EGYPT

Highlights

- **Growth continued to accelerate and inflation declined to within the central bank's target.** GDP has been growing for five consecutive quarters and fiscal and external deficits are narrowing, anchored within the IMF-supported programme.
- **Reform progress since the end of 2016 was significant.** More recently, there was progress on the industrial licensing, natural gas industry, railway, investment, companies and bankruptcy laws. In addition, the government cut fuel, electricity, water and metro ticket subsidies.
- **Foreign interest increased in local investments and debt.** The approval of the IMF programme in November 2016, coupled with the strong reform momentum, led to higher foreign direct and portfolio investments, increased remittances, a build-up of reserves and increased creditworthiness.

Key priorities for 2019

- **There is a need to move forward with the IPO programme.** The sale of state assets would boost the capital market, increase efficiency and increase private ownership. There is a need to prioritise the sale of well-performing, bankable and profitable companies, to rebuild confidence and attract international investors, even from unconventional destinations.
- **Commitment to the current reform programme should continue.** To date, the economic reform programme has improved Egypt's overall macroeconomic position and its business climate. Further legislation and implementation are needed to strengthen the recovery, including land registration reform.
- **Maintaining meticulous debt management mechanisms is needed to ensure repayment sustainability.** The government's appetite for borrowing remains high, and commitment to the debt strategy implemented by the Ministry of Finance is crucial to reduce the level of public debt, currently at 92.5 per cent of GDP.

Main macroeconomic indicators %

	2014	2015	2016	2017	2018 proj.
GDP growth	2.9	4.4	4.3	4.2	5.3
Inflation (average)	10.1	11.0	10.2	23.5	20.9
Government balance/GDP	-12.0	-11.4	-12.5	-10.9	-9.8
Current account balance/GDP	-0.9	-3.6	-6.0	-6.1	-2.6
Net FDI/GDP [neg. sign = inflows]	-1.3	-1.9	-2.1	-3.1	-2.8
External debt/GDP	15.1	14.4	16.6	33.6	35.8
Gross reserves/GDP	4.7	4.9	7.9	16.1	n.a.
Credit to private sector/GDP	24.0	25.3	31.1	24.4	n.a.

* Data for Egypt corresponds to fiscal year, July to June, except for reserves and credit to the private sector.

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Macroeconomic performance

Growth continued to accelerate for the fifth consecutive quarter. It reached 5.3 per cent year-on-year in the second quarter of fiscal year 2017-18, and an estimated 5.3 per cent for the year, the highest rate in a decade. The acceleration was driven by manufacturing; trade; tourism and construction; and the recovery in mining. In per capita US dollar terms, GDP shrank in fiscal year 2016-17, as a result of the currency depreciation and sustained population growth, and increased by 5.0 per cent in fiscal year 2017-18. Unemployment declined for the seventh consecutive quarter but remained elevated at 9.9 per cent in the second quarter of 2018, and higher among the youth (24.8 per cent) and women (21.2 per cent). The continued moderation in the unemployment rate is due mainly to the bold reforms implemented in late 2016 and throughout 2017, which have boosted export-oriented businesses and improved the economic outlook. The government has also launched large construction projects that have generated many jobs.

Inflation declined from its record high level of 33.0 per cent in July 2017 to 16.0 per cent in September 2018. Meanwhile, in January 2018, the real interest rate turned positive for the first time in almost two years, and continued to increase, supported by the decline in inflation, despite the easing of monetary policy which started in February 2018.

Fiscal and external positions have improved. The government achieved its first primary budget surplus in 15 years of 0.2 per cent of GDP in fiscal year 2017-18, and the overall fiscal deficit narrowed to 9.8 per cent of GDP (slightly below the target of 9.0 per cent) from 10.9 per cent in fiscal year 2016-17. The narrowing in the deficit was driven by a contained wages bill and lower interest payments, coupled with a continued strong tax performance, despite increases in spending on subsidies and transfers. Gross public debt declined from 103 per cent of GDP in fiscal year 2016-17 to 92.5 per cent of GDP in fiscal year 2017-18. Meanwhile the current account deficit narrowed from 6.1 per cent of GDP in fiscal year 2016-17 to 2.8 per cent in fiscal year 2017-18, thanks to the strong pick-up in tourism receipts, exports (oil, non-oil), Suez Canal revenues, and private transfers, notably remittances, which more than offset increases in imports. In recent months, Egypt has stepped up external borrowing and shifted away from costly short-term domestic debt to rebuild foreign exchange reserves, and reduce crowding out of credit to the private sector. International reserves rebounded to surpass pre-2011 levels, reaching a record high of US$ 44.5 billion in September 2018, and covering close to 7 months of imports, up from a critically low level of 3.1 months in June 2016.

Strong economic growth is expected to continue in the short term. GDP is expected to grow at 5.5 per cent in fiscal year 2018-19 and by 5.8 per cent in fiscal year 2019-20, supported by a number of factors. These include the continued boost in confidence, recovery in tourism, an increase in foreign direct investment, improved competitiveness, continued strengthening of exports, the start of natural gas production from the Zohr field, the implementation of business environment reforms and prudent macroeconomic policies. In nominal dollar terms, GDP per capita will continue to grow in the short term. The main risks to the outlook arise from a slow-down in reforms, and increases in global oil prices which would delay fiscal consolidation. These risks are mitigated by the authorities' strong commitment to, and ownership of, the economic reform programme.

