

EGYPT MACROECONOMIC OVERVIEW



FEBRUARY 2021

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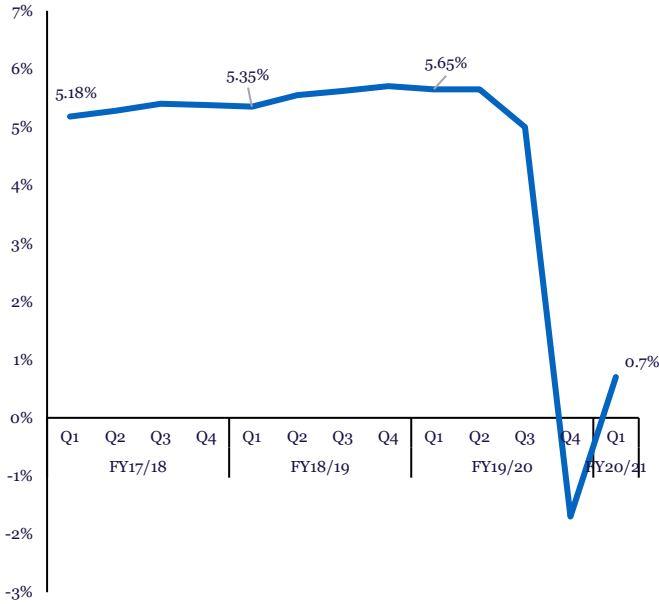
Introduction

- Despite of the global economic setback in the aftermath of the outbreak of the COVID-19 virus, the Egyptian economy showed a considerable degree of resilience through the authorities' immediate responses with relevant monetary and fiscal measures to mitigate the crisis' anticipated negative impact on the economy by increasing the aggregate demand while maintaining the stability of the financial system.
- Egypt is committed to continuing its steady economic reform program which is implemented in cooperation with the International Monetary Fund (IMF). The reform program is focusing on fiscal consolidation, supporting social safety nets and promoting private sector led growth.
- To support its efforts to maintain macroeconomic stability in these exceptional circumstances, Egypt got approval on a USD 5.2 billion Stand-by Arrangement (SBA) credit facility from the International Monetary Fund (IMF) in June 2020.
- The SBA is disbursed through three tranches across the course of twelve months with one tranche of USD 2 billion already disbursed upon approval. The remaining tranches will be disbursed accordingly following two reviews by the IMF on the implementation of several structural policies including public financial management framework, maintaining inflation targets, and continuing the structural enhancements to promote private investments.
- Challenges remain on both short-term and medium-term to recover to the pre-pandemic growth levels, especially with the delay in deploying vaccination programs both on the local level and internationally which will affect the investment and tourism inflows to the country as well as negatively affecting local economic activities.

Real Sector

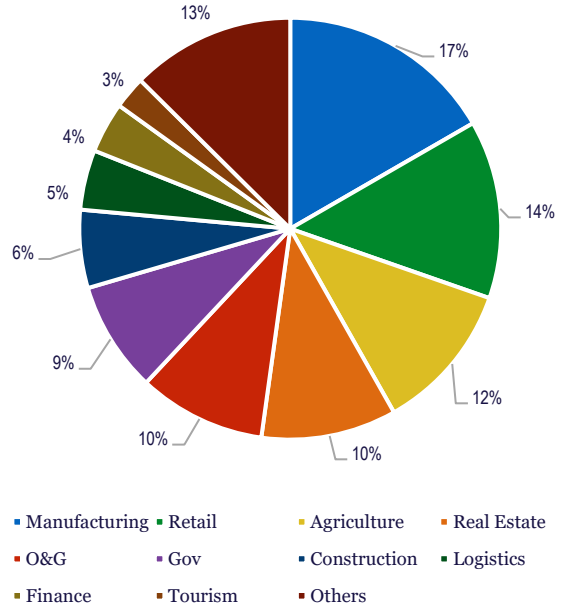
- The growth rate declined to 3.57% by the end of the FY19/20 due to the partial lockdown measures in the aftermath of the COVID-19 pandemic outbreak. Although the fourth quarter witnessed a negative growth, Egypt was one of the few countries in the MENA region to record a growth rate during the height of the crisis thanks to its diversified economy and large market size with its 101 million population as consumption contributed to supporting the growth of the economy. The GDP by expenditure at constant prices showed a significant growth of final consumption by the end of FY19/20 to reach 11.8%.
- Unemployment rate reached a high of 9.6% by end of FY19/20 due to the lockdown restrictions but it recovered considerably in the following quarter. The government is focusing on increasing job opportunities in high productivity sectors especially manufacturing and ICT.

Real Growth Rate



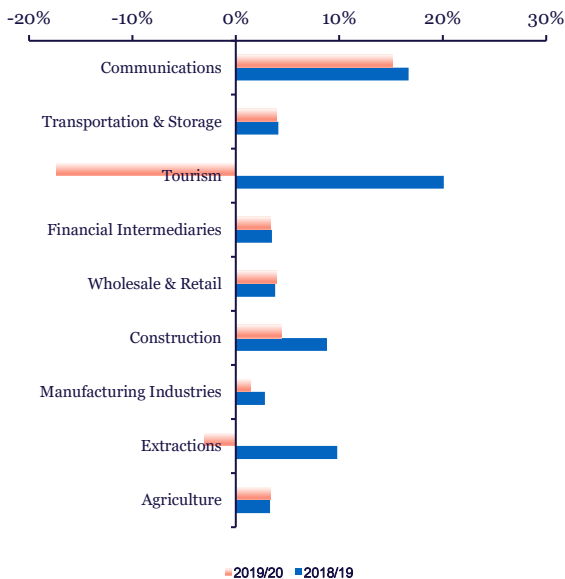
Source: Ministry of Planning and Economic Development

