EGYPT MACROECONOMIC OVERVIEW

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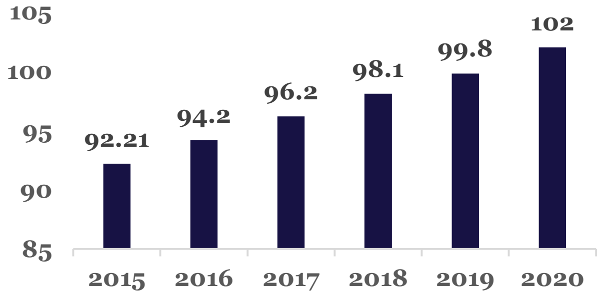
Country Profile

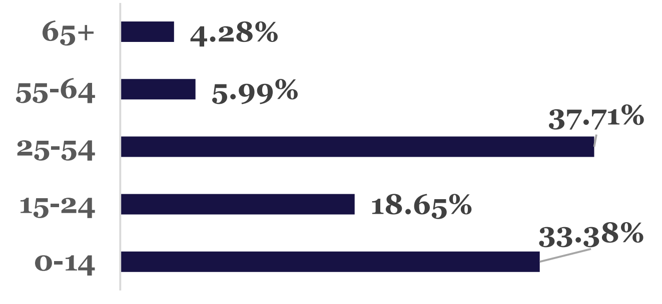
Introduction

- The Government of Egypt (GoE) successfully implemented a crucial first wave of macro-economic and structural reforms as of November 2019, in cooperation with the IMF. This included the adoption of key legislative reforms, gradual lifting of fuel subsidies, enactment of tax reforms, liberalization of the foreign exchange system, implementation of numerous infrastructure projects, and the implementation of a social protection program to mitigate the economic reform measures' negative social impacts. These reforms contributed significantly to the restoration of Egypt's economic stability and the investors' confidence in the Egyptian economy. At the same time, the economy witnessed high inflation rates, increasing poverty (and vulnerability), and increasing debt.
- The COVID-19 crisis has pushed the GoE to reconsider its next steps with regard to the second wave of planned economic reforms. Since the beginning of the crisis, the GoE moved early and gradually with an integrated approach to address the pandemic's impact on Egypt's health and business sectors.
- The current GoE direction is to introduce policies that aim to support the hardest-hit businesses/sectors and energize Egypt's industrial sector to address the negative economic repercussions of the COVID-19 crisis while attracting further investments. The GoE is also taking measures to reopen the economy and "co-exist" with the pandemic.

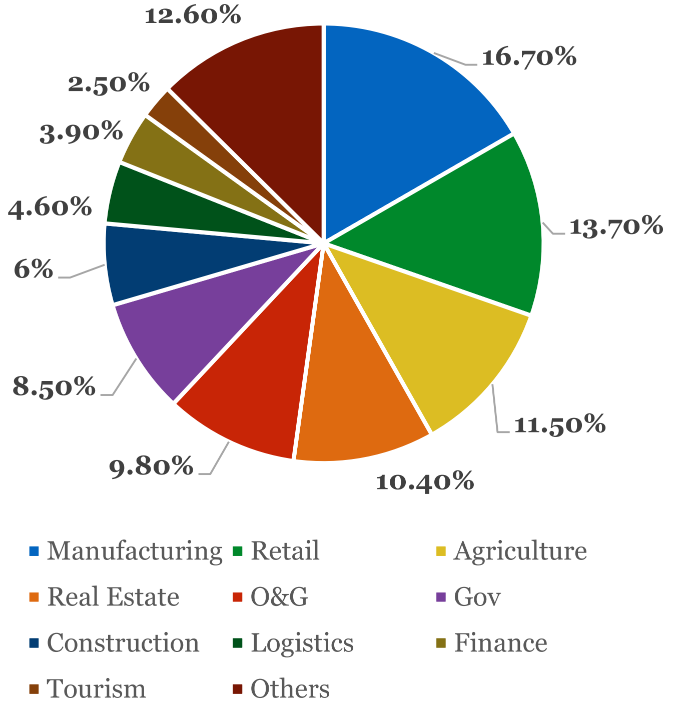
Population - (million)



Age Groups



GDP by Sector



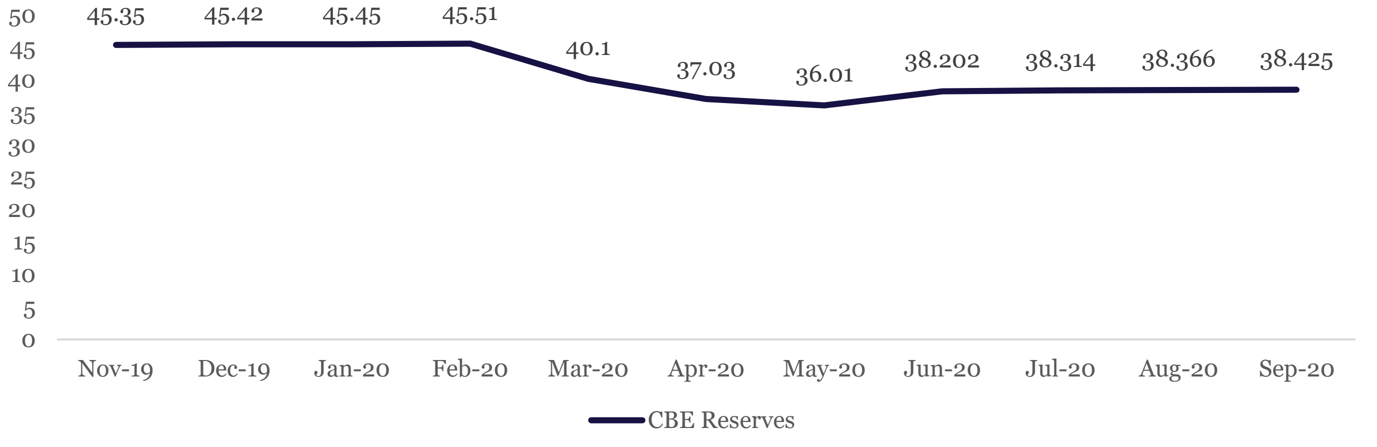
Unemployment - (%)