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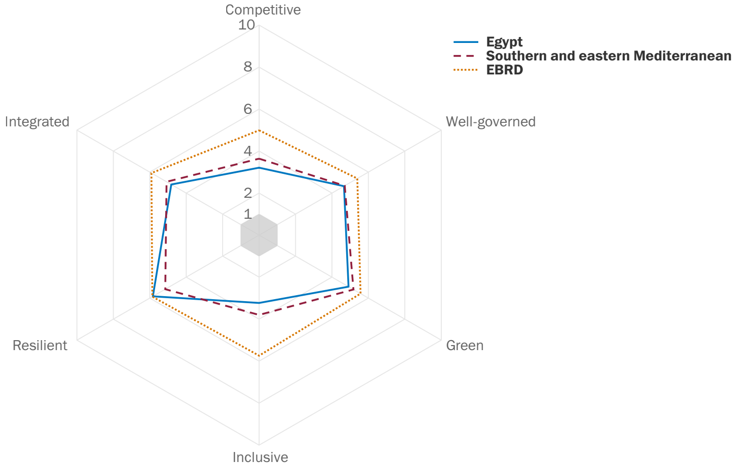
Assessment of transition qualities (1-10)



Major structural reform developments

The government performed several rounds of fuel and electricity subsidy reforms, and increased water and metro ticket prices. The Transport Ministry announced in May 2018 a new tariff scheme for the Cairo Metro that saw ticket prices more than triple in some instances and changed the pricing scheme to a tier system based on distance travelled. Ticket prices doubled under similar circumstances in March 2017. In the latest round of fuel subsidy reform in June 2018, the price for gasoline and diesel increased by 17.4 to 50.7 per cent and the price for a canister of gas for both households and for commercial purposes was raised by 66.7 per cent. Electricity prices increased in July 2018 on all consumption brackets by up to 42 per cent. In June 2018, the government raised piped water prices by up to 46.5 per cent as well as sewerage fees. Lastly, in July 2018, the government partially removed the subsidy on natural gas consumption for the household and business sectors. As a result, gas prices increased by up to 75 per cent.

Private sector participation in previously blocked sectors has been enabled. Two new pieces of legislation came into force in August 2017 and March 2018, respectively: the Natural Gas Act and the Railway Act. The former legislation allows private companies to import and trade natural gas, thus transforming the state from a monopoly distributor to a regulator. The Act also allows incentives to investment in the liquefied natural gas, petrochemicals, and fertiliser industries. Similarly, the latter law would allow private sector participation in developing, managing and operating railway projects.

A new bankruptcy law is in place. The new law was passed by parliament in January 2018. The Act effectively decriminalises bankruptcy by abolishing prison sentences and allows companies more time and options for restructuring by introducing mechanisms to help settle commercial disputes outside the courtroom and simplify bankruptcy proceedings. Special bankruptcy courts to arbitrate on these cases are now being formed.

The Investment Ministry issued amendments to the executive regulations of the Companies Act. The amendments are the most sweeping changes to the regulations of the Companies Act in 35 years, with 51 articles being amended. Amendments to the law allow the formation of single-shareholder limited liability companies and give measures of protection to companies against whistle-blowers.

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Social protection measures are under way. Resolutions to protect the most vulnerable groups were announced by the President in June 2018. The main measures are: an individual's share from a ration card increased from E£ 21 (US$ 1.20) to E£ 50 (US$ 2.80); a 15 per cent hike in the value of pensions for elderly citizens; increases in the allocations for the Ministry of Social Solidarity's conditional cash transfer programme "Takaful and Karama"; and a 7 per cent periodic bonus for public employees, as well as a 7 to 10 per cent rise in base salaries.

The Financial Regulatory Authority (FRA) announced the launch of a movable collateral assets registry. The launch took place in March 2018. The registry is expected to facilitate small and medium-sized enterprise funding and aid the government's financial inclusion efforts by allowing machines, patents and engineering designs to be used as collateral.

A new Leasing and Factoring Act is in place. The legislation, ratified by the President in August 2018, sets up a regulatory framework for factoring and leasing, having been amended by the FRA as part of its drive to improve access to finance for small businesses. Parliament also gave its final approval to the Public Contracts Act in July 2018. The legislation aims to decentralise and streamline tender procedures. Lastly, parliament approved amendments to the Government Accounting Act that legally enshrine the transition towards a cashless economy. The amendments make it mandatory for all government transactions to be electronic, and ban the use of paper cheques for transactions above a set threshold.

The authorities have announced plans to offer shares in state-owned assets in various sectors to promote competition, but implementation has been delayed. The objective of the initial public offering programme is to get state-owned enterprises (SOEs) outside the direct influence of bureaucrats and into the hands of investment professionals, bring private capital into public enterprises, ingrain more private sector management principles in SOEs, make SOEs more profit-oriented and reliant on key business indicators, and avoid "production for production's sake". In July 2018, the government listed the first five public companies: Alexandria Mineral Oils Company, Eastern Tobacco, Alexandria Container and Cargo Handling, Abou Kir Fertilizers and Heliopolis Housing.

Reforms to facilitate land ownership and remove barriers to trade are lagging behind. The investment law approved in 2017 did not resolve some of the difficulties facing investors in land acquisition procedures, despite considerably easing the process of establishing companies and obtaining licences. Moreover, in July 2018, parliament approved amendments to the Customs Act, to slash customs duties on capital goods and expand temporary exemptions for production inputs and packaging equipment, in addition to introducing provisions that aim to curb customs evasion. Meanwhile, an overhaul of the Act is yet to be presented to parliament, including measures to facilitate the flow of goods through Egypt's ports, including establishing a "white list" of importers who will benefit from expedited clearance of goods.