ARAB REPUBLIC OF EGYPT

Table 1	2022
Population, million	103.4
GDP, current US$ billion	476.7
GDP per capita, current US$	4610.7
Lower middle-income poverty rate ($3.65)[a]	17.6
National poverty rate[a]	29.7
Gini index[a]	31.9
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.0
Total GHG emissions (mtCO2e)	361.5

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2019); Life expectancy (2020).

Inflation is eroding incomes and constraining business activity. Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent in FY22. Improvements in reserves reflect increases in tourism, Suez Canal revenues, and foreign financing. Yet, hard currency shortages persist. Reforms to boost investment, exports and FDI remain crucial for competitiveness. Further, fiscal consolidation to reduce vulnerabilities and create space for social protection and advanced human development is key for better socio-economic outcomes.

Key conditions and challenges

One year through Russia's invasion of Ukraine and tightening global financial conditions, Egypt continues to face a foreign currency crunch, a spike in domestic prices, and a sharp rise in borrowing costs. While triggered by the overlapping global shocks, Egypt's macroeconomic imbalances reflect pre-existing vulnerabilities, including the sluggish foreign income-earning activities (non-oil exports and FDI) and risks associated with government debt.

A significant share of the Egyptian population is poor (29.7 percent in 2019/20, the latest official estimates). The pandemic, followed by high inflation in 2022 and 2023, are expected to have increased poverty rates further. Meanwhile, recent labor market trends are not conducive to poverty reduction. Employment and labor force participation rates continue to be low at 39.5 percent and 42.7 percent of the working-age population, respectively as of Q1-FY23, with bigger challenges for youth and women in the labor force. Moreover, the fiscal space needed to advance human and physical capital for the (largely youthful) population of above 104 million remains constrained by below-potential revenue mobilization (with tax revenues at 12.6 percent of GDP in FY22), more than half of which is directed to covering budgetary interest payments

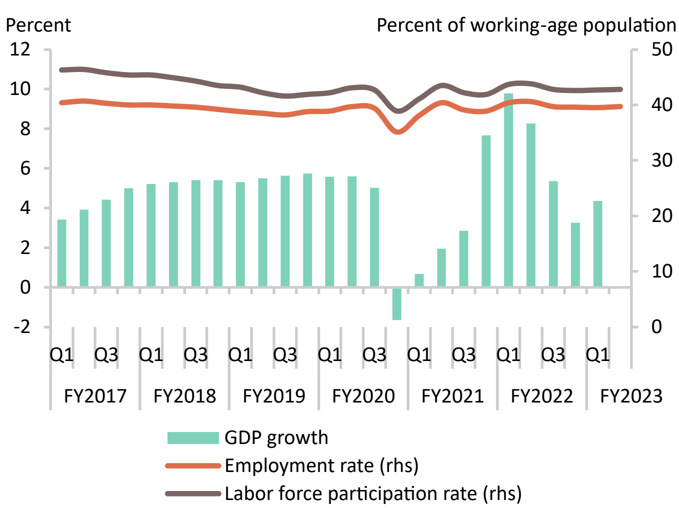
In response to the concurrent shocks, the authorities undertook a series of policy adjustments. These include raising key policy rates by 800 basis points, allowing the exchange rate to depreciate by more than 95 percent since March 2022, and introducing social mitigation measures (including increases to pensions, food subsidies and expansion in the coverage and allocations of the Takaful and Karama programs) to partially shield the vulnerable. The 46-month IMF Extended Fund Facility is expected to support the gradual restoration of macroeconomic stability and to underpin structural reforms, including those outlined in the State Ownership Policy to enhance competitive neutrality for improved private sector participation.

Recent developments

Following the rebound in early FY22, economic activity has been adversely impacted by the overlapping global shocks and domestic supply bottlenecks. While remaining broad-based, with positive contributions from all sectors (except gas extractives), Egypt's real GDP growth declined to 4.2 percent during H1-FY23, from 9.1 percent during the same period last year.

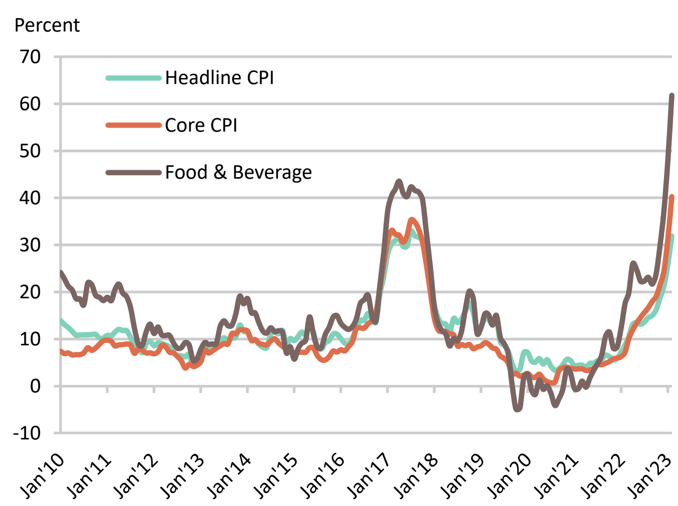
Urban inflation (in double-digits since March 2022) shot up to a 5-year high of 31.9 percent in February 2023; and core inflation jumped to 40.3 percent, exceeding the peak reached during the 2017 inflation episode. Food items (61.8 percent inflation) constitute more than 44 percent

FIGURE 1 Arab Republic of Egypt / Real GDP growth, employment and labor force participation rates



Source: World Bank estimates based on CAPMAS and Ministry of Planning and Economic Development.

