Country Report

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The Economist Intelligence Unit

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Symbols for tables

"0 or 0.0" means nil or negligible;"n/a" means not available; "-" means not applicable

Egypt

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Summary

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Briefing sheet

Editor: **Keren Uziyel**

Forecast Closing Date: **December 21, 2020**

Political and economic outlook

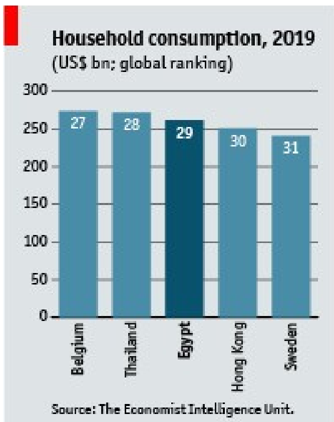
- The Economist Intelligence Unit expects the president, Abdel Fattah el-Sisi, to maintain political dominance and win re-election in 2024 as he quells domestic disquiet over coronavirus-related challenges, consolidates his power and suppresses dissent.
- Egypt's ties with the US, the UAE and Saudi Arabia will remain strong, reflecting shared concerns about Iran and Islamist militancy, but the new US administration will be more critical of the Egyptian regime's authoritarian nature.
- Egypt will remain engaged in the Eastern Mediterranean as tensions with Turkey persist over gas and strategic interests in the area. Egypt will clash with Ethiopia over Nile water supplies, but will avoid military confrontation, favouring a compromise.
- Egypt will have sufficient access to vaccines to begin a partial rollout of mass coronavirus (Covid-19) immunisation only from the second quarter of 2021; the easing of the number of cases will not noticeably affect major sectors until fiscal year 2021/22 (July-June).
- The fiscal deficit will widen to 8.5% of GDP in 2020/21 as pandemic-related spending pressures persist, particularly for the healthcare sector and revenue stays muted.
- GDP growth will be weak in 2020/21, given sluggish global tourism recovery and weak domestic demand, but GDP growth will pick up to 5.1% a year in 2021/22-2024/25.
- The current-account deficit will shrink in 2021-25, owing to a widening services surplus. Foreign investment and debt financing will help to cover financing needs.

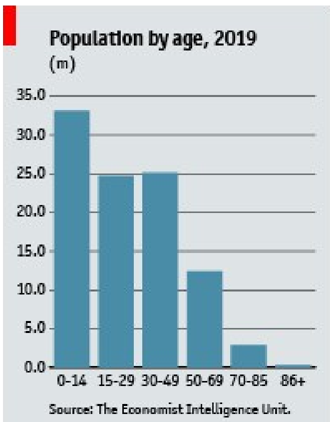
Key indicators

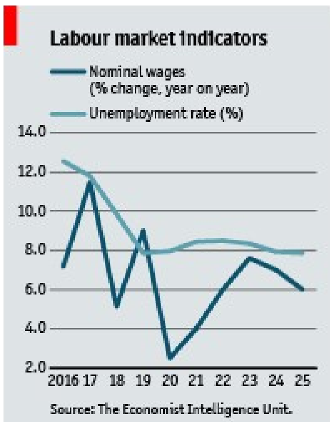
	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
Real GDP growth (%)	3.6[c]	2.4	4.1	5.1	5.7	5.2
Consumer price inflation (av; %)	5.1	5.9	5.7	5.6	5.0	4.5
Government balance (% of GDP)[d]	-7.9	-8.5	-7.8	-6.9	-6.6	-6.6
Current-account balance (% of GDP)[e]	-3.4	-2.9	-2.4	-2.0	-1.7	-1.5
Money market rate (end-period; %)	13.2	11.7	11.3	11.7	12.0	12.3
Unemployment rate (%)	8.0	8.4	8.5	8.3	7.9	7.9
Exchange rate E£:US$ (av)	15.81	15.68	15.72	15.65	15.59	15.52

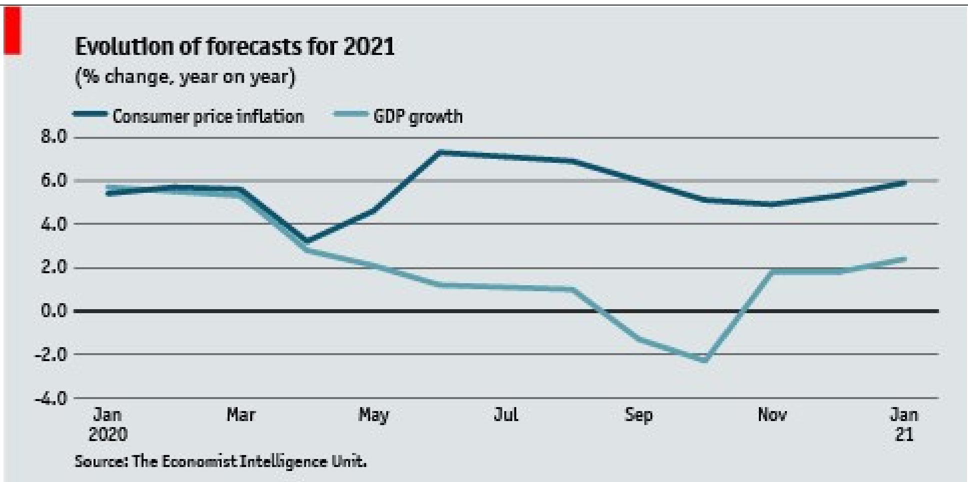
[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Fiscal year data ending June 30th. [e] Ratio based on calendar year GDP; national accounts use fiscal year.

