Egypt

Outlook

								Forecasts	
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	3.1	4.4	4.3	4.1	5.3	5.6	3.5 (e)	2.8	5.0
CPI inflation (%)*	9.7	11.0	10.2	23.5	20.9	13.9	5.4	6.2	7.9
Fiscal balance (% of GDP)	-10.3	-10.9	-12.5	-10.4	-9.4	-7.4	-7.5 (e)	-8.1	-5.2
Public debt (% of GDP)	77.1	88.5	96.8	103.2	92.7	83.8	86.6 (e)	90.6	87.8
Reference rate (%)*	8.8	8.8	11.6	17.1	17.1	14.7	9.5	9.8	10.3
Exchange rate (EGP/USD)*	6.3	7.7	10.1	17.8	17.8	16.8	15.8	16.4	17.4
Current account balance (% of GDP)	-2.2	-3.7	-6.0	-6.1	-2.4	-3.6	-3.2 (e)	-4.2	-2.9
External debt (% of GDP)	14.1	15.3	23.2	36.9	35.8	33.7	37.9 (e)	38.4	41.8

Notes: * Annual average. (e) estimation.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **Despite being one of the African countries with the highest incidence of COVID-19, the negative impact on its economy has been less severe than in other emerging countries**, making it better placed for recovery in the coming years. The adoption of more flexible restrictions on mobility, expansionary monetary policy measures and the financing lines obtained from the IMF and various international organisations have cushioned the weakness of foreign demand and favoured the return of foreign investment flows in the second part of 2020. Egypt is also negotiating the collaboration with the main laboratories in the manufacture and distribution of vaccines across the continent. This aspect, together with the improvement in international trade and the continued fiscal and monetary support measures, will support an economic recovery that will become more visible in 2022.

- **Real shock of COVID-19.** The pandemic has had a notable impact on the Egyptian economy due to the importance of the tourism sector (5.5% of GDP; 9.5% of employment) and the dependence on trade with the EU and Persian Gulf countries. Despite the relaxation of mobility restrictions and the recovery of part of the production activity, the Egyptian economy contracted in Q3 2020 by 4.3% quarter-on-quarter (compared to –3.5% in Q2), given the decline in foreign demand and investment. The recovery of the economy in 2021 is expected to be slow, affected by the importance of the tourism sector and the unfolding of the pandemic, but the external financing received is expected to boost various public infrastructure projects (transportation, desalination plants and new capital, among others) and thus help improve domestic demand.

- **Macrofinancial imbalances**
  - **External financing.** The initial impact of COVID-19 caused a notable imbalance in the balance of payments (due to the fall in income from tourism and migrant remittances and the foreign investment outflows) and a decline in international reserves to 2018 levels. To mitigate the economic impact, the Government appealed for two IMF support programmes (totalling 8 billion dollars) and obtained financing from various international organisations, such as the World Bank and the African Development Bank. Additionally, it carried out two sovereign bond issuances in international markets. Nevertheless, it is estimated that external debt will be at levels close to 40% of GDP for 2021-2022, the highest level over the past decade.

Closing date of this edition: 10 February 2021

Outlook (continued)

- **Foreign exchange policy.** The intervention of the Egyptian central bank on the pound exchange rate during Q2 2020, due to a deterioration in foreign investment flows, meant a halt in the exchange rate easing process that began in 2017, in addition to a decline in foreign exchange reserves. IMF loans are conditional on the free fluctuation of the pound and, when exchange rate easing is resumed, this will favour the recovery of investor confidence and capital flows to the Egyptian economy.

- **Economic policy response**
  - **Monetary policy**. In a context of relatively controlled inflation, thanks to the fall in import prices of commodities (mainly crude oil), during 2020, the central bank cut reference rates by 400 bp to 8.25%, an all-time low. Looking ahead, we believe that the bank's efforts will focus on maintaining the stability of the pound exchange rate and increasing the reserve ratio, and will be more tolerant of the foreseeable increase in inflation.
  - **Fiscal policy**. The Government has chosen to maintain the budget targets and fiscal consolidation approved before the pandemic, with the option of making specific adjustments. Despite the fact that the increase in expenses due to the pandemic has been offset by the fall in subsidies for commodities, we believe that the public deficit will widen in 2021 in an environment of less job creation and greater social needs.

- **Evolution of the exchange rate.** The exchange rate of the pound will be subject to volatility derived from investor sentiment towards emerging countries and to possible, although occasional, weaknesses in the current account balance. However, given the exchange rate flexibility (required by the IMF) and the increase in foreign capital flows, we do not rule out a slight appreciation of the exchange rate at certain times in 2021.

Main risks

The balance of risk is trending downward, although there are certain strengths that may bring positive surprises:

- **Financial risk.** In 2021, the Government will need to appeal for external financing to meet the payment of debt maturities and finance development plans, in a context of slow economic recovery. Based on the rise in interest rates on its sovereign debt in the medium-term and taking into account the expected increase in public debt and external debt over GDP, doubts may arise about the sustainability of medium-term debt. These doubts will increase as we approach the end of IMF financial support.
- **Macroeconomic and social risk**. A worsening in the health crisis could lead to a further deterioration of the current account balance, with the stagnation of exports and reduction in the already scarce income from tourism. In addition, this circumstance would aggravate social unrest in a population that has seen an increase in unemployment and poverty rates during the pandemic.
- **Positive risk in foreign policy and trade relations.** Several laboratories that are developing the vaccine for COVID-19 (including those in Russia and China) are in talks with Egypt to collaborate in the manufacture and distribution of their vaccines in Africa. This aspect, together with the strategic position of Egyptian trade through the Suez Canal, places its economy in an advantageous situation compared to the rest of the countries in the region.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	B	11/05/18	Stable	11/05/18
Moody's	B2	17/04/19	Stable	17/04/19
FitchRatings	B+	21/03/19	Stable	21/03/19

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".