GDP distribution by Sector

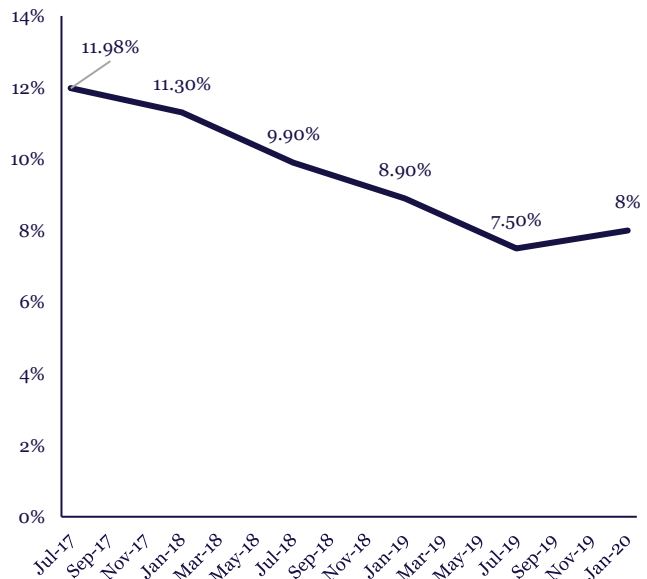


Source: Central Bank of Egypt

Growth by Sector



Unemployment

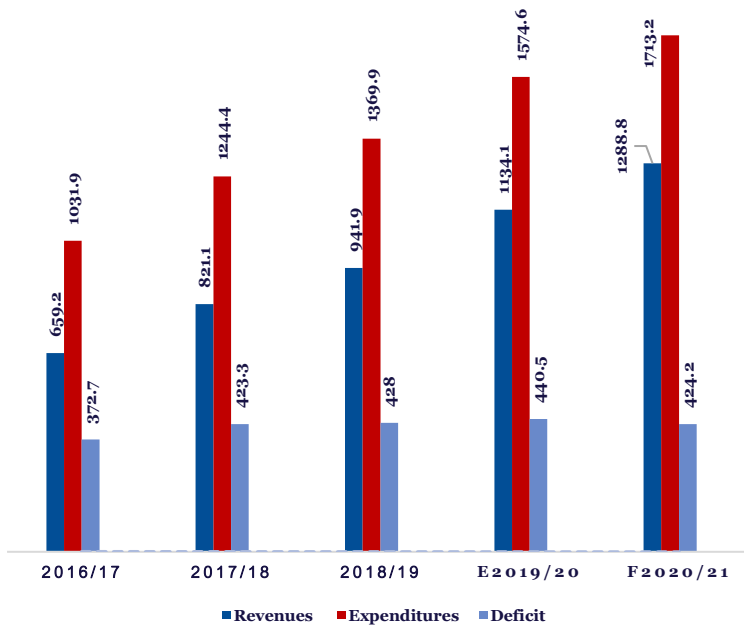


Source: Central Bank of Egypt

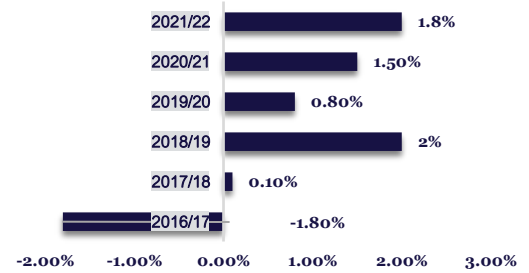
Fiscal Sector

- Following a prudent fiscal consolidation scheme, Egypt is maintaining a positive primary surplus while aiming to minimize the budget deficit. However, due to the COVID-19 fiscal packages that were launched to support the health sector as well as households and businesses, the primary deficit declined to 0.8% in FY19/20. Authorities aim to return to the 2% level by FY21/22.
- The debt-to-GDP ratio amounted to 88.1% by end of FY19/20. This is due to the increasing government spending on public investments for upgrading national infrastructure especially transportation and new urban-communities development.
- Several measures to increase revenues were put in place, including the introduction of gasoline/petroleum development fee which is expected to be maintained on the long run to rationalize the consumption of petroleum products.

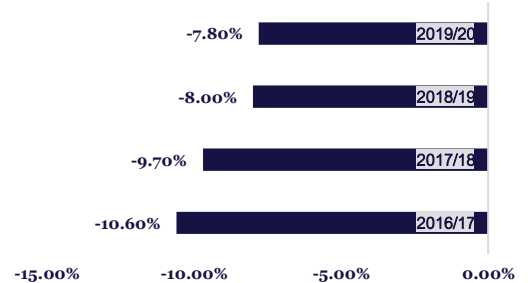
Budget Overview (EGP Bn)