Monetary Profile

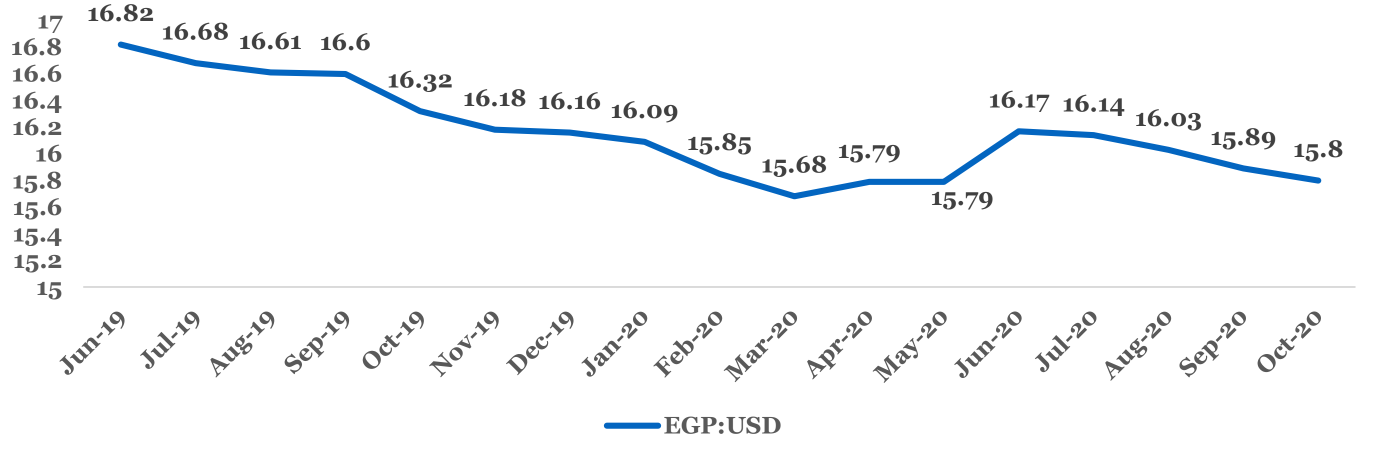
Measures Taken by the Central Bank of Egypt

- The CBE took a number of measures through the COVID-19 pandemic crisis to mitigate the monetary risks and ease the burden off the economic stance of the market by maintaining and regulating the financial outflow of investors from the local market; 50% withdrawn down from USD 28 Bn to USD 14 Bn.
- Nonetheless, the CBE also negotiated with a number of financial institutions including the IMF and the World Bank, among others, to secure funding for COVID-19 support measures and to maintain the reserves intact. A USD 2.774 billion Rapid Financing Instrument and a USD 5.2 billion Stand-by Agreement were secured from the IMF in April and May 2020 with the earlier alleviating some of the pressure off the reserves apparent in May 2020 stats.
- The CBE supported the influx of foreign currency to the local market in order to limit the damage on the EGP/USD exchange rates and prevent panic stockpiling (which was evident in the April and May 2020 stats). However, the CBE has lifted off its influx to ensure market balance which has seen the rate climb to 16.17 in mid-June stats.
- The direction of the EGP remains unclear. Analysts see the currency at anywhere between EGP 16.50- 17.00 by year-end.

Foreign Reserves (USD billion)

