ARAB REPUBLIC OF EGYPT

Table 1	2023
Population, million	105.2
GDP, current US$ billion	395.9
GDP per capita, current US$	3764.5
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]	91.6
Life expectancy at birth, years[b]	70.2
Total GHG emissions (mtCO2e)	320.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

Leveraging large-scale investments and financing, Egypt undertook monetary adjustments to address the foreign currency crisis sparked by macroeconomic imbalances and global shocks. Growth is forecast to decline to 2.8 percent in FY24 due to eroded real incomes, before a projected rebound in FY25-FY26. On- (and off) budget consolidation (in line with external sustainability) and transformative investment climate reforms are critical for private sector-driven, inclusive, and sustainable growth.

Key conditions and challenges

In early March 2024, the CBE resumed its move towards a flexible exchange rate regime to address severe foreign exchange market distortions, after more than a year of delayed macroeconomic adjustments, build-up of foreign currency backlogs, as well as a soaring parallel market rate. To anchor inflation expectations, the CBE hiked key policy rates by 600 basis points (bps) in March (bringing policy rates to 27.25 percent and 28.25 percent for the overnight deposit and lending transactions, respectively; 1,900 bps above their levels prior to March 2022). In tandem, the government announced mitigation packages, including scaling-up cash transfers, hiking the minimum wage, among other measures. These adjustments are underpinned by the large-scale UAE investments and the completion of the IMF Extended Fund Facility (EFF) reviews (originally slated for March and September 2023).

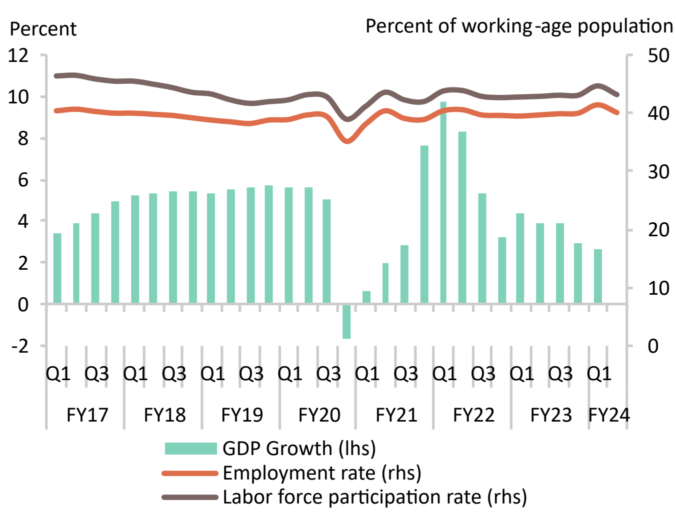
The effective implementation of the recent policy announcements to redefine the role of the state, contain public investments, and enable the private sector will be crucial to address the long-standing external and fiscal imbalances that have been exacerbated by the multiple global shocks. Non-oil exports and FDI have been underperforming with the gradual shift in the economy towards non-tradable and low value-added sectors, and away from high productivity and export-oriented sectors. Furthermore, despite on-budget consolidation, government debt increased to 95.2 percent of GDP at end-FY23, reflecting off-budget borrowing and the depreciation. Additionally, contingent liabilities reached 28.7 percent of GDP at end-January 2023. Thus, fiscal space remains constrained by high interest payments (7.6 percent of GDP in FY23) as well as low domestic resource mobilization (tax-to-GDP ratio of 12.4 percent). Hence, public expenditures for human capital development and social protection remain well below the needs of the rapidly rising population of above 105 million.

The national poverty rate is expected to have increased substantially (last reported at 29.7 percent in 2019), due to double-digit inflation since March 2022, with partial mitigation from the government's social packages. Low labor force participation and employment rates (at 43.1 percent and 40.1 percent, respectively, of the working-age population in Q2-FY24) are also not conducive to poverty reduction.

Recent developments

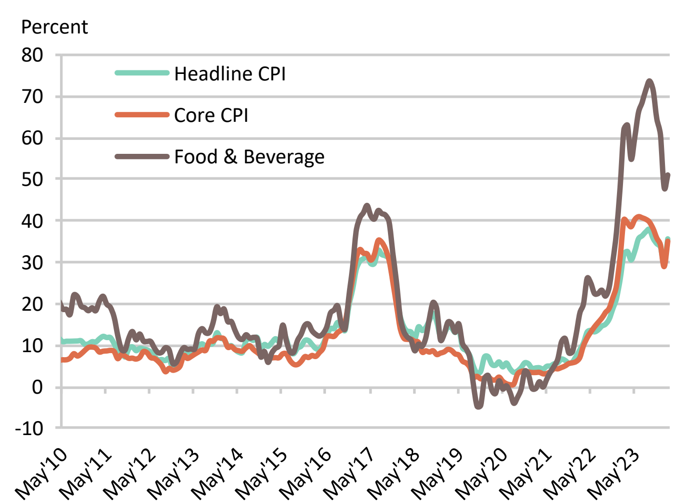
Growth declined to 2.7 percent in Q1-FY24 from 4.4 percent in Q1-FY23, reflecting the contraction of non-oil manufacturing and gas extractives; impacted by the foreign exchange crisis, import restrictions, capital controls, as well as domestic production problems. Shockwaves from the Middle East conflict which caused a sharp drop in Suez Canal traffic and dampened the strong recovery of tourism are also constraining growth in recent months.

