70.3

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD. Notes: e = estimate. f = forecast.

(a) Calculations based on 2017-HIECS. Actual data: 2017. Nowcast: 2018-2020. Forecast are from 2021 to 2023.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.