Market opportunities









Key changes since November 17th

- We have revised down our forecast for the fiscal deficit in 2020/21 to reflect a strong pick-up in tax revenue in the first quarter of that fiscal year; the deficit will edge up to 8.5% of GDP in 2020/21 (10.1% previously) and then edge down to 6.6% of GDP in2024/25.
- We now expect the global economy to grow by 4.5% in 2021 (revised up from 4.2% in our previous outlook), owing to a more positive outlook for vaccine rollout in key economies, following the massive coronavirus-induced contraction in most of 2020.
- Nonetheless, the vaccine will not start to be rolled out more widely until the second quarter of 2021, allowing for mass coverage only by end-2021, given logistical and cost issues. Egypt is likely to begin a mass rollout of the vaccine by mid-year.
- Recovery in major sectors like tourism will depend heavily on the effect of vaccine rollout and a recovery of consumer demand in the EU. Our 2020/21 growth forecast is revised up only modestly, to 2.4% growth, and the economy will grow more strongly thereafter.

The month ahead

- **December 24th—Central Bank of Egypt (CBE) monetary policy committee meeting:** The committee made major policy rate cuts at the beginning of the pandemic and two further 50-basis-point cuts to the main operation rate at its September and November meetings, bringing it to 8.75%. Further modest monetary easing is in prospect in 2021.
- **January 6th—Foreign-exchange reserves (end-2020; CBE):** The IMF has released the second, US$1.67bn tranche of the US$5.2bn 2020-21 stand-by arrangement, helping to push up year-end foreign reserves, which stood at US$33.4bn at end-October, but these will still be considerably lower than a year earlier.
- **January 8th—Consumer price inflation (November; CAPMAS):** The rapid decline in inflation seen earlier in the year has eased, with prices up by 5.7% year on year in November, but as currency strength is limiting imported inflation, and consumer demand growth is constrained, inflation will have fallen over the year and remain manageable in 2021.
- **January—Negotiations continue as Ethiopia fills its Grand Ethiopian Renaissance Dam:** Ethiopia began filling the dam in mid-July, and Egypt is concerned about the impact of this process on the downstream flow of Nile waters, especially in drought years. Mediation efforts could be disrupted by the outbreak of civil conflict in Ethiopia.

Major risks to our forecast

Scenarios, Q4 2020	Probability	Impact	Intensity
A fresh wave of countrywide unrest seeks to oust the government and Mr Sisi	Moderate	Very high	15
A lack of vaccine adoption prolongs the coronavirus epidemic into 2021-22, driving the economy into a deep, lengthy recession	Moderate	Very high	15
Concern about continued popular unrest leads to the reversal of IMF-backed reforms	Moderate	Very high	15
Coronavirus-induced fiscal pressures force the government to hike corporate taxes	Moderate	Very high	15

Negative net foreign assets lead to heightened local currency volatility	Moderate	Very high	15

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.
Source: The Economist Intelligence Unit.

Outlook for 2021-25

Political stability

The president, Abdel Fattah el-Sisi, will remain in power throughout the 2021-25 forecast period. Constitutional changes have extended his current, second term from four to six years, until 2024, and will allow him to stand for a further six-year term—until 2030, when he will be 75 years old—and The Economist Intelligence Unit expects him to retain his position. His tight control over other branches of government, with recent elections reinforcing pro-Sisi blocs in the parliament, together with the support of the military, will allow him to maintain his grip on power. However, the centralisation of the president's authority, as well as the suppression of dissent, will attract some international criticism and poses increasing risks to political stability at a time of growing socioeconomic uncertainty given the coronavirus (Covid-19) pandemic and the subsequent policy correction that will be required. The government will continue to stifle its critics while also attempting to use supportive economic measures to defuse social tensions triggered by economic hardship.

However, underlying tensions over the nature of the regime and its authoritarian approach to policy implementation will heighten dissent. Subsequent fiscal tightening could also trigger street protests, but the authorities will crack down hard before unrest can gather enough momentum to threaten the regime. A combination of effective deployment by Mr Sisi's security apparatus, increased state largesse to the poorest Egyptians and public distaste for further instability is likely to keep such pressures contained for most of the forecast period. However, continued political repression could exacerbate discontent prior to the 2024 presidential election—although it is unlikely to change the outcome—and undermine Mr Sisi's rule in the longer term.

Domestic policies will focus on economic development and infrastructure expansion, particularly in still-restive Sinai and other deprived areas, and on security. Mr Sisi, formerly the head of the armed forces, will exert tight control over internal security and will continue to crack down on Islamist militants. However, sporadic incidents of militancy will occur, with risks increasing as development strategies fail to improve conditions sufficiently for many pandemic-affected Egyptians. Such circumstances could lose Mr Sisi the loyalty of the armed forces, and potentially his position.

Parliament's subservience to Mr Sisi will be reinforced by recent constitutional changes to its composition. The most active opposition to the government comes from Sinai-based jihadi groups, as well as the deposed Muslim Brotherhood—support for which has ebbed—and its militant offshoots, Hassm and Liwa al-Thawra. Although militant groups will carry out sporadic attacks, we expect the military to successfully limit these following a sweeping anti-terrorism offensive launched in 2018.