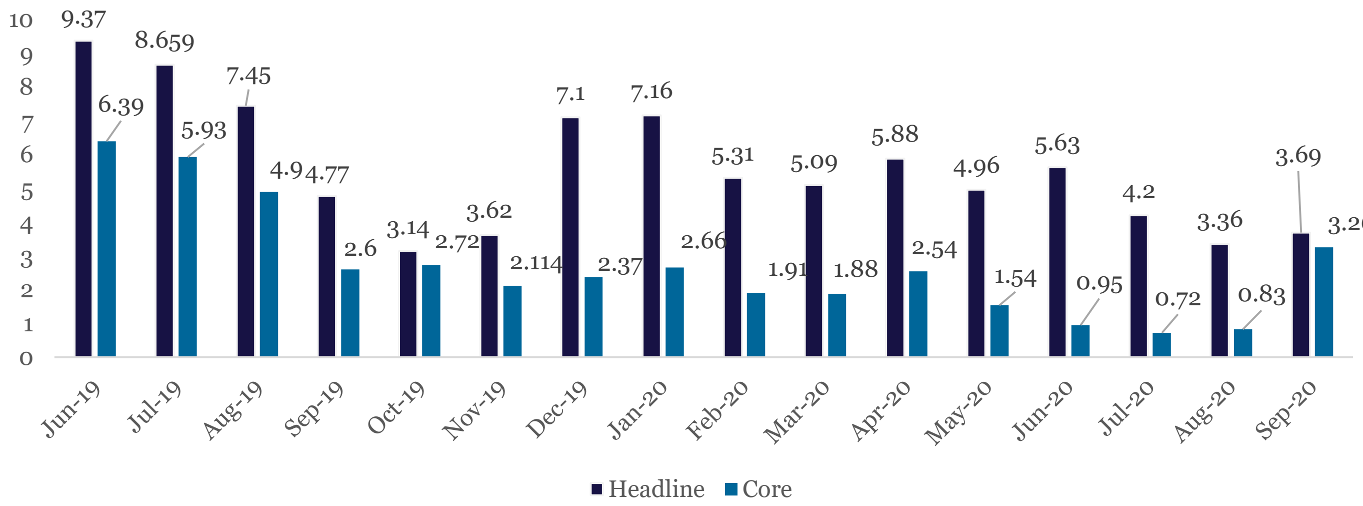


EGP:USD Exchange Rate

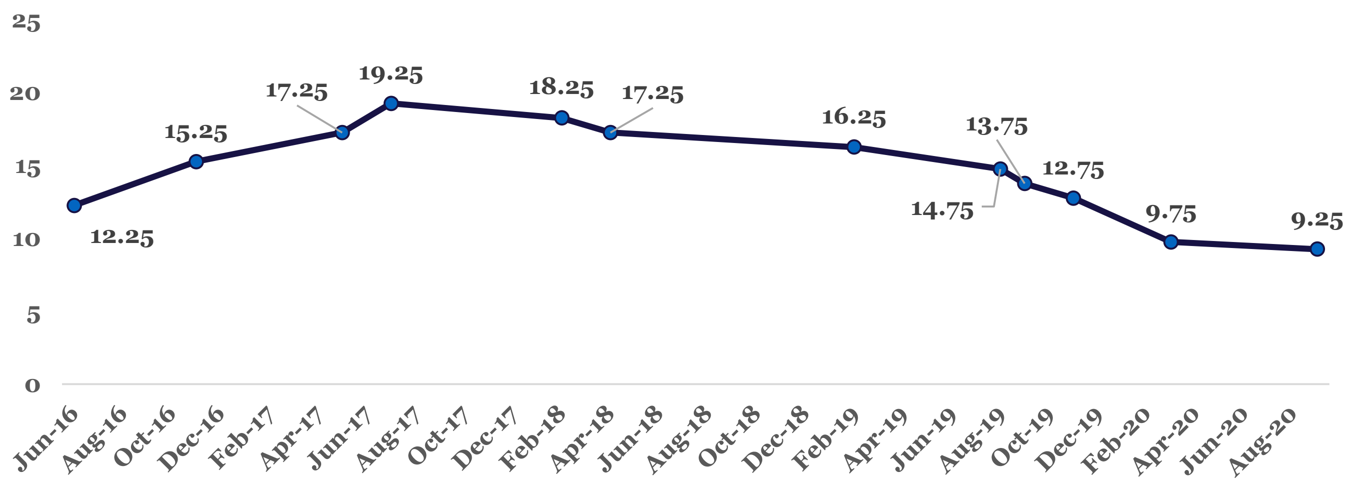


Monetary Profile

Inflation Rate – y-o-y (%)



Interest Rate – CBE Main Operations (%)

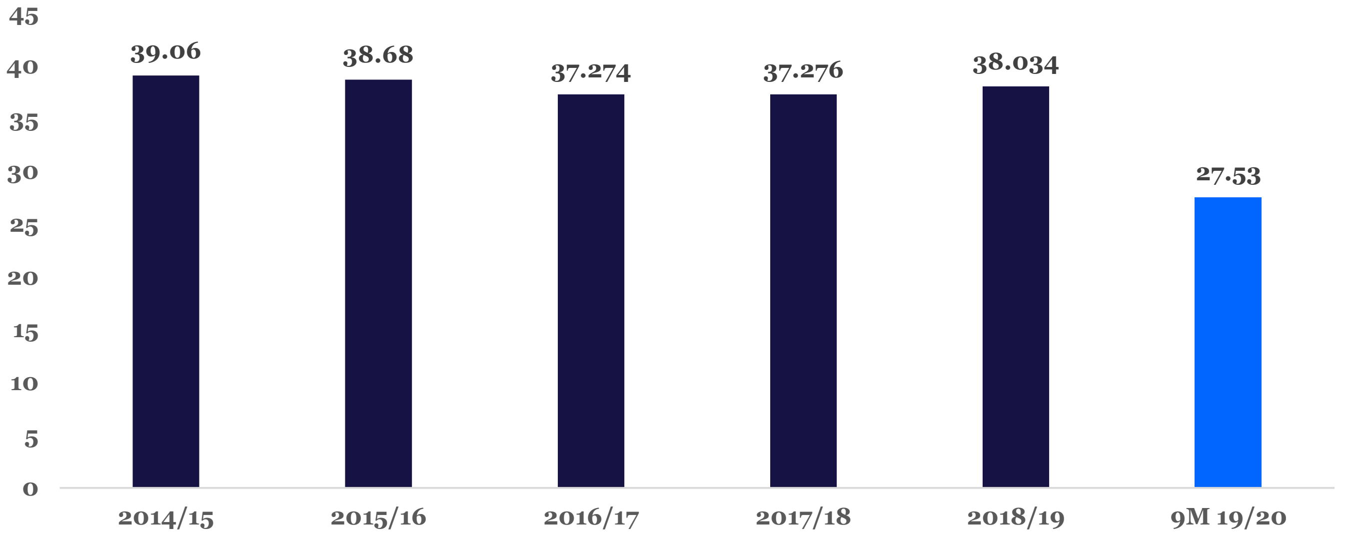


Measures Taken by the Central Bank of Egypt

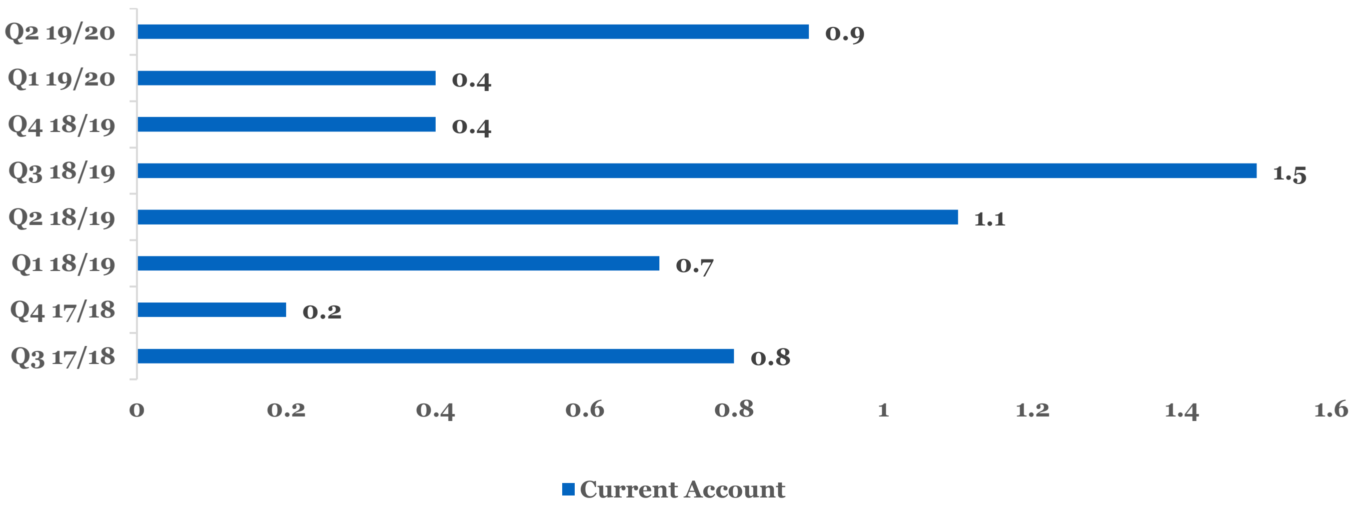
- While the inflation rates increased during the pre-COVID-19 era, the measures taken by the GoE during the height of the crisis in March/April 2020 (for example, enhancing the pipelines of consumer goods through public sector and military outlets) contributed to the stability of the inflation rates during this time of crisis.
- The CBE's decision in early April to cut off its main operations Interest Rate by 300 bps (bringing it down to 9.75%) eased off some of the burden on the GoE budgetary bodies, including the national budget, by approximately EGP 100 billion (according to statements by the Ministry of Finance).
- The move to decrease the Interest Rate made credit facilities more affordable for both individuals and enterprises to mitigate the negative impact of the COVID-19 crisis. Other supporting measures included lifting off the delay fees of credit facilities and instalments for a period of 6 months, ending in September 2020.

