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Egypt Trade and Economic Update

Market Report

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Prepared by the New Zealand Embassy in Cairo.

Summary

- Egypt's economy continues to show resilience despite the impact of the COVID–19 pandemic. Economic growth is projected to decline only slightly from 3.6% in FY2019/20 to 2.3% in FY2020/21.
- Egypt's overall budget deficit is projected to increase from 8% of GDP in FY2019/20 to 8.2% in FY2020/21, largely due to social protection, public investment and subsidies spending, coupled with reduced revenues from tourism and the Suez Canal.
- A three-year structural reform programme building on previous International Monetary Fund reforms has been announced to support private sector-led economic growth.
- Growth sectors include food, agribusiness, manufacturing, construction, natural gas extractives, real estate, banking, ICT and tourism (in the medium-term).

Report

Macroeconomic reforms over the past five years have buffered Egypt from the worst of the economic downturn triggered by the COVID-19 pandemic. The Egyptian economy has been more resilient than most in the region over the past 15 months. Egypt has maintained stable accounts and a modest but sound baseline of foreign currency reserves. However, COVID-19 has rolled back some recent gains achieved through reforms and highlighted some long-standing financial challenges. This includes a stagnant private sector (with the exception of oil), underperforming foreign direct investment and exports, high government debt-to-GDP ratio (despite recent progress), and a budget with limited health and education allocations.

Egyptian economy to grow

- Economic growth is projected to decline from 3.6% in FY2019/20 to 2.3% in FY2020/21 as a result of the COVID-19 pandemic. Domestic consumption is expected to be supported by increased social welfare spending, remittance inflows from diaspora communities, lower inflation and monetary easing.
- The current account deficit is projected to widen from 3.1% of GDP in FY2019/20 to 3.4% in FY2020/21, before plateauing at approximately 2.7% of GDP in the medium-term. This is attributed to a drop in tourism, Suez Canal revenues and other key services exports.
- The overall budget deficit is projected to increase from 8% of GDP in FY2019/20 to 8.2% in FY2020/21, due to the forecast increase in social protection, public investment and subsidies. Revenues are projected to remain limited.

Further economic reforms announced

- Following recent IMF-backed reforms via monetary and fiscal adjustments, Egypt has announced an additional three-year structural reform programme to support private sector-led economic growth. The programme will target specific sectors of the economy and state institutions to attempt to generate sustainable growth and mitigate the economic shock caused by COVID-19. While government details of the reform are light, the following objectives have been indicated:

- An annual growth rate of 6-7% over the next three years by 2023/24.
- The budget deficit of 5.5% this year, in line with IMF expectations and the primary surplus growing to 2%. The government also wants to achieve a balance of payment surplus of USD $3-5 billion by the end of the program.
- Developing the manufacturing, telecoms and information technology, and agriculture sectors that will result in the combined share of GDP rising to 30-35% by 2023/24 from 26% in 2020 year, and better integrate local industry into international value chains through higher value-added manufacturing.
- A focus on private sector-led growth: to develop the three sectors above by liberalising trade, improving competition and upgrading transportation and logistics infrastructure. It is also envisaged that private sector firms will play a greater role in vocational education and training. Measures will be taken to “simplify and standardise legislation, accelerate financial inclusion, and upgrade digital infrastructure”.

- The government has advised the additional reforms will not impact social welfare spending over the three-year period, including on food subsidies.

Sectors driving growth

- According to the Minister of Trade and Industry, Egypt’s food sector is one of the most productive sectors contributing 24.5% to the GDP. It is the second largest industry in Egypt achieving an average growth rate of 20% from 2015-2020. The value of food and agricultural crop exports during 2020 reached approximately USD $5.7 billion, representing 22% of total Egyptian exports.
- The American Chamber of Commerce in Egypt have advised construction and real estate are among the country’s fastest growing sectors, contributing an average 15% to annual GDP. Egypt’s manufacturing sector contributed 10% of the growth rate in the first quarter of 2020, according to Ministry of Trade and Industry officials.
- The World Bank believes other key sectors which are driving growth include agribusiness, manufacturing, and ICT. These sectors represent opportunities for expansion, employment and exports. Education and health are both sectors under pressure due to COVID-19 which the private sector is also demonstrating interest in. Egypt’s banking sector was the second-fastest growing in the region, second only to the UAE.
- According to financial analysis and ratings firm Fitch, increased natural gas production will be another key driver of economic growth over the coming year, with the country increasing its output of natural gas to match pre-COVID-19 production levels in FY2020/21. Production is expected to plateau at these rates.
- Medium-term growth will be driven by tourism sector recovery, with the economy expected to expand at a 5% rate in FY2021/22. Some 500,000 tourists have visited Egypt in 2021 to date, generating USD $600-800 million. Tourism and Antiquities Minister, Khaled El Anany, believes Egypt could return to pre-COVID-19 visitor numbers as early as October 2022.

The social safety net and unemployment

- Egypt has been strengthening social protection through expanding existing programmes and introducing temporary mitigation measures at the outset of the COVID-19 pandemic. According to the Central Agency for Public Mobilisation and Statistics (CAPMAS), Egypt reached an unemployment rate of 7.2% in the fourth quarter of 2020 with 2.16 million people recorded as unemployed.

Economic resilience and risks

- Tourism, manufacturing, the Suez Canal, and oil and gas extractives continue to be impacted by COVID-19 travel restrictions, disruptions to domestic and international supply chains, and a global slump in demand. Egypt’s foreign currency reserves will cover another seven months of imports at current rates, after rising to $40.3 billion in March, up from $40.2 billion in February. Risks to Egypt’s economic resilience include the country’s vaccine rollout, its ability to demonstrate it is a safe tourist destination and attract tourists back, and the impact of the Ever Given Suez Canal blocking.

Conclusion

- The Egyptian economy continues to fare well despite the COVID-19 pandemic, presenting a more stable outlook than most of its neighbours in the region. The avoidance of strict COVID-19 lockdowns has meant much of the population which lives financially day-to-day has managed to maintain their livelihoods and domestic consumption has to some degree cushioned losses from tourism and the Suez Canal. That said, COVID-19 rates are now increasing due to low adherence by the public of government mandated precautionary measures and widespread Ramadan group gatherings. It is likely that the economic impact of high infections will at some stage be felt in the economy.

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