Election watch

Elections are a means for Mr Sisi to consolidate power rather than a democratic exercise. This carries a risk of volatile regime change, but probably beyond the forecast period. Elections are not free or fair, and candidates are almost exclusively from government-allied blocs. The outcome of the elections for the House of Representatives (the lower house), which were completed in early December, was never in doubt. Mostaqbal Watan (Future of the Homeland), a dominant pro-Sisi party, won the most seats by far, with low voter turnout. The party will dominate parliament, and most smaller blocs and nominal independents will at least broadly support the government. Mostaqbal Watan will be the favoured conduit for government policies, and tighter control by one party will increase the direct influence of the president over parliament. Mr Sisi, who seems to be in relatively good health, can stand for another term at the next presidential election, in 2024, and is likely to stay in power until 2030. Repeatedly delayed municipal elections are likely to be held by 2022; these are important for businesses, as municipal councils implement local investment regulations.

International relations

The government's priorities will centre on maintaining cordial ties with the US, although Mr Sisi's authoritarian style is likely to cause friction in the relationship as it will with strategic and commercial allies in Europe, but not sufficiently to endanger relations as Egypt sporadically makes small concessions on human rights to assuage Western concerns. The administration of the US president-elect, Joe Biden, is likely to be more critical of Mr Sisi's government's human rights violations than the outgoing US administration, but the North African state's strategic value will ensure that security ties and US financial support are maintained. Egypt will also build a broader range of international links, including strong political ties with Saudi Arabia and the UAE to secure maximum economic backing.

Egypt will build on security ties in the Gulf and Eastern Mediterranean in a bid to curb the growing influence of its regional rival, Turkey. Egypt views Turkey as a threat to its energy interests through its military support for the UN-backed Government of National Accord (GNA) in western Libya. Egypt will also seek to limit threats from Islamist militancy emanating from Libya, and will direct political and military support to groups allied with the GNA's rival government in eastern Libya. However, it will favour mediation to protect its interests over direct military engagement. Amid wider Eastern Mediterranean hydrocarbons developments, Egypt will remain vigilant over Turkey's rival regional ambitions. Egypt will seek to deter incursions by Turkey, which does not recognise the 2003 maritime border demarcation deal between Egypt and Cyprus, but will avoid military escalation. Co-ordination with Mediterranean neighbours Greece and Cyprus, and with Israel over natural gas and shared security interests, will continue.

Egypt will lean on the Gulf Arab states for economic support in the wake of the pandemic and co-ordinate on major international issues. It will continue to participate in the boycott of Qatar, which we do not expect to be resolved until later in 2021, to retain the backing of the UAE and Saudi Arabia in particular, but it will still seek Qatari investment. Egypt, the UAE, Israel and Saudi Arabia will step up joint efforts against security threats, with increased co-ordination facilitated by Israel's normalisation of ties with several regional states.

Ethiopia's filling of the Grand Ethiopian Renaissance Dam, which began in mid-July, will constrain the flow of water from the Blue Nile to Egypt. International mediators will seek a deal to address Egyptian and Sudanese concerns over flow rates, but tensions will stay high, although we do not expect an escalation into military confrontation. Egypt will continue to strengthen commercial and defence ties with Sudan in order to consolidate its negotiating position over the dam. Ethiopia might agree to modest slowdowns in fill rates during drought periods but will reject more sweeping concessions, especially as it is under domestic pressure from the outbreak of civil conflict.

Policy trends

In the short term policy will focus on addressing the economic fallout from the pandemic. This will be centred on large infrastructure projects in areas such as transport and desalination, aimed at supporting aggregate demand and at enhancing longer-term productive capacity. Improving water and rail infrastructure and tackling rural underdevelopment, especially in the restive Sinai region, will remain a priority, and be aided by multilateral funding packages. Egypt will maintain a strong relationship with the IMF, having concluded a US$12bn programme in 2019. It has tapped US$2.8bn from the Fund's coronavirus rapid financing initiative and agreed a further 12-month, US$5.2bn stand-by arrangement (SBA), the second tranche of which was released in late December and which is likely to be fully disbursed within the timeframe. Other multilateral agencies will also disburse funds to Egypt, including funding to support small and medium-sized enterprises following the pandemic and to sustain infrastructure projects.

As the pandemic begins to recede from the second half of 2021, some fiscal and monetary measures deployed during the crisis will be withdrawn. However, support for tourism, a major employer that will remain badly affected, will be maintained. The government's capacity to provide further relief will be tested; following an increase in the minimum wage and pensions and a raising of the income tax threshold for the 2020/21 (July-June) fiscal year. However, the government will roll back some pandemic-related tax-relief measures and tariff cuts in a bid to rebuild public finances. A 1% surtax has already been imposed on employee salaries, and capital gains tax will be belatedly introduced in May 2022.

As well as a gradual move towards more sustainable public finances, structural and regulatory reforms to make Egypt more attractive to foreign investors, and to boost the domestic private sector, will be prioritised. However, considerable hurdles remain for export-oriented industries. Although some smaller military-owned firms are being put forward for privatisation amid pressure from the IMF, the influence of powerful interest groups, especially the extensive business interests of the military, will continue, hampering the reform process and private-sector development even after the immediate pandemic crisis subsides.

The global energy demand slump will damage short-term prospects for the energy sector, delaying some developments, but hydrocarbons will remain a government priority. Egypt will draw on regional ties to advance its role as an energy hub for the Eastern Mediterranean and as a gas exporter, despite geopolitical constraints amid regional rivalry with Turkey.