Monetary Profile

Trade Balance (-ve) – USD billion



Current Account (-ve) - % of GDP



Updated Figures

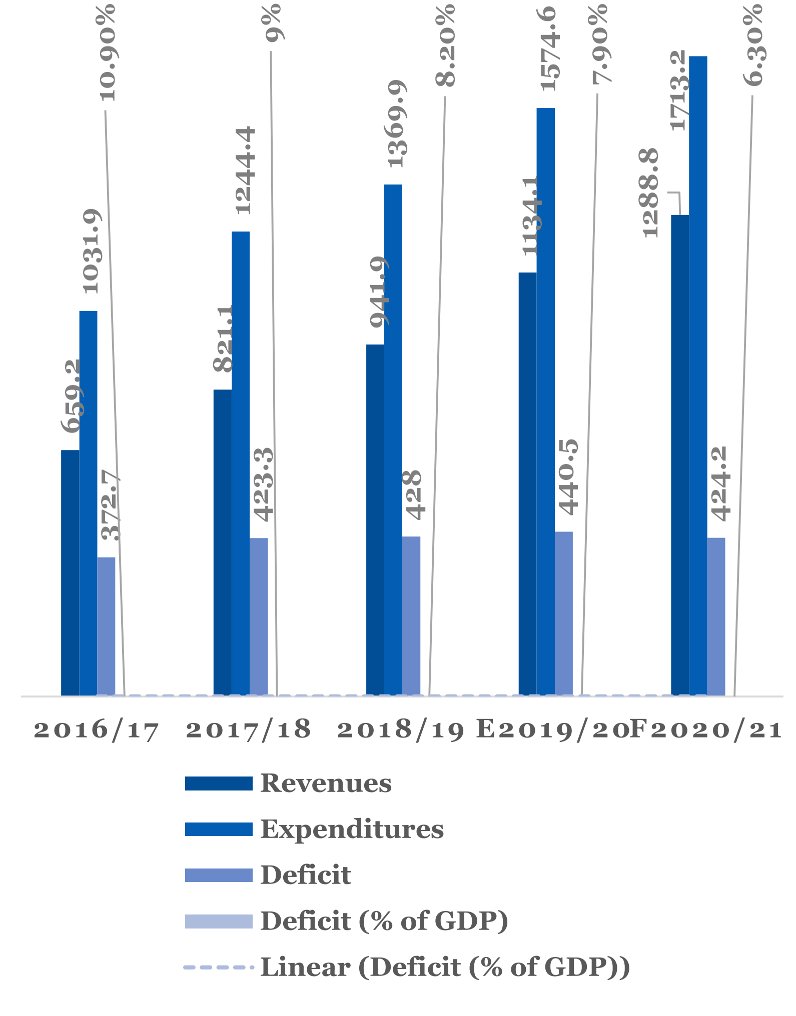
- The World Bank's Egypt growth forecast was reduced to 3% (down from 5.8%) by the end of FY19/20 and to 2.1% (down from 6%) by the end of FY20/21.
- Egypt's trade balance deficit has declined by 38% by the end of March y-o-y basis to mark USD 2.69 billion vs. USD 4.38 billion in March 2020. Egyptian exports declined by 18% y-o-y while imports declined by 30% y-o-y. (Source: Ministry of Trade and Industry)
- The 4 main sources for foreign currency revenues- remittances, tourism, exports and Suez Canal (in respective order) are facing great challenges.
- The tourism sector is expected to witness 70-75% decline in total revenues in comparison with the 2019 levels of USD 11.4 billion.
- As the pandemic situation is laying its shadow on global employment, the remittances from 10 million Egyptians abroad (amounting to USD 26 billion annually) are expected to witness an alarming decline due to the return of Egyptian workers from abroad, particularly from GCC countries.