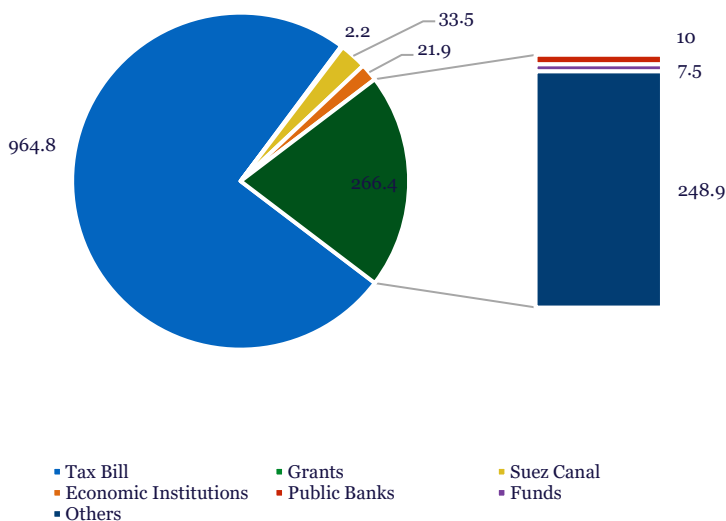
Primary Surplus



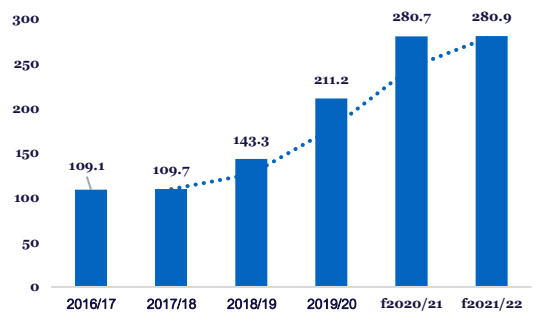
Overall Budget Deficit – (% of GDP)



Revenue Sources – FY2020/21



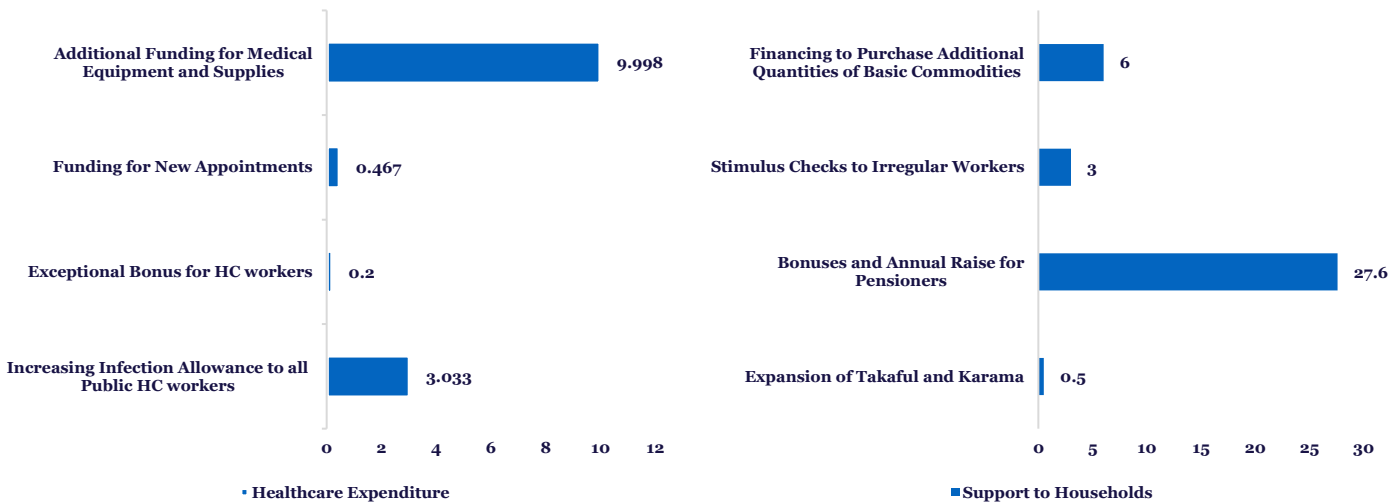
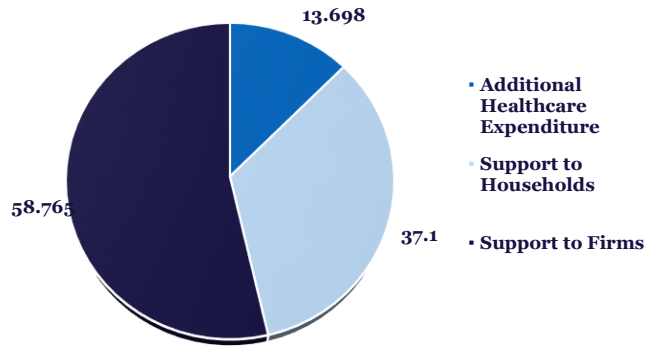
Government Investments