Fiscal policy

The budgetary fallout from the pandemic will remain intense in 2020/21 and beyond. Modest growth in economic activity, reformed tax thresholds and tax breaks aimed at boosting disposable incomes and supporting businesses will dampen revenue collection, but the government has taken some measures to offset this, including the surcharge on salaried employees for 2020/21, which has helped to boost the tax take overall. The government will increase transfer payments to the poorest, as well as public-sector wages and pensions, to limit political discontent, adding to the fiscal burden. Dealing with the virus will use up some of the cost savings from recent subsidy reductions, which will continue to be implemented in a bid to contain upward spending pressures.

Value-added tax (VAT) earnings, which generate almost half of tax revenue, will recover, with a small rate increase from 14% likely in the middle of the forecast period. The government will leave the corporate tax rate unchanged at 22.5% early in the forecast period to encourage a recovery in investment, raising it marginally later in the forecast period as it seeks to manage the public finances. We expect the fiscal deficit to peak at 8.5% of GDP in 2020/21, given the drag on revenue of weak GDP growth and ongoing pandemic mitigation measures. The deficit will then narrow, but fiscal rationalisation will slow in 2023/24, owing to election-related spending ahead of the presidential poll. The deficit will average 7% of GDP a year in 2021/22-2024/25. Funding the deficit will involve domestic borrowing and tapping multilateral and bilateral sources in the early years of the forecast period, topped up with more costly sovereign bond issuance, driving public debt up to a peak of 116.8% of GDP at end-2020/21.

Monetary policy

Monetary policy will prioritise stimulating the economy. The Central Bank of Egypt (CBE) cut its main rate by 300 basis points in mid-March, to 9.25%, in response to the virus and two further 50-basis-point cuts, to 8.25%, were made later in 2020. Further small cuts may be needed in 2021. The CBE will balance concerns of currency volatility, renewed capital outflows or a return to higher inflation with the need to revive the private sector. It has launched industrial and home-purchase stimulus schemes to support a recovery in private-sector credit extension. From late 2022, as rising global prices reignite inflationary pressures, the policy rate will rise slightly, but this should ease, and the rate begin to stabilise, in a more manageable inflation environment in 2024-25.

International assumptions

	2020	2021	2022	2023	2024	2025
Economic growth (%)						
US GDP	-3.7	3.3	2.4	2.0	1.8	1.9
EU27 GDP growth	-7.1	4.6	3.8	2.2	1.9	1.9
World GDP	-4.4	4.5	3.5	3.0	2.8	2.7
World trade	-10.3	6.8	5.5	4.4	4.1	3.8
Inflation indicators (%)						
US CPI	1.2	1.5	1.8	2.2	1.9	2.0
EU27 CPI	0.6	0.9	1.5	1.7	1.7	1.7
Manufactures (measured in US$)	-1.3	3.7	2.1	3.1	2.2	2.0
Oil (Brent; US$/b)	42.2	47.0	53.0	57.5	55.0	50.0
Non-oil commodities (measured in US$)	2.2	9.9	2.7	-4.4	2.0	1.5
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.6	0.2	0.2	0.2	0.6	1.0
Exchange rate E£:US$ (av)	15.81	15.68	15.72	15.65	15.59	15.52
Exchange rate US$:€ (av)	1.14	1.18	1.15	1.17	1.20	1.21

Economic growth

Egypt: Rollout of vaccines and its impact

The Economist Intelligence Unit estimates that global output contracted by 4.4% in 2020. In 2021 we expect global GDP to rebound by 4.5%, with growth in OECD countries reaching record-high levels. However, this will mainly be the result of a statistical distortion owing to base effects. We continue to expect that global real GDP will not recover to its pre-coronavirus (2019) level before 2022. This global forecast masks wide disparities; some economies will take at least four years to recover. Our global economic forecasts are based on our long-standing view that a coronavirus vaccine will not be widely available until the second half of 2021, when we expect growth to rebound strongly. The news that three coronavirus vaccines, developed by Pfizer (US)/BioNTech (Germany), Moderna (US) and AstraZeneca (UK), are effective has not altered this assumption. This positive development represents only the first step in the rollout of vaccination programmes over many months and, for many countries, years. The vaccines will not be available in sufficient quantities in the coming months to allow the immunisation of entire populations, even in developed economies. Logistics, shipping and storage pose difficulties, especially for the Pfizer vaccine, which must be stored at extremely cold temperatures. We therefore maintain our view that a vaccine will not start to be rolled out widely in developed economies before mid-2021. Access to the vaccine will be limited initially as developed countries compete to acquire sufficient quantities, and poorer countries struggle to secure funding. As a result, the rollout in middle-income and emerging market countries, including Egypt, will take much longer; we do not expect it to take place at scale before 2022. The picture is bleaker for low-income countries; we do not expect most of these to have wide access to a vaccine before 2022-24.

Even assuming emergency authorisation of the three vaccines in most countries between December 2020 and March 2021, production, distribution, storage and other challenges mean that a mass vaccination programme will be difficult. There will be no immediate return to normal in 2021, but the vaccine rollout will mean that a path to normality becomes clearer. In the meantime, continued local outbreaks and lockdowns are to be expected.