Fiscal Monitor

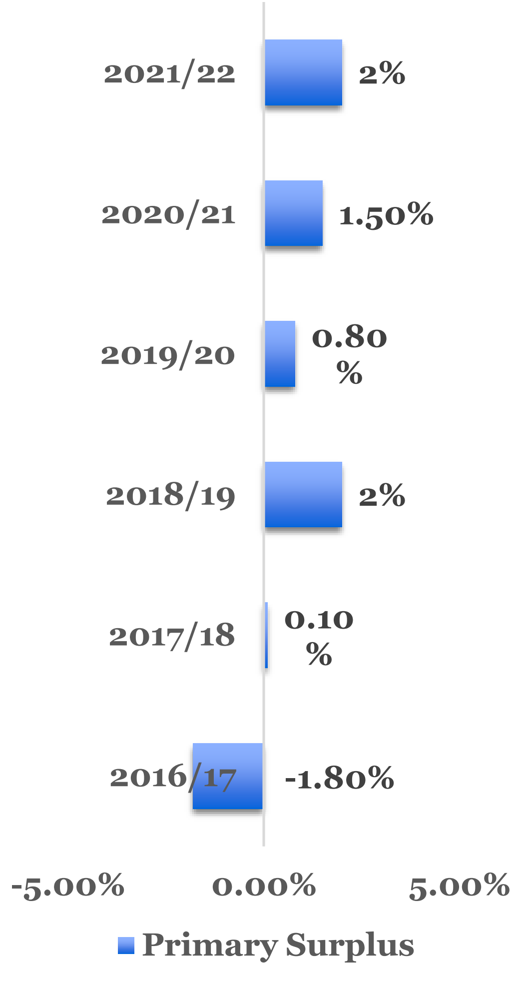
Introduction

- The Minister of Finance warned that Egypt's budget deficit could widen to 7.8% of GDP in FY2020-2021 if the COVID-19 crisis continues until the end of the year. GoE had expected to narrow the deficit to 6.3% in FY20/2021.
- The recently approved FY20/21 budget is expected to meet the constitutional requirements for specific expenditures on healthcare, education, and scientific research.
- The GoE continues to shore up finances to cover the current spending to mitigate the COVID-19 crisis. Levies were approved on mobile phones, sporting contracts, pet food, among other sectors. A draft law mandating a one percent wage cut for civil servants and employees in the public and private sectors (and a half percent cut in pensions) to provide additional funding to the GoE's COVID-19 response, was approved by Parliament.
- The Ministry of Finance is considering measures to further expand the VAT-taxed base (increase from 70,000 to 550,000 enterprises) to further integrate the informal economy and enhance financial inclusion.
- The Ministry of Finance's medium term targets include taking the Debt-to-GDP ratio below 80% by 2022/23 and maintaining a 2% primary surplus.

Budget Overview

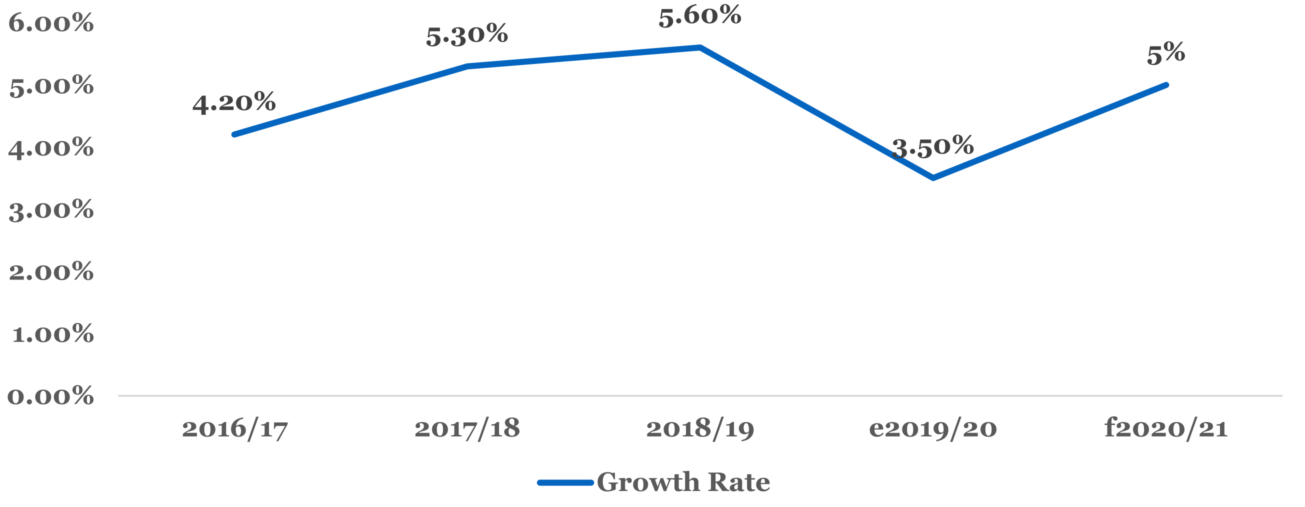


Primary Surplus

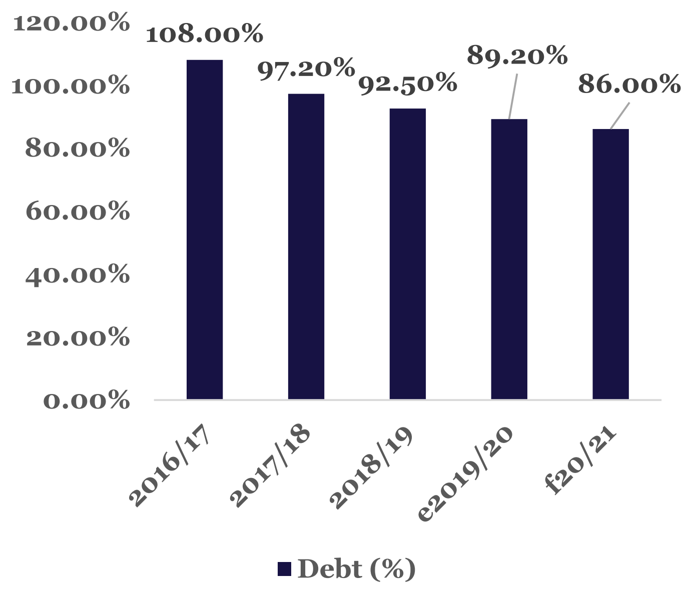


Fiscal Monitor

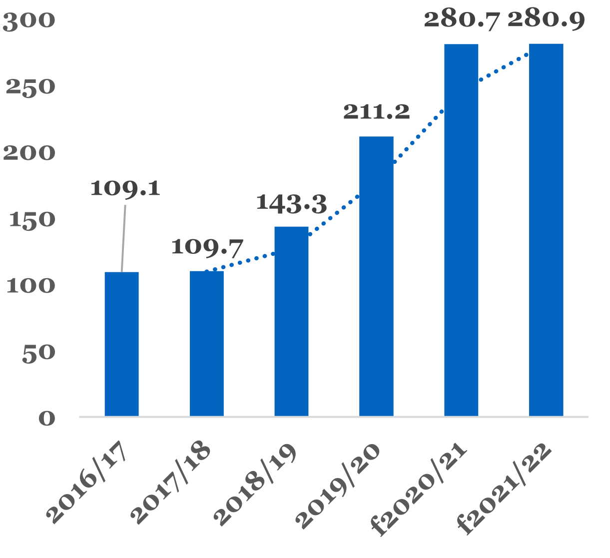
Growth Rate – (%)



Debt-to-GDP – (%)



