ARAB REPUBLIC OF EGYPT

Table 1	2020
Population, million	102.3
GDP, current US$ billion	360.6
GDP per capita, current US$	3523.7
Lower middle-income poverty rate ($3.2)[a]	28.9
National poverty rate[a]	32.5
Gini index[a]	31.5
School enrollment, primary (% gross)[b]	106.4
Life expectancy at birth, years[b]	71.8

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2019); Life expectancy (2018).

Economic activity and employment started resuming, yet the resurgence in COVID-19 cases is clouding the nascent economic uptick. Pressures arise from the severely affected foreign income sources (tourism, goods exports, FDI) but remittances, portfolio inflows and external financing continue to support international reserves. Besides pandemic-containment efforts, pushing ahead with macro-fiscal and structural reforms, strengthening social protection and advancing the human capital agenda will be crucial for a strong recovery.

Key conditions and challenges

Egypt's macroeconomic reforms helped stabilize the economy in recent years and allowed the country to enter the COVID-19 crisis with improved fiscal accounts and a relatively ample level of foreign reserves. Energy sector reforms helped boost electricity supply and gas exports, opened up the energy market for private activity, especially in renewables. However, the adverse repercussions of the pandemic undermined the recent progress and shed light on long-standing challenges. These include the sluggish non-oil private sector activity, underperforming exports and FDI, the elevated government debt-to-GDP ratio (despite recent significant reduction), below-potential revenue-mobilization and the unfavorable budget structure, with limited allocations to health and education.

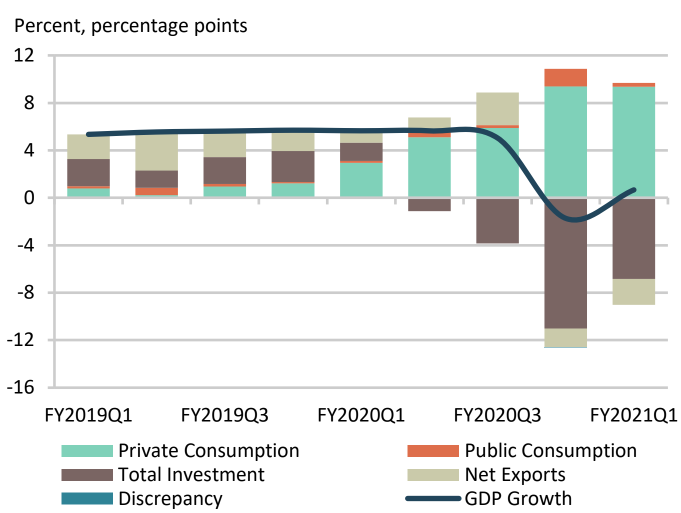
Social conditions remain difficult, as around 30 percent of the population continued to live below the national poverty line (according to the household survey results for October 2019—March 2020). The adverse impact of the pandemic on economic activity and incomes thus warrants an intensification of poverty-reduction efforts. Egypt has been strengthening social protection, and has expanded existing programs and introduced temporary mitigation measures at the outset of the COVID-19 crisis, notably targeting irregular workers.

Pre-pandemic growth was not poverty-reducing. Therefore, beyond important social protection measures, lifting living standards will require boosting job-creation and shifting the economy towards higher value-added activities and private sector-led growth. Key preconditions for a strong recovery include stepping-up efforts to contain the pandemic, maintaining macroeconomic stability, investing in education and health and enhancing social protection. Further, improving governance and reinforcing the role of the State in its policy-making and regulatory functions will be crucial to establish the level-playing-field that would enable the private sector to thrive and unleash its competitive potential to create better earning opportunities for the young and large population.

Recent developments

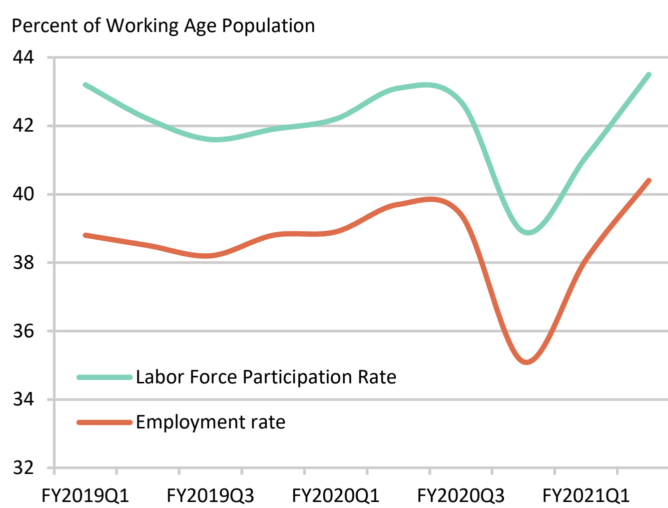
Growth inched up in Q1- and Q2-FY2020/21 (July-September 2020 and October-December 2020) after easing of COVID-19-related restrictions, but remained low at 0.7 percent and 2 percent, respectively (up from a contraction of 1.7 percent in Q4-FY2019/20). Unemployment also declined to 7.2 percent by Q2-FY2020/21 (after spiking at 9.6 percent six months earlier), with the gradual resumption of economic activity, and the continuation of megaprojects throughout the crisis. Both labor force participation and employment rates rebounded from their large (short-lived) dip, although

FIGURE 1 Arab Republic of Egypt / Real GDP growth and contributions to real GDP growth



Sources: Ministry of Planning and Economic Development and WB staff calculations.