China and Russia appear keen to share their own state-backed vaccines which would support efforts to expand their political and economic influence. Egypt is in negotiations with Russia's Sputnik V initiative, Pfizer and AstraZeneca over vaccine supplies. Egypt started to administer China's Sinopharm vaccine to healthcare workers in mid-December. The distribution of effective vaccines from this source appears likely to continue in 2021, while other sources become available in the first and second quarter of 2021. Egypt has also secured access to 20m doses of vaccine through the COVAX consortium—a multilateral/multi-organisation body established to help to manage an equitable distribution of vaccines globally. So far Egypt has secured commitments for a total of 32.5m doses, which, with most vaccines requiring two doses, would cover about 16% of the population. This will provide access to the most vulnerable Egyptians and those working in key economic sectors, but for Egypt, a mass rollout is unlikely to be completed until well into 2022 or possibly 2023, even with access to both Western and Russian and Chinese vaccines. A lack of funding, the need for public health education and deficiencies in the healthcare infrastructure and global supply and logistical issues will slow distribution. Egypt's population is concentrated around the Nile Delta but is not heavily urbanised, which will further hinder distribution, especially for those vaccines with more complex storage requirements.

With the vaccine rollout likely to be extended, Egypt faces ongoing tailwinds to its economy over the pandemic. Case numbers have risen significantly in recent weeks: Egypt has recorded a total of 124, 891 cases and 7,069 fatalities as at December 20th, and more than 600 new cases are reported daily. A resurgence in the spread of the disease in Europe will hamper recovery in tourism amid renewed local restrictions and international travel bans. As mass distribution of the vaccine is still some way off, renewed restrictions are likely intermittently, although they will probably fall short of a full national lockdown, concentrating on the most afflicted areas and sectors. Economic growth will not recover to longer-term trend rates until the middle of the forecast period.

Economic growth

The impact of the pandemic on trade and tourism flows and on domestic activity will last well into 2020/21, but given the extent of government support for key projects, we expect the economy to expand by a modest 2.4% in that year. Pandemic-related global headwinds will hinder several sectors. Tourism, which accounts for about 9.5% of employment and 5.5% of GDP, will be hit hard, with many businesses unable to survive the sector's shutdown and painful reopening. The tourism slump will be prolonged given the effect of the pandemic on international travel and on incomes and the extended period needed to roll out vaccines widely. A weak tourism sector will subdue the retail and services sectors. Multilateral backing will support continued government consumption and investment, but private consumption growth and exports will stay vulnerable.

The economy will expand strongly in 2021/22, by 4.1%, as global demand picks up in earnest and new energy projects gain momentum, increasing investment. Lower unemployment will boost private consumption, but widespread poverty will constrain consumer demand growth. The construction and energy sectors will be the main engines of growth in the middle of the forecast period. The government is pursuing low-income housing schemes and building a new (administrative) capital city east of Cairo, the capital, which is near completion. Capital goods imports will increase to support infrastructure projects.

Tourism and other export and services sectors will revive later in the forecast period. Confidence in hard-currency availability will recover and attract foreign investors from 2022. With growth becoming broader-based and unemployment falling, consumer spending should accelerate in 2022-25. Development of hydrocarbons resources and processing capabilities could boost long-term expansion, with annual growth forecast to average 5.2% in 2022/23-2024/25.

Economic growth

%	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
GDP	3.6[c]	2.4	4.1	5.1	5.7	5.2
Private consumption	7.2[c]	1.8	3.4	3.8	4.3	3.8
Government consumption	6.7[c]	3.3	2.0	2.5	3.4	3.2
Gross fixed investment	-20.2	6.0	11.0	12.5	10.0	9.0
Exports of goods & services	-21.7[c]	9.0	11.7	10.4	9.3	8.3
Imports of goods & services	-17.9[c]	9.5	9.9	7.7	5.3	4.4

Domestic demand	2.8	2.3	4.3	4.9	5.1	4.6
Agriculture	3.3	2.0	3.0	2.8	3.2	4.0
Industry	3.0	2.0	4.4	5.0	5.2	4.5
Services	1.9	1.4	4.1	5.8	6.1	5.5

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual.

Inflation

With a prolonged consumer demand downturn, as well as low commodity price inflation and a strengthening currency, inflation will stay subdued in 2021, averaging 5.9%. The impact of stronger oil price rises and higher domestic demand in 2022-23 will be mostly offset by the impact of a strengthening currency on imported prices, keeping price growth manageable in those years. Inflation will then ease further as the rebound from the pandemic dissipates. Annual average inflation is expected to slow in 2025, to 4.5%.

Exchange rates

The Egyptian pound will be vulnerable to negative sentiment towards emerging economies in global financial markets, or to a weakening of the current-account position, causing bouts of currency volatility in 2021. However, the pound will strengthen overall. Widespread international support has allowed Egypt to access debt markets and rebuild foreign reserves, supporting the pound. The IMF's new SBA will require Egypt to maintain the free float that it adopted in 2016. Beyond 2021 we expect steadier real exchange-rate appreciation, given a growing natural-resource endowment and contained inflation. The pound will face pressure at times of crisis, but intervention will decline. We expect the pound to strengthen to an average of E£15.52:US$1 in 2025.

External sector

The trade deficit will widen in 2021 as global prices for fuel and other imports outpace the post-pandemic recovery in demand for Egypt's exports. In 2022-25 gas exports and non-hydrocarbons exports will pick up as global demand recovers. Capital goods inputs for infrastructure projects and stronger consumer demand will push up import spending. The trade deficit will widen gradually in nominal terms, but will be modest by historic standards, expanding to 7.3% of GDP in 2021-22 but contracting over the remainder of the forecast period, to 6.1% of GDP a year in 2025, about half the 2016-20 ratio.