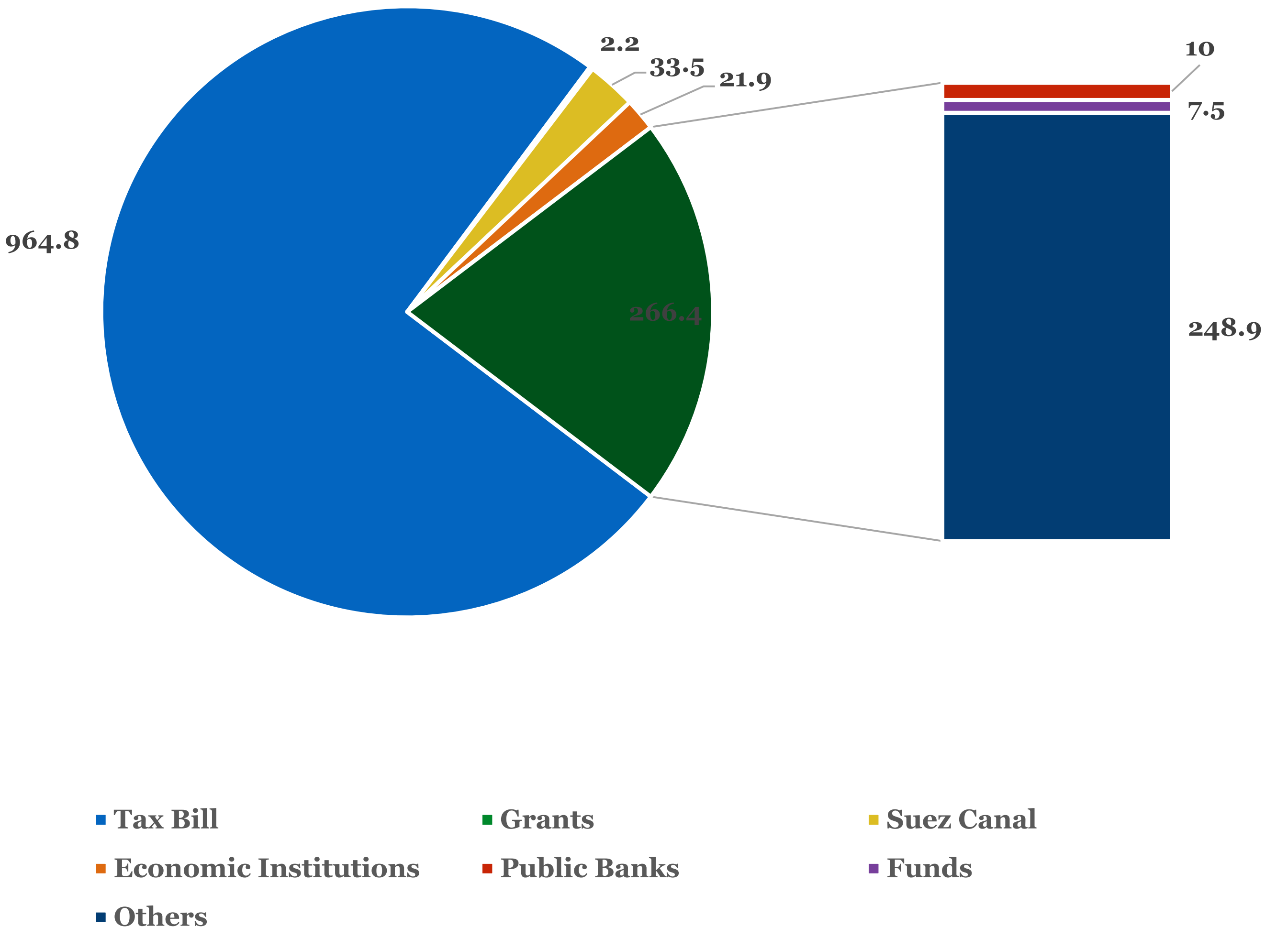
Government Investments



- The previous growth rate- expected at 6% for FY19/20- was revisited by the GoE to be set at 3.5% should the COVID-19 pandemic continue into December 2020.
- GoE predicts that private sector investment may also fall by up to 30% in FY2020-2021 if the crisis extends to December (source: Ministry of Planning).
- The majority of Egypt's economic growth next fiscal year to be concentrated in its second half, with 1H2020-2021 expected to see very low growth.
- Analysts (for ex. Fitch Solutions) expect a strong performance over the next 5 years supported by increases in private spending as well as the gradual fading of the impact of the economic reform program on the purchasing power.
- Mounting pressure on the GoE to redefine the role of the state in the economy without eliminating it.
- Government investments, particularly in the construction sector, will continue to increase in the next FY.

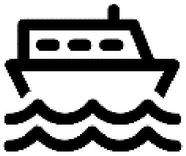
Fiscal Monitor

Revenues Breakdown – FY 2020/21



- The FY2020/21 budget will witness a minor decrease in the subsidy bill as the GoE is modifying its subsidizing policy on some sectors, including electricity and the filtration of supply card beneficiaries.
- The GoE set an initial price for oil at USD 61/barrel which leaves maneuvering space for the Government to in case of any spikes expected in the beginning of 2021.
- The debt service will consume 33% of the expenditures bill. The Ministry of Finance seeks to plateau the debt service accumulation during FY2020/21 and FY2021/22, decline moving on in order to further enhance its fiscal position, and enhance its spending on major sectors; Education, Healthcare, and Social Security.
- The Ministry of Finance is expecting a decline in customs revenues during FY2020/21 due to global and local factors.

Impact of FX on Budgetary Bodies – (Per 0.5 EGP loss in value vs USD)



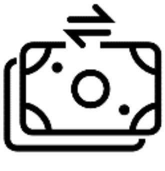
EGP 2.2 billion decline in Suez Canal revenues

EGP 1.6 billion decline in customs revenues

EGP 5.7 billion increase in fuel subsidy bill

EGP 900 million increase in consumer goods supply subsidy

EGP 1.1 billion increase in electricity/interest subsidy and payments



EGP 2.25 billion decline in Value-Added Tax collections

Reforms and Forecasts

Introduction

- Amid its efforts to maintain stability of its macroeconomic status, Egypt was granted a USD 5.2 billion Stand-by Arrangement (SBA) credit facility by the International Monetary Fund (IMF) in June 2020.
- The SBA will be disbursed to the GoE 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 a number of structural policies.
- These policies are associated with the country's fiscal policy through an enhanced/reformed public financial management framework, calibrating monetary policy to maintain inflation targets, and providing structural enhancements to ease the facilitation and competition level for the private sector.