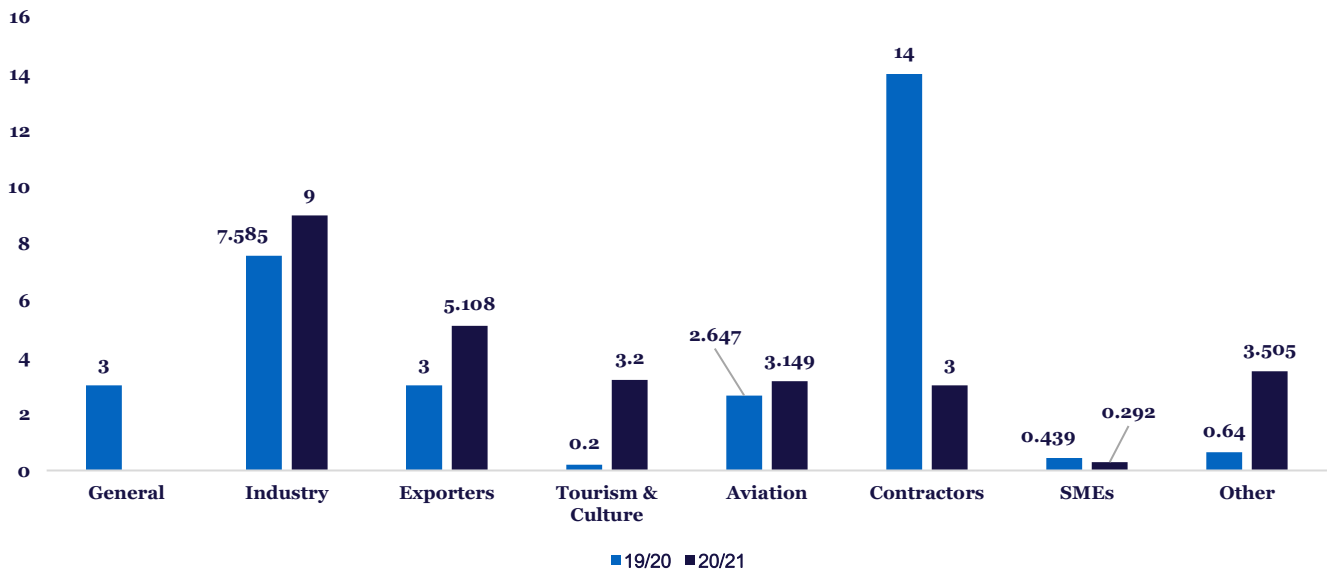
Fiscal Sector

COVID-19 Stimulus Package Breakdown – (EGP Bn)

Stimulus Package as of October 2020 - EGP Bn

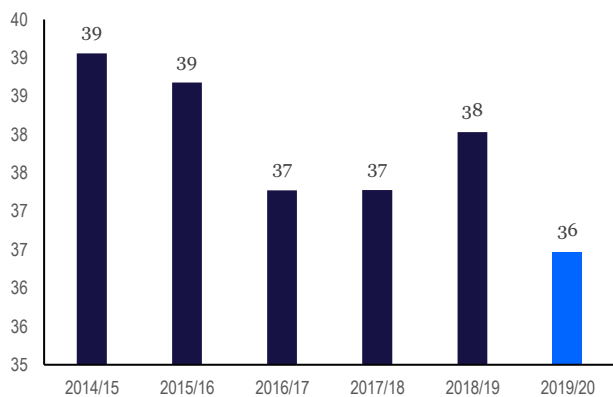


Support to Firms



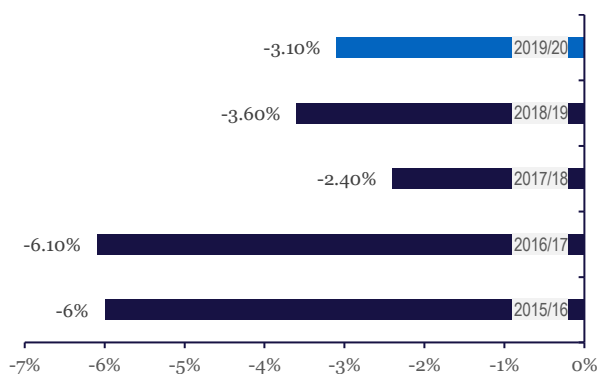
External Sector

Trade Deficit – USD Bn



Source: Central Bank of Egypt

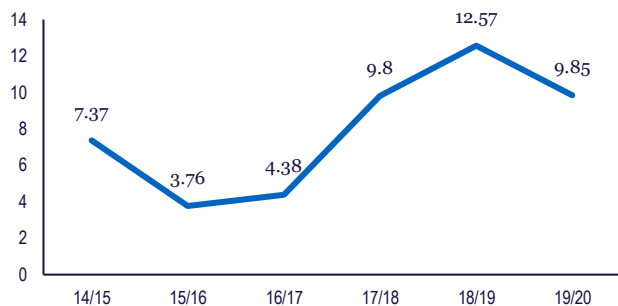
Current Account Deficit- % of GDP



Source: Central Bank of Egypt

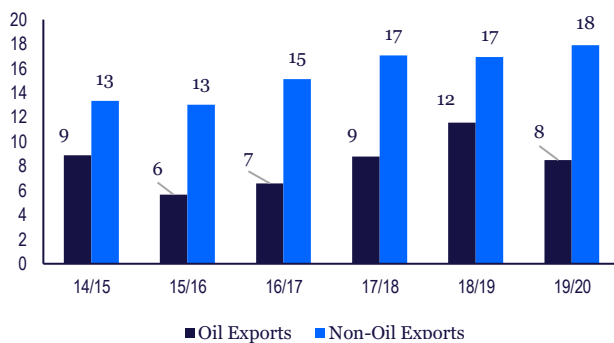
Current Account Receipts – (USD Bn)