Services exports will recover only slightly in 2021 given the impact of the pandemic on tourism—which generates about 15% of current-account receipts and will take years to recover—and, to a lesser extent, on global trade. Sources of income such as official transfers and remittances will also recover only weakly at first. Despite the expansion in the trade deficit, the stronger non-merchandise outturn will push down the current-account deficit in 2021. As growth in tourism begins to pick up pace the current-account deficit will narrow further, averaging 1.9% of GDP a year in 2022-25, which should be financeable owing to a recovery in portfolio and direct investment.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2020[a]	2021[b]	2022[b]	2023[b]	2024[b]	2025[b]
Real GDP growth	3.6[c]	2.4	4.1	5.1	5.7	5.2
Industrial production growth	3.0	2.3	4.7	5.5	5.3	4.6
Gross agricultural production growth	3.3	2.0	3.0	2.8	3.2	4.0
Consumer price inflation (av)	5.1	5.9	5.7	5.6	5.0	4.5
Lending rate (av)	11.0	10.0	9.8	10.3	10.8	11.1
Government balance (% of GDP)	-7.9	-8.5	-7.8	-6.9	-6.6	-6.6
Exports of goods fob (US$ bn)	24.8	27.5	30.2	33.4	36.3	38.7
Imports of goods fob (US$ bn)	51.4	58.2	63.9	69.1	74.1	78.0
Current-account balance (US$ bn)	-12.9	-12.0	-11.3	-10.2	-10.0	-9.6
Current-account balance (% of GDP)[d]	-3.4	-2.9	-2.4	-2.0	-1.7	-1.5
External debt (end-period; US$ bn)	135.8	145.0	148.4	151.6	154.2	156.8
Exchange rate E£:US$ (av)	15.81	15.68	15.72	15.65	15.59	15.52
Exchange rate E£:US$ (end-period)	15.69	15.71	15.68	15.60	15.55	15.47
Exchange rate E£:¥100 (av)	14.82	15.06	15.22	15.13	14.89	14.70
Exchange rate E£:€ (av)	18.03	18.42	18.00	18.23	18.63	18.78

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Ratio based on calendar year GDP; national accounts use fiscal year.

Data and charts

Annual data and forecast

	2016[a]	2017[a]	2018[a]	2019[a]	2020[b]	2021[c]	2022[c]
GDP[d]							
Nominal GDP (US$ bn)	269.1	194.5	249.1	316.4	368.1	399.5	437.1
Nominal GDP (E£ bn)	2,709	3,470	4,437	5,322	5,820[a]	6,265	6,872
Real GDP growth (%)	4.3	2.7	5.3	5.6	3.6[a]	2.4	4.1
Expenditure on GDP (% real change)[d]							
Private consumption	4.5	5.1	1.0	1.0	7.2[a]	1.8	3.4
Government consumption	3.9	2.5	1.7	2.8	6.7[a]	3.3	2.0
Gross fixed investment	11.1	12.6	19.3[b]	12.3[b]	-20.2	6.0	11.0
Exports of goods & services	-14.8	81.3	31.6	-2.2	-21.7[a]	9.0	11.7
Imports of goods & services	-1.7	56.3	10.6	-8.9	-17.9[a]	9.5	9.9
Origin of GDP (% real change)[d]							
Agriculture	3.1	3.2	3.1	3.3	3.3	2.0	3.0
Industry	0.7	2.1	6.0	5.7[b]	3.0	2.0	4.4
Services	3.3	25.2	5.8	5.1[b]	1.9	1.4	4.1
Population and income							
Population (m)	91.0	95.2	97.1	98.9	101.1	103.0	105.0
GDP per head (US$ at PPP)	11,616	11,158	11,802	12,469[b]	12,674	12,915	13,419
Recorded unemployment (av; %)	12.6	11.8	9.9	7.9	8.0	8.4	8.5
Fiscal indicators (% of GDP)[d]							
Central government revenue	20.3	21.8	20.6	20.3	19.8	21.0	21.9
Central government expenditure	32.7	32.2	30.1	28.3	28.6	30.1	29.8
Central government balance	-12.5	-10.4	-9.5	-8.0	-8.8	-9.1	-7.8
Central government debt	113.5	117.3	116.0	112.0	116.7	119.9	119.3
Prices and financial indicators							
Exchange rate E£:US$ (av)	10.07	17.84	17.82	16.82	15.81	15.68	15.72
Exchange rate E£:€ (av)	11.14	20.15	21.05	18.83	18.03	18.42	18.00
Consumer prices (av; %)	13.8	29.5	14.4	9.2	5.1	5.9	5.7
Producer prices (av; %)	13.8	33.2	24.1	5.0	-7.3	5.0	5.8
Stock of money M1 (% change)	20.2	17.9	13.4	15.8	19.7	11.5	12.8
Stock of money M2 (% change)	39.0	20.9	13.3	13.3	19.3	10.3	15.4
Lending interest rate (av; %)	13.6	18.2	18.3	16.1	11.0	10.0	9.8
Current account (US$ m)							
Trade balance	-38,312	-36,515	-37,780	-37,487	-26,616	-30,723	-33,751
Goods: exports fob	20,018	23,339	28,046	28,472	24,822	27,501	30,156
Goods: imports fob	-58,330	-59,855	-65,826	-65,959	-51,438	-58,223	-63,907
Services balance	3,635	9,166	13,071	12,059	4,456	7,259	9,139
Primary income balance	-4,310	-5,344	-8,463	-11,581	-11,099	-11,641	-12,375
Secondary income balance	18,519	24,774	25,489	26,799	20,316	23,129	25,720
Current-account balance	-20,468	-7,919	-7,682	-10,210	-12,942	-11,976	-11,266
External debt (US$ m)							
Debt stock	69,164	84,723	100,186	115,080	135,766	145,047	148,435
Debt service paid	6,633	6,695	7,908	8,785	11,486	15,852	17,112
Interest	1,527	2,073	2,789	4,152	3,306	3,792	4,045
International reserves (US$ m)							
Total international reserves	23,204	35,887	41,325	43,986	35,833	37,759	38,596

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Fiscal year data ending June 30th.
Source: IMF, International Financial Statistics.