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



Sources: World Bank estimates based on Central Agency for Public Mobilization and Statistics (CAPMAS) and Ministry of Planning and Economic Development (MPED).

FIGURE 2 Arab Republic of Egypt / Annual inflation rates



Sources: Central Bank of Egypt (CBE) and CAPMAS.

Annual urban inflation accelerated to an average 33.8 percent in January—December 2023 (up from 13.8 percent in 2022), even though 21.4 percent of the Consumer Price Index basket is regulated. Food items (63.9 percent inflation in 2023) remain the main driver of the headline rate and account for over 44 percent of bottom quintile expenditures.

Despite the successive monetary tightening, real interest rates remained negative through March 2024. Government credit remains the main driver of credit growth, indicating that excess demand from the public sector has been another contributor to inflation, on top of the cost-push factors. Meanwhile, private sector credit remains limited (29.6 percent of total domestic credit).

Outlook

Growth is forecast to decline to 2.8 percent in FY24 from 3.8 percent in FY23, exacerbated by the repercussions of the Middle East conflict notably on key foreign income-generating sectors (Suez Canal and tourism). Growth is expected to start rebounding in FY25-FY26 driven by growth in investment (albeit from a low base), and improved private consumption with the projected pickup in remittances and the gradually abating inflation.

Fiscal consolidation is expected to slow down in FY24. The tax-to-GDP ratio is expected to decline due to sluggish economic activity, while interest payments rise with monetary tightening and a depreciated currency. The government debt-to-GDP ratio is thus expected to increase to 97.6 percent at end-FY24, due to the valuation effect of the exchange rate depreciation, as well as the higher deficit. Fiscal consolidation and debt reduction (including from off-budget borrowing) are expected to resume by FY25, as tax reforms kick in (the payroll tax systems standardization, enhanced administration, and exemptions rationalization), besides streamlining of energy subsidy.

While external accounts are expected to remain under pressure till end-FY24 due to the pre-existing backlogs, the UAE investment deal, along with major external financing will gradually alleviate the foreign currency crisis. The banking system's net foreign assets position (-US$29 billion at end-January 2024) is expected to immediately improve—at least by US$11 billion: the UAE deposits at the CBE that have been converted to investments. Official reserves and foreign currency assets (US$45 billion at end-February 2024) are expected to be boosted by the one-off US$24 billion in FDI inflows (the remainder of the UAE deal), state asset sales (US$2.3 billion during July-February FY24), the IMF EFF and financing from the World Bank and other development partners. Eliminating the parallel market premium will encourage formal-channel remittances, which had declined by US$10 billion in FY23. Nevertheless, clearing the arrears owed to international oil companies and import backlogs (jointly reportedly estimated at above US$14 billion at end-February), in addition to medium- and long-term debt servicing scheduled for payment in the second half of FY24 (US$15.9 billion) will remain a drain on reserves.

High inflation, especially for food, remains a source of concern for poverty reduction. Going forward, continued implementation of the ambitious reforms envisaged under Egypt's State Ownership Policy, while ensuring wider public sector fiscal consolidation is critical for creating space for human development and social protection spending, and for external sustainability. Business environment reforms will be crucial to enable private sector growth and job-creation.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	3.3	6.6	3.8	2.8	4.2	4.6
Private consumption	6.2	2.8	3.8	3.2	3.4	3.7
Government consumption	3.4	4.9	-2.8	3.0	2.0	2.5
Gross fixed capital investment	-3.2	18.5	-24.1	-7.4	16.0	10.0
Exports, goods and services	-13.9	57.4	31.4	12.9	13.5	14.0
Imports, goods and services	0.5	24.3	1.1	-0.5	15.5	13.0
Real GDP growth, at constant factor prices	2.0	6.2	3.6	2.7	4.2	4.5
Agriculture	3.8	4.0	4.1	3.3	3.3	3.3
Industry	-1.2	6.9	-0.6	-1.1	3.4	4.7
Services	3.7	6.2	6.2	4.8	4.8	4.7
Inflation (consumer price index)	4.5	8.5	24.1	33.4	24.9	12.6
Current account balance (% of GDP)	-4.3	-3.5	-1.2	-3.2	-3.3	-3.0
Net foreign direct investment inflow (% of GDP)	1.1	1.8	2.5	6.8	2.7	1.9
Fiscal balance (% of GDP)	-7.1	-6.2	-6.0	-6.5	-6.4	-6.3
Revenues (% of GDP)	16.6	17.2	15.4	15.5	16.5	16.9
Tax revenues (% of GDP)	12.5	12.6	12.4	12.2	12.8	13.4
Debt (% of GDP)	87.9	88.3	95.2	97.6	91.3	88.0
External government debt (% of GDP)	19.0	19.5	25.1	31.7	27.2	23.3
Primary balance (% of GDP)	1.4	1.3	1.6	2.2	3.0	3.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.8	19.3	21.5	23.8	23.4	23.1
GHG emissions growth (mtCO2e)	4.0	1.8	1.0	0.7	1.1	1.3
Energy related GHG emissions (% of total)	64.9	65.0	65.4	65.9	67.8	69.5

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 2010-HIECS, 2015-HIECS, and 2019-HIECS. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU. Poverty estimates for 2020, 2023, and 2024 are based on microsimulations of the impacts of Covid, high inflation, and government mitigating measures.