FIGURE 2 Arab Republic of Egypt / Inflation rates



Source: CBE.

of the expenditures for the bottom quintile and remain the main driver of inflation. While cost-push factors have been contributing to the inflationary wave, domestic liquidity conditions continue to be loose, with credit extended to the government's continuing to be the key driver of domestic credit growth.

Official reserves (Tier 1 reserves) and other foreign currency assets (Tier 2 reserves) increased gradually over recent months, jointly reaching US$40.2 billion at end-February 2023. These, however, remain around US$14 billion (26 percent) below their level a year earlier. While Balance of Payments outturns indicate that improvements in the services balance (tourism and the Suez Canal), along with FDI (from sales of assets to non-residents) have supported the recent uptick in reserves, hard currency supply remains a key challenge. This is evidenced by the banking system's net foreign assets position [-LE654.43 billion (US$21.7 billion) at end-January 2023] which has been deteriorating even prior to the escalation of the war in Ukraine, as the banking system has been liquidating foreign assets amidst the crunch. The CBE is gradually dismantling restrictions on imports (e.g., letter of credit requirement), but other restrictions remain, and lingering import backlogs at ports are yet to be cleared.

Outlook

Growth is expected to decline to 4.0 percent in FY23 from 6.6 percent a year earlier, as households' purchasing power and firms' activity are constrained by higher costs because of the depreciation, imported inflation, upward adjustments in fuel prices, and monetary tightening. Going forward, growth is projected to increase to 4.7 percent in FY25, benefitting from favorable base effects, and the narrowing net exports deficit.

The current account deficit is forecast to decline from 3.5 percent of GDP in FY22, albeit marginally, as improvements in tourism, Suez Canal, and export proceeds are expected to be counterbalanced by the still-elevated imports costs, downtick in remittances, and as import backlogs/suppliers' credits are paid down. The capital and financial account is expected to remain under pressure, with some mitigation arising from international financing and asset sales to non-residents. The US$1.5 billion Sukuk issued provided some relief for external debt repayment during FY23, although its high interest burden may discourage further issuances before international financial conditions improve.

The budget deficit is projected to also widen, to 7 percent of GDP in FY23, from 6.2 percent a year earlier, as government purchases, subsidies, and interest payments are driven up by higher prices, mitigation measures, and monetary tightening. Fiscal pressures and the valuation effect from the depreciation will drive the debt-to-GDP to a projected 95.8 percent by end-FY23 from 88.3 percent a year earlier. Similar to other emerging markets, Egypt's outlook depends in large part on the containment of the repercussions of the war in Ukraine and developments in international financial markets. Risks stem from the inflation-depreciation dynamics and their implications for households' welfare on the one hand and for the fiscal/debt trajectory on the other hand. Over the medium term, more ambitious fiscal consolidation (through enhanced revenue mobilization and contained budgetary and extra-budgetary expenditures) would strengthen macroeconomic resilience, help narrow the large risk premia (as captured by sovereign spreads) and create fiscal space for advancing human development.

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

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	3.6	3.3	6.6	4.0	4.0	4.7
Private Consumption	7.4	6.2	2.8	2.7	4.0	4.0
Government Consumption	7.9	3.4	4.9	1.7	5.3	3.6
Gross Fixed Capital Investment	-21.1	-3.2	18.5	7.1	3.3	10.2
Exports, Goods and Services	-23.7	-13.9	57.4	35.0	8.0	5.0
Imports, Goods and Services	-18.7	0.5	24.3	22.0	7.0	5.0
Real GDP growth, at constant factor prices	2.5	2.0	6.2	4.0	4.0	4.6
Agriculture	3.4	3.8	4.0	4.5	3.5	3.3
Industry	0.4	-1.0	6.6	2.4	5.1	6.3
Services	3.7	3.5	6.4	4.8	3.4	3.8
Inflation (Consumer Price Index)	5.7	4.5	8.5	18.9	15.0	10.0
Current Account Balance (% of GDP)	-2.9	-4.3	-3.5	-3.4	-3.0	-2.9
Net Foreign Direct Investment Inflow (% of GDP)	1.9	1.1	1.8	2.5	2.5	2.2
Fiscal Balance (% of GDP)	-7.5	-7.1	-6.2	-7.0	-6.9	-6.4
Revenues (% of GDP)	15.9	16.6	16.9	16.6	16.8	16.8
Debt (% of GDP)	82.8	87.9	88.3	95.8	95.2	89.6
Primary Balance (% of GDP)	1.7	1.4	1.3	1.6	1.9	2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	1.7	1.7	1.7	2.4	2.4	2.4
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	20.0	19.9	19.6	24.2	24.0	23.8
GHG emissions growth (mtCO2e)	1.3	-0.6	1.9	1.8	1.6	1.9
Energy related GHG emissions (% of total)	64.6	64.3	64.3	64.2	64.2	65.5

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 2019-HIECS. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Poverty estimates for FY2020 and FY2023 are based on microsimulations.