Targeted Policies

Introduction of the Medium Term Revenue Strategy

- The GoE will update and introduce its Medium Term Revenue Strategy (MTRS) **by December 2020** which will aim to increase the governmental revenue streams.
- The strategy is expected to lead to the improvement of 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

- The GoE is expected to submit a new draft Public Financing Management Law 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.

Targeted Policies (Cont'd)

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, assistance to MSMEs, social protection for elderly, and expanding school feeding programs.
- The GoE will undertake assistance in implementing the aforementioned terms from the World Bank on social protection with regard to public spending, health, and education.
- The Public Expenditure Review conducted shall be finalized **by April 2021** with the PERs for education and health to start subsequently.

Enhance Financial Transparency of State-owned Enterprises (SoEs)

- The GoE will move forward with enhancing the financial transparency of its SoEs through publishing detailed SoE-financial information for FY 2018/19 with another report on Economic Authorities by the end of September 2020.
- Egypt issued a new customs law to improve the overall business climate.
- The law aims to reduce non-tariff barriers, documentation requirements, valuation of goods procedures, and mandatory registration of imported goods manufacturers.

Enhance Competition Atmosphere and Leveling the Play Field

The GoE will seek to enhance the competition atmosphere overall through two pillars:

A- **Redefine the role of the SoE sector in Egypt** through modernizing the legal, operational, and governance frameworks of SoEs, defining the policy of the government ownership of commercial enterprises, and explicitly defining rules for the provision of government aid to SoEs (financial and otherwise).

B- **Amend the Egyptian Competition Law:**

1- Ensuring the institutional independence of the Egyptian Competition Authority (ECA) by reducing business-sector and GoE representation on ECA's board and expanding the scope of exemptions afforded to businesses.

2- Empower ECA to regulate M&As through requiring prior notification and standstill mandates to enable the ECA to review transactions and protect the competitive structure of the market.

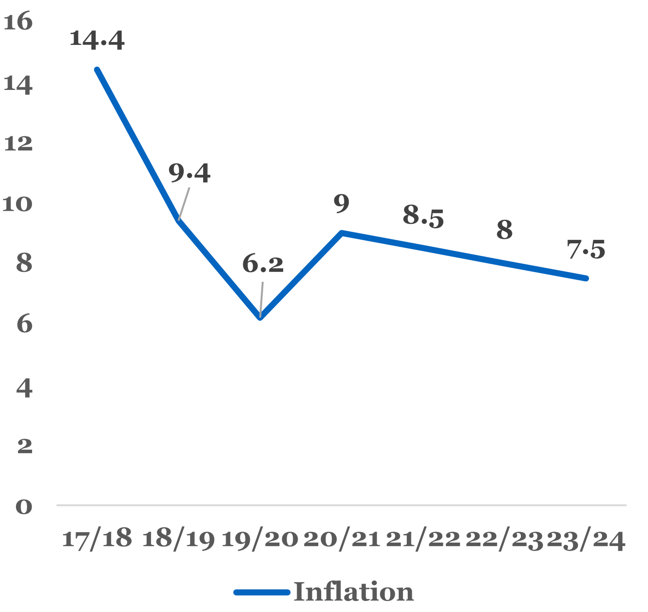
3- Grant protection to SMEs against certain forms of takeovers to be applicable to all economic agents.

4- Introduce measures to ensure a transparent and neutral review that respect parties' due process rights.

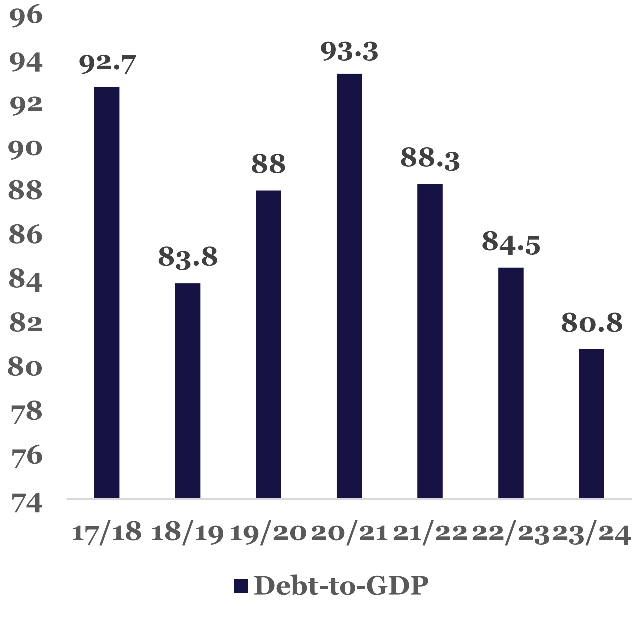
IMF Medium-Term Forecasts

Growth Rate - (%)

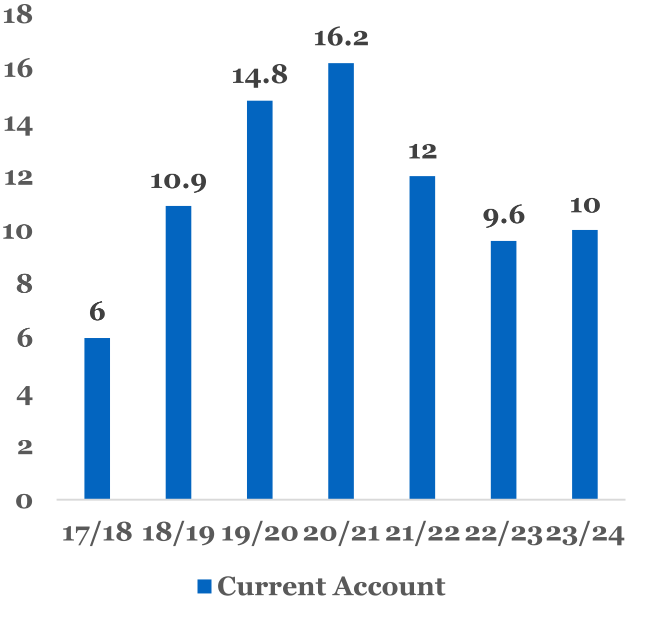
Inflation - (%)