FIGURE 2 Arab Republic of Egypt / Labor force participation and employment rates



Sources: Central Agency for Public Mobilization and Statistics.

remaining below-potential at 43.5 percent and 40.4 percent of the working-age population. Key exposed sectors, such as tourism, manufacturing, the Suez Canal and oil and gas extractives continue to be impacted by travel restrictions, the slump in demand and disruptions to domestic and global supply chains and trade.

The Central Bank of Egypt cut key policy rates by 400 basis points cumulatively between March and November 2020, to lower the cost of access to credit for individuals and businesses and enable government domestic borrowing at more favorable terms during the crisis. This monetary expansion was facilitated by the subdued inflation, which averaged 5.7 percent during FY2019/20 and continued to decline thereafter, averaging 4.5 percent during the first half of FY2020/21. Private credit (32 percent of total domestic credit) also accelerated with the monetary easing, but its share to GDP is yet to rise to its pre-2016 levels.

International reserves remain relatively ample at US$40.2 billion in end-February 2021 (covering above 7 months of merchandise imports), despite the impact of COVID-19 on tourism, Suez Canal revenues, and goods export. Although still below their pre-crisis peak of US$45.5 billion, international reserves were bolstered by remittances, rebounding portfolio inflows, and the external financing that Egypt mobilized, Eurobond issuances, and an innovative sovereign Green-bond.

Outlook

Growth is forecast to decline from 3.6 percent in FY2019/20 to 2.3 percent in FY2020/21, in light of the ongoing effect of the pandemic, and the renewed surge in the COVID-19 cases, as well as the slow vaccine roll-out domestically and abroad. Private consumption is expected to be partially supported by remittance inflows, expanded social protection, lower inflation (*favorable for households' purchasing power*) as well as monetary easing. Pre-pandemic labor markets trends, such as the fall of real earnings and the rise of informality, are now compounded by the income losses due to COVID-19 shock, especially among informal workers. This can lead to an uptick in the poverty rate.

If the vaccine is sufficiently deployed by early-2022, Egypt is expected to gradually regain growth momentum during FY2021/22—23, which still means that COVID-19 will have caused at least a 3-year shortfall from pre-pandemic rates. A downside scenario for growth over the forecast horizon would happen if COVID-vaccination becomes more protracted, or if disease variants cause renewed disruptions. The current account deficit is forecast to widen from 3.1 percent of GDP in FY2019/20 to 3.4 percent in FY2020/21 (mainly on the back of a drop in revenues from key services exports such as tourism and the Suez Canal) before narrowing gradually to around 2.7 percent of GDP over the medium term. The capital and financial account is projected to remain buoyed, mainly supported by portfolio inflows (including Eurobonds) and external financing, although FDI inflows are projected to decline from 2.1 percent of GDP in FY2019/20 to around 1 percent of GDP in FY2020/21, amidst the global economic slowdown and then gradually recover over the medium-term.

The overall budget deficit is forecast to increase from 8 percent of GDP in FY2019/20 to 8.2 percent of GDP in FY2020/21, with the uptick mainly driven by the projected increase in subsidies, social protection and public investment, whereas revenues are expected to remain sluggish. This would push the government debt-to-GDP ratio upwards from 87.5 percent at end-FY2019/20 to above 90 percent of GDP by end-FY2020/21, before fiscal consolidation (mainly through domestic revenue mobilization) resumes over the medium-term, notably with the implementation of the recently-approved Medium-Term Revenue Strategy.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.3	5.6	3.6	2.3	4.5	5.5
Private Consumption	1.0	1.0	7.3	2.9	3.0	4.1
Government Consumption	1.7	2.8	6.7	1.0	2.0	2.5
Gross Fixed Capital Investment	16.9	14.1	-20.9	-8.1	14.7	16.9
Exports, Goods and Services	31.6	-2.2	-21.7	-11.0	12.0	13.0
Imports, Goods and Services	10.6	-8.9	-17.9	-11.2	8.0	11.0
Real GDP growth, at constant factor prices	5.3	5.1	2.5	2.2	4.4	5.4
Agriculture	3.1	3.3	3.3	3.3	3.3	3.3
Industry	6.4	5.8	0.6	3.8	5.9	7.0
Services	5.1	5.1	3.6	1.0	3.7	4.8
Inflation (Consumer Price Index)	21.6	13.9	5.7	5.3	7.5	8.5
Current Account Balance (% of GDP)	-2.4	-3.6	-3.0	-3.4	-2.8	-2.7
Net Foreign Direct Investment (% of GDP)	3.0	2.6	2.1	1.0	1.8	2.1
Fiscal Balance (% of GDP)	-9.7	-8.1	-8.0	-8.2	-7.0	-6.6
Primary Balance (% of GDP)	0.1	1.9	1.8	1.0	1.8	1.8
International poverty rate ($1.9 in 2011 PPP)[a,b]	3.9	4.1	4.3	4.4	4.2	
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	29.5	30.0	30.5	31.1	30.3	

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate, f = forecast.

(a) Calculations based on 2017-HIECS.Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022. Poverty rates prior to 2010 are based on a different consumption aggregate.

(b) Projection using neutral distribution (2017) with pass-through = 0.87 based on private consumption per capita in constant LCU.