Quarterly data

	2018 4 Qtr	2019 1 Qtr	2 Qtr	3 Qtr	4 Qtr	2020 1 Qtr	2 Qtr	3 Qtr
Output								
Real GDP at 2016/17 prices (E£ bn)	951.0	975.2	1007.4	976.1	1004.7	1024.4	999.3	n/a
Real GDP (% change, year on year)	5.5	5.6	5.7	5.6	5.6	5.0	-0.8	n/a
Prices								
Consumer prices (Jan 2010=100)	100.5	100.0	102.1	104.2	105.1	105.8	107.6	108.1
Consumer prices (% change, year on year)	15.1	13.8	12.1	7.0	4.6	5.8	5.5	3.7
Wholesale prices (Jan 2016=100)	201.4	199.7	206.5	206.5	202.5	192.4	178.1	193.5
Financial indicators								
Exchange rate E£:US$ (end-period)[a]	17.912	17.329	16.690	16.279	16.048	15.743	16.153	15.763
Deposit rate (av; %)	16.8	16.2	15.8	15.0	12.7	11.7	9.3	9.2
Discount rate (end-period; %)	17.3	16.7	16.3	15.5	13.2	12.2	9.8	9.7
Lending rate (av; %)	17.9	17.5	16.7	16.0	14.3	13.4	11.5	10.8
M1 (end-period; E£ bn)	836.1	862.6	923.6	954.7	968.5	1032.4	1084.7	1134.3
M1 (% change, year on year)	13.4	12.7	12.6	13.6	15.8	19.7	17.5	18.8
M2 (end-period; E£ bn)	3628.7	3724.7	3863.6	4010.4	4110.5	4276.8	4538.8	4757.2
M2 (% change, year on year)	13.3	11.4	11.8	13.0	13.3	14.8	17.5	18.6
EGX 30 stockmarket index (end-period; Jan 1st 1998=1,000)	13,036	14,666	14,101	14,258	13,962	9,594	10,765	10,989
Sectoral trends								
Crude oil production (m barrels/day)	0.67	0.68	0.66	0.67	0.67	0.68	0.66	0.67
Foreign trade (US$ bn)								
Exports fob	7.49	6.64	7.58	7.12	7.13	6.70	5.42	n/a
Imports cif	16.93	17.13	15.87	15.90	17.05	16.06	13.83	n/a
Trade balance	-9.44	-10.50	-8.29	-8.78	-9.92	-9.35	-8.41	n/a
Foreign reserves								
Reserves excl gold (end-period; US$ m)	38,609	40,030	40,289	40,491	40,685	35,152	32,682	32,623

[a] Spot middle rate, NY close.