Tourism



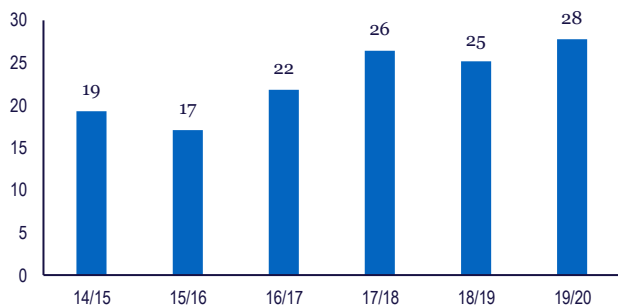
Source: Central Bank of Egypt

Exports



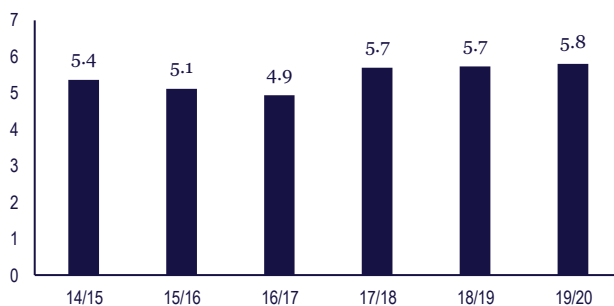
Source: Central Bank of Egypt

Remittances



Source: Central Bank of Egypt

Suez Canal

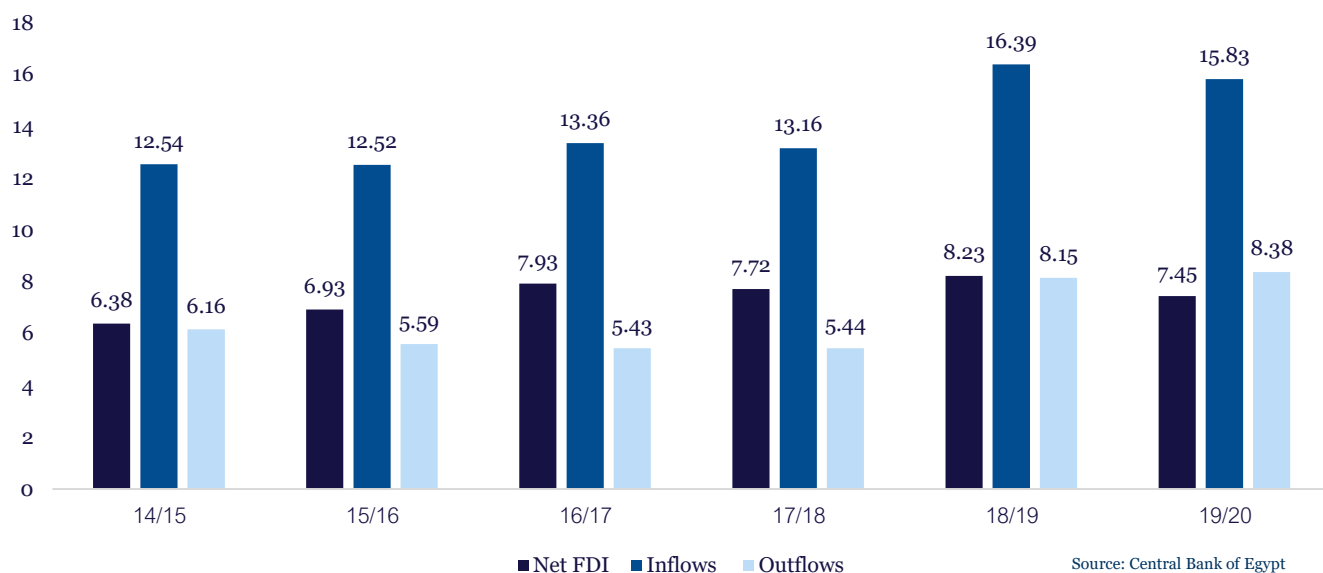


Source: Central Bank of Egypt

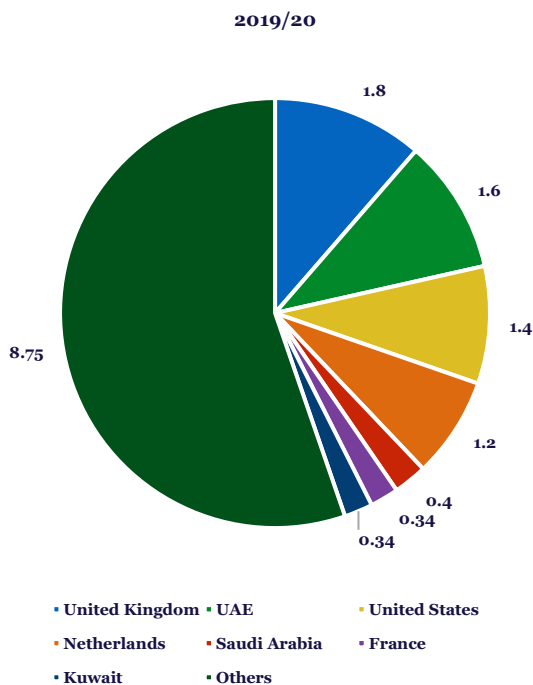
- Despite of the crisis which hit by Q3, the current account for FY19/20 slightly improved from the previous year. This was mainly due to significant decline in trade deficit as well as the rise in remittances and stability of Suez Canal receipts which offset the decline in tourism receipts.
- Egypt's trade balance maintained narrowing its deficit with imports going down 12% y-o-y, yet exports have also slightly declined by 2-3%. The country's diversification of exported goods helped in maintaining its course towards expanding its exports of both consumer and agricultural goods. The lockdown measures taken by some leading agricultural goods' exporters also fed another opportunity for the Egyptian alternatives as a vital substitute during the pandemic leading to a favorable penetration of new markets to Egyptian exports.
- The Suez Canal also maintained its slight growth amid the crisis through introducing special rates for several big carriers, LNG shippers, among others which led to scoring its 2nd highest year in terms of total weight shipped.