Debt-to-GDP - (%)



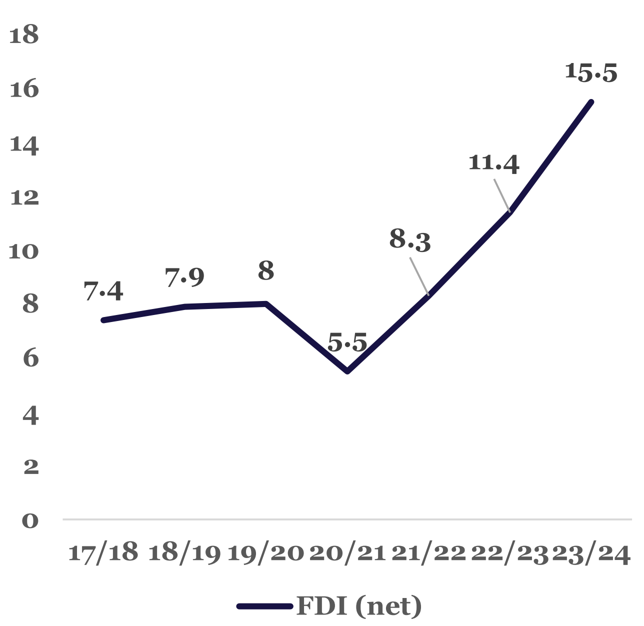
Current Account Deficit -(USD billion)



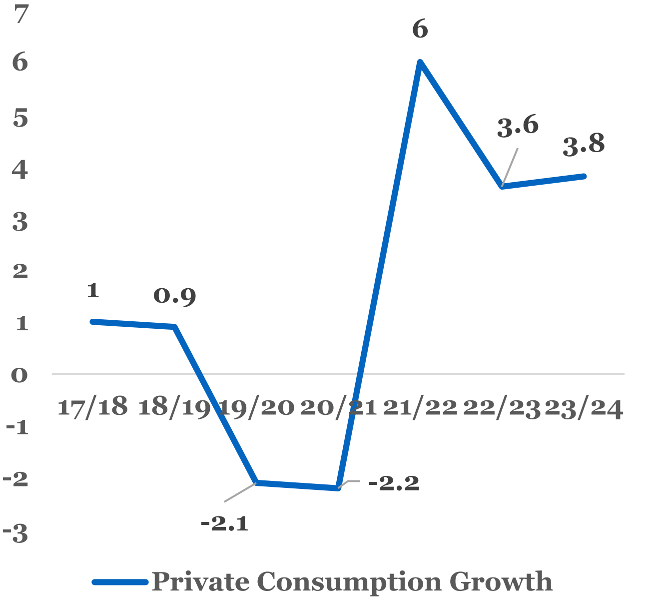
- The impact of the COVID-19 pandemic crisis on Egypt's economy is expected to continue through FY 20/2021.
- The impact is expected to heavily affect the current account deficit to further widen before recovery during FY 2021/22 while the GoE's plan to curb the debt levels will see turbulence before regaining momentum and reaching its previous target by FY 2023/24.

IMF Medium-Term Forecasts

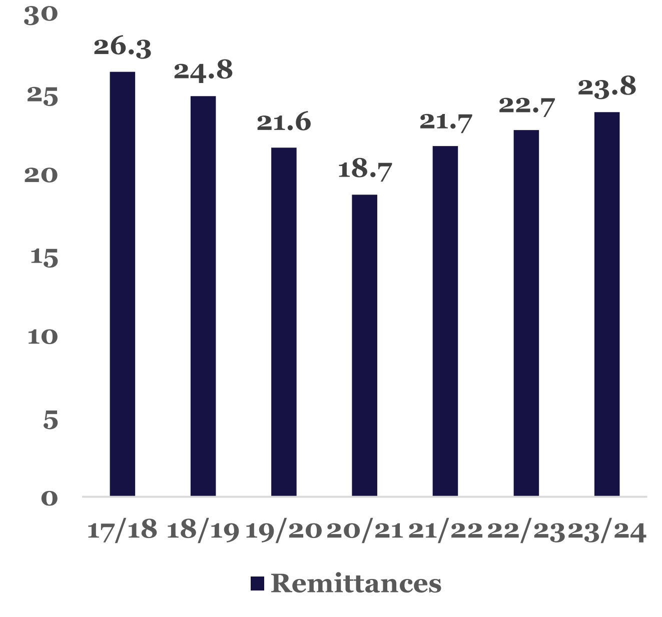
Foreign Direct Investment - (USD billion)



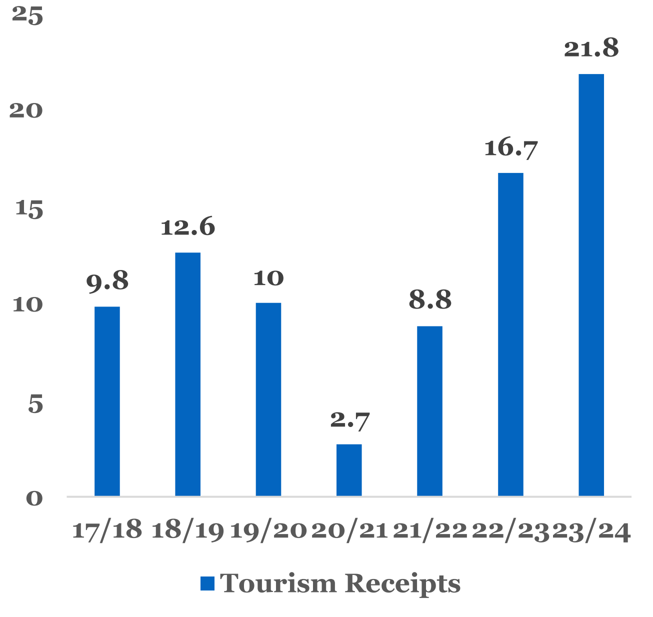
Private Consumption Growth - (%)



Remittances - (USD billion)



Tourism Receipts - (USD billion)



- The IMF expects the pandemic effect to continue to have a severe effect on tourism and private consumption.
- However, on the medium term, the IMF foresees exponential growth for both tourism income and FDI levels.