Foreign Direct Investment (FDI)

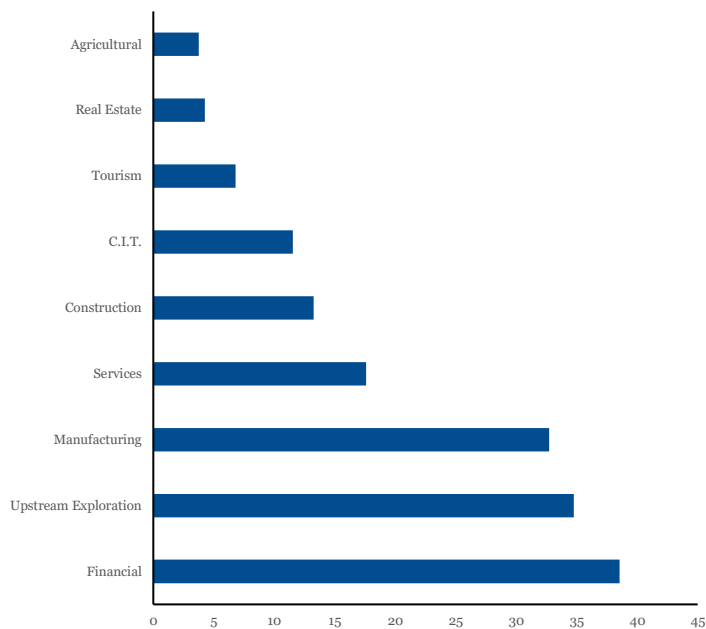
Net FDI flows (FY14/15-FY19/20)



Net FDI by Source – (USD Bn)



FDI Stock – (USD Bn)

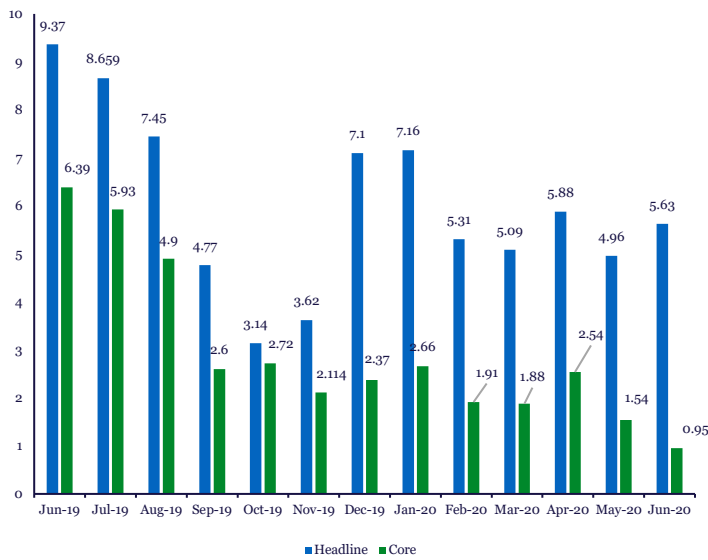


- FDI net inflows in FY19/20 amounted to USD 7.5 billion maintaining Egypt's ranking as the largest FDI recipient in Africa over the last 3 years.
- According to UNCTAD's World Investment Report 2020, inflows to Egypt in 2019 increased by 11% to reach USD 9 billion driven mainly by the oil and gas industry, telecommunication, consumer goods and real estate.
- Reinvested earnings represented about 41% of the total FDI inflows, this reflects the dynamic nature of the foreign investments in the country as well as the fact that the domestic market is always representing an opportunity for expansions.

Monetary Sector

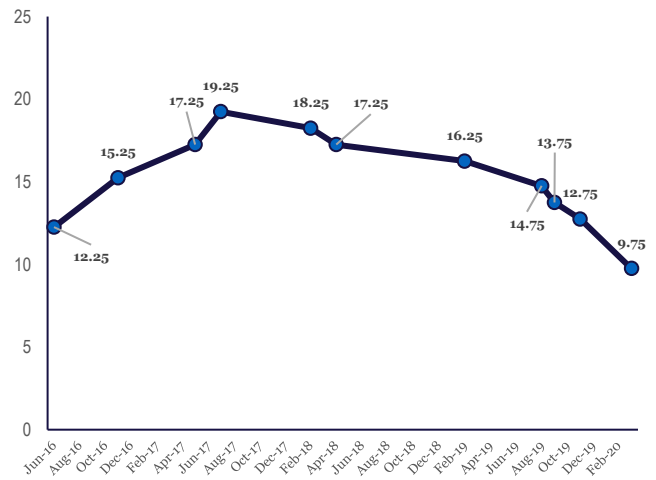
- The CBE introduced 3 rate cuts during 2020 cumulating to 400 bps in efforts to enhance access to finance. This was accompanied by sector-based lending schemes for industrial and tourism sector with special interest rates of 8% and 5% respectively. The initiatives for both sectors resulted in the disbursement of EGP 164 billion out of the committed EGP 200 billion to businesses.
- The two leading state banks offered a 15% - 1 year investment certificates (+5% above corridor rate), which resulted in cumulative collections of EGP 383 billion to limit hyper-inflationary movements in the market besides curbing the anticipated effects of dollarization.
- Inflation rates declined during the FY19/20 from 9.37% to about 5.6% for the headline inflation, while core inflation decreased significantly from 6.39% to only 0.95%.

Inflation Rate – y-o-y (%)



Source: Central Bank of Egypt

Interest Rate – CBE Main Operations (%)



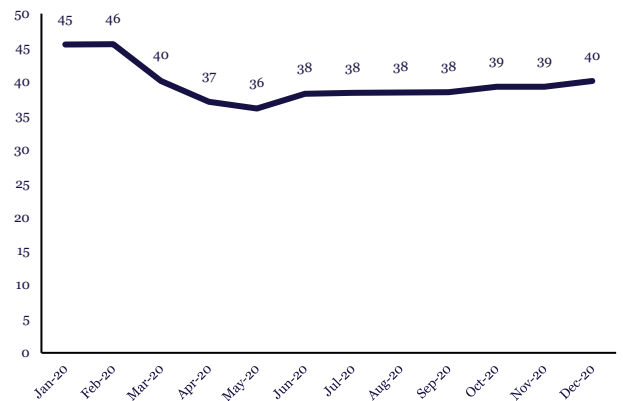
Source: Central Bank of Egypt

EGP:USD Exchange Rate



Source: Central Bank of Egypt

Foreign Reserves (USD Bn)



Source: Central Bank of Egypt

Reforms and Forecasts

- This section highlights the progress regarding structural and governance reform policies that are implemented by Egypt in the context of the SBA from the IMF.
- It also includes part of the IMF medium-term forecasts for the Egyptian economy.

Fulfilled Policies

Issuance of Customs Law No. 207 for 2020

- The law aims to reduce non-tariff barriers, documentation requirements, procedures of goods valuation, and mandatory registration of imported goods manufacturers. It has introduced important legal improvements including its ability to account for and exploit modern technology through establishment of electronic systems that allow obtaining prior information regarding the goods imported to the country, in addition to tracking services up to final release stage, with the added possibility of pre-clearance and customs duty payment before the arrival of certain goods contracted under the modern electronic commerce system.
- The executive regulations of the law is set to define the main guidelines for the single window mechanism as well as guidelines and policy framework for the treatment of e-commerce exports and imports and digital activity while laying the ground for new tax items .

Publishing the updated financial reports of the SOEs

- The “Public Enterprise” Law No. 203 of 1991 was amended by Law No. 185 for 2020 to modernize legal, operational and governance structures of SOEs. It aims to improve working rules and companies’ regulations, enhancing financial transparency, improving their conditions, increasing their competitiveness, achieving the best exploitation of assets in order to continue their activities, increasing their contribution to the national economy and increasing their competitiveness in domestic and foreign markets, as well as their effectiveness in contributing to investment mobilization towards achieving SDGs.
- The financial information of all SOEs and Economic Authorities updated as of FY 18/19 is published on the website of the ministry of finance.

Submitting the amendments to the anti-trust law to Parliament

- The Amendments aim to add a new definition for “economic concentrations” which will mean essentially the changes of controls of or material impact on one or more persons resulting from mergers, acquisitions, or the establishment of new entities. In this context, the amendments mandated the ECA with the power to supervise and control mergers and acquisitions where the pre-approval of the authority is required in case of the M&A will lead to a case of concentration.

Reforms and Forecasts

Targeted Policies

Introduction of the Medium-Term Revenue Strategy

- The GoE will update and introduce its Medium-Term Revenue Strategy (MTRS) which will aim to increase the government revenue streams, improve the compliance and performance of both tax and custom regimes, in addition to automating the tax process to ensure compliance and enhanced collection.
- The strategy will also see the introduction of new fees including a green fee on the consumption of fuel-based products (gasoline & diesel) and implementing the new personal tax regime effective FY 2020/21 which aims to provide enhanced tax brackets.
- The GoE will seek to apply VAT on e-commerce and digital services and eliminate profit-based tax incentives.

A new draft Public Financing Management Law (PFM)

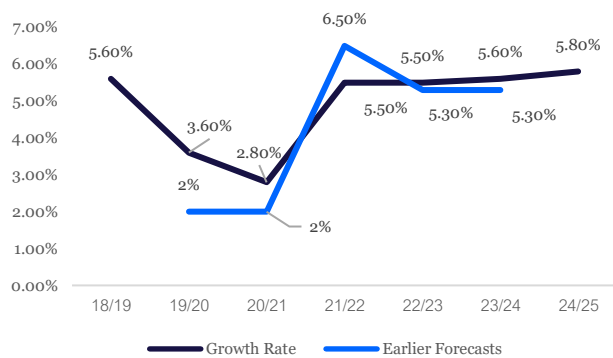
- The GoE is expected to submit a new draft Public Financing Management Law (PFM) to Parliament soon. The law will seek to strengthen the budget process through the following:
 - Fiscal responsibility provision to guide macro-fiscal policy
 - A medium-term budget framework
 - Main elements of the budget calendar
 - Minimum contents of the budget documentation
 - Robust provision on reallocation of resources, contingency reserve, and supplementary appropriations
 - Accounting rules for all public entities including economic authorities.

Complete Public Expenditure Review to Enhance Social Protection

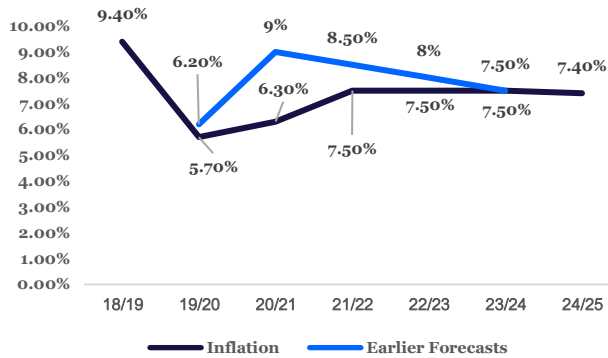
- The GoE will aim to merge both social pension and cash transfer programs (subsidy cards) while enhancing their targeting, adding grievance redressal mechanisms beside the inclusion of more vulnerable groups and linking social care with social protection.
- The reform will also include offering decent housing to vulnerable groups, social protection for women at-risk and for senior citizens and expanding school feeding programs.
- The Public Expenditure Review conducted is expected to be finalized **by April 2021** with the PERs for education and health to start subsequently.

IMF Medium-Term Forecasts

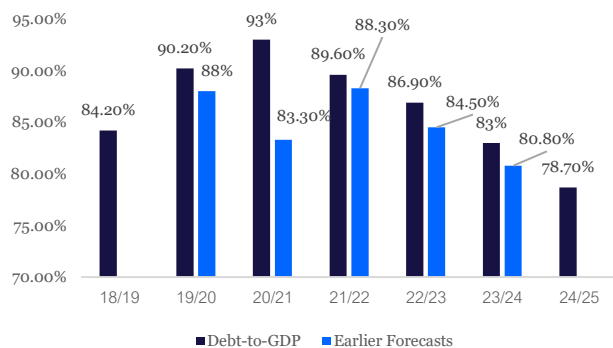
Growth Rate – (%)



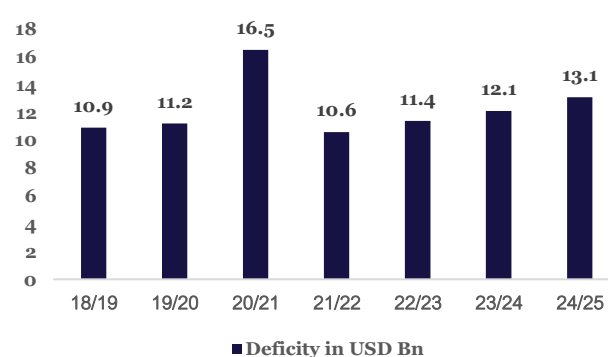
Inflation - (%)



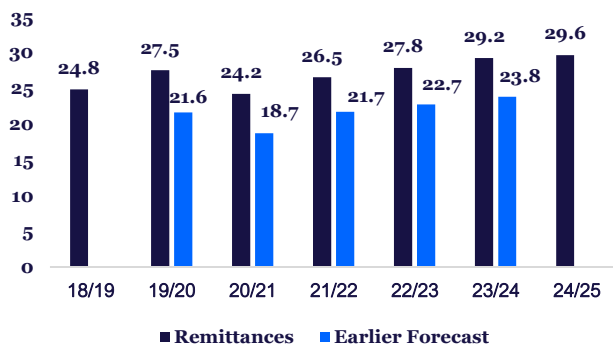
Debt-to-GDP – (%)



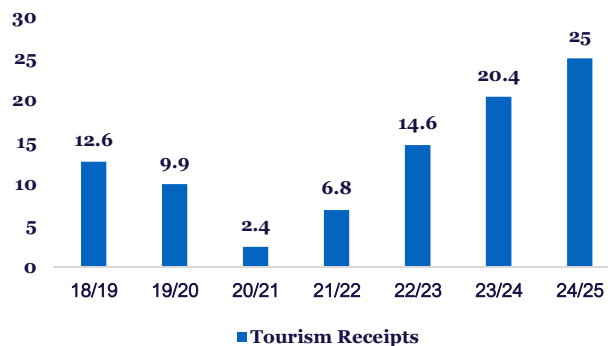
Current Account Deficit – (USD Bn)



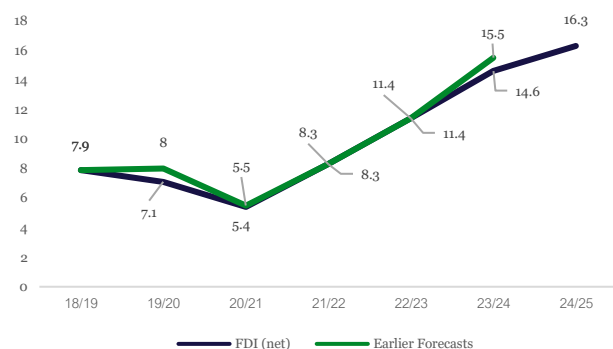
Remittances – (USD Bn)



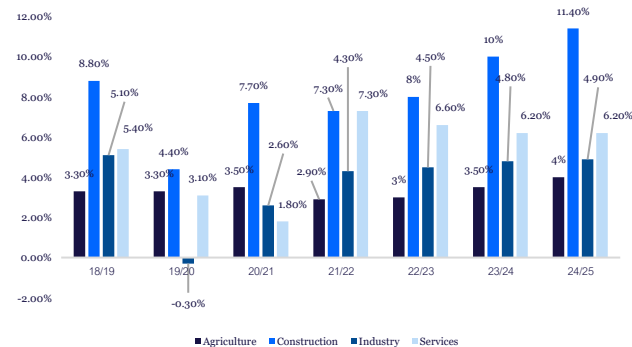
Tourism Receipts – (USD Bn)



Foreign Direct Investment – (USD Bn)



Growth by Sector at Factor Cost – (%)



Thank you