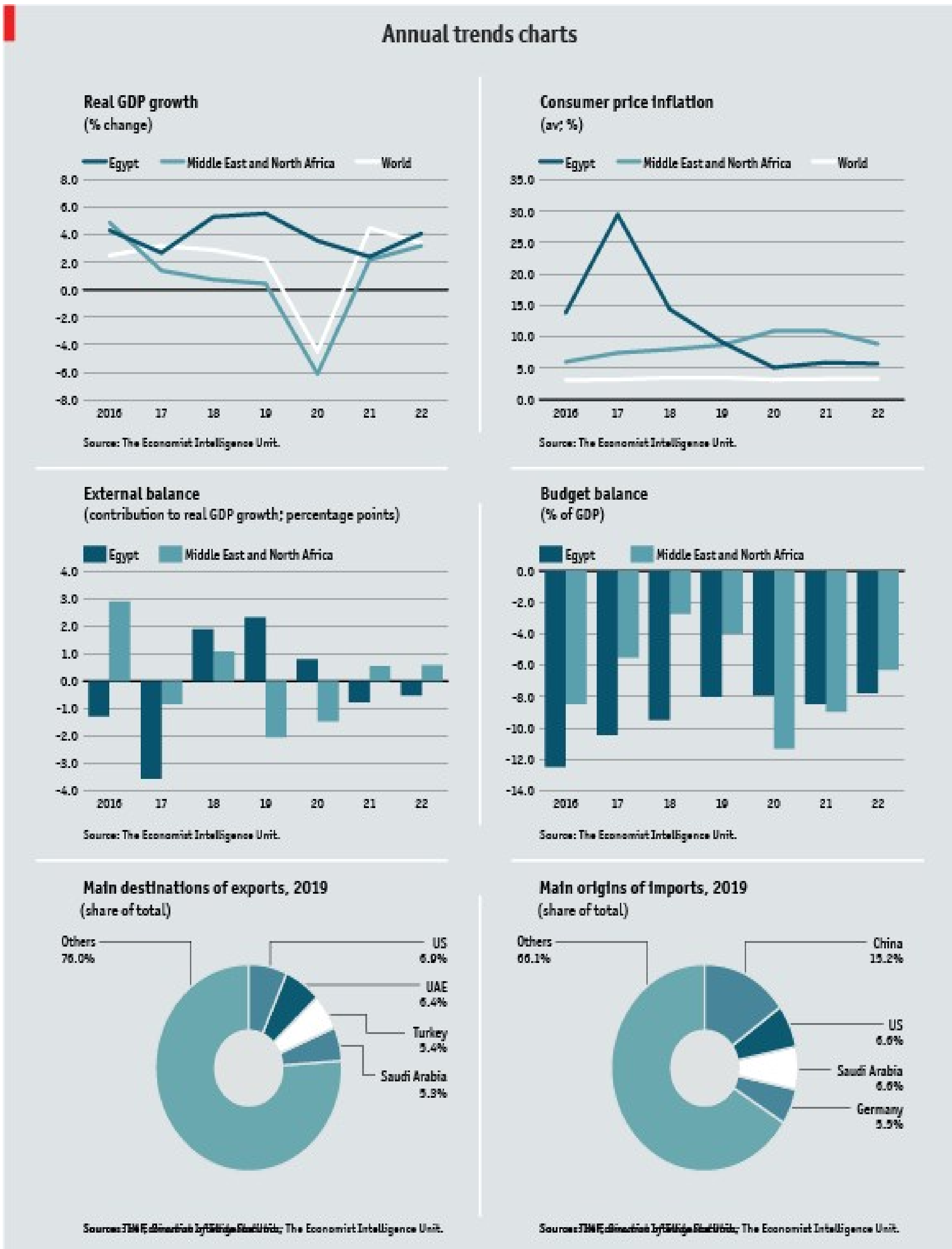
Sources: International Energy Agency, Oil Market Report; IMF, International Financial Statistics; Oil Market Intelligence; Bloomberg; New York Times.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate E£:US$ (av)												
2018	17.700	17.670	17.630	17.680	17.810	17.870	17.900	17.880	17.900	17.910	17.910	17.920
2019	17.870	17.570	17.370	17.260	17.010	16.740	16.610	16.570	16.390	16.230	16.130	16.080
2020	15.890	15.680	15.720	15.760	15.790	16.160	16.000	15.930	15.780	15.710	15.660	n/a
Exchange rate E£:US$ (end-period)												
2018	17.680	17.659	17.662	17.657	17.901	17.893	17.869	17.839	17.848	17.915	17.910	17.912
2019	17.680	17.513	17.329	17.173	16.751	16.690	16.551	16.532	16.279	16.140	16.122	16.048
2020	15.799	15.629	15.743	15.751	15.842	16.153	15.986	15.871	15.763	15.701	15.654	n/a
M1 (% change, year on year)												
2018	19.7	17.3	21.2	19.4	16.7	16.0	16.6	16.6	13.8	14.4	13.8	13.4
2019	11.7	13.0	12.7	12.8	13.8	12.6	13.6	12.9	13.6	15.0	16.1	15.8
2020	18.6	19.3	19.7	19.8	20.5	17.5	21.6	18.4	18.8	19.8	n/a	n/a
M2 (% change, year on year)												
2018	20.5	25.4	21.9	21.4	19.4	18.4	17.9	17.0	16.4	15.4	14.0	13.3
2019	11.9	11.5	11.4	11.3	11.6	11.8	12.1	11.8	13.0	12.9	13.2	13.3
2020	13.7	13.9	14.8	15.7	17.2	17.5	19.1	19.2	18.6	19.4	n/a	n/a
Deposit rate (av; %)												
2018	18.8	18.3	17.7	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
2019	16.8	16.2	15.8	15.8	15.8	15.8	15.8	15.3	14.1	13.3	12.7	12.3
2020	12.3	12.3	10.6	9.3	9.3	9.3	9.3	9.3	9.1	8.8	8.4	n/a
Lending rate (av; %)												
2018	19.9	19.7	19.3	18.2	18.3	18.2	17.6	17.6	17.3	17.8	18.1	17.8
2019	18.1	17.4	17.1	16.8	16.8	16.4	16.5	16.3	15.1	14.7	14.4	13.8
2020	13.6	13.8	12.7	11.8	11.4	11.3	11.2	11.0	10.1	n/a	n/a	n/a
3-month money market rate (end-period; %)												
2018	18.4	17.7	18.0	17.7	19.2	19.4	19.0	19.1	19.6	19.9	19.4	19.8
2019	18.1	17.7	17.2	17.2	17.6	17.7	17.7	16.4	15.6	15.9	15.4	15.2
2020	14.0	13.2	12.6	12.4	12.4	12.9	13.4	13.5	13.5	n/a	n/a	n/a
EGX 30 index (end-period; Jan 1st 1998=1,000)												
2018	15,042	15,473	17,450	18,296	16,415	16,349	15,580	16,009	14,632	13,250	13,320	13,036
2019	14,127	14,804	14,666	14,920	13,771	14,101	13,392	14,835	14,258	14,558	13,849	13,962
2020	13,919	13,009	9,594	10,554	10,110	10,765	10,599	11,366	10,989	10,515	10,943	n/a
Consumer prices (av; % change, year on year)												
2018	17.0	14.5	13.3	13.1	11.4	14.4	13.4	14.2	15.9	17.7	15.6	12.0
2019	12.8	14.4	14.2	13.0	14.1	9.3	8.7	7.5	4.8	3.1	3.6	7.0
2020	7.1	5.3	5.1	5.9	4.8	5.7	4.2	3.4	3.6	4.6	5.7	n/a
Wholesale prices (a; % change, year on year)												
2018	25.0	22.9	24.1	24.0	28.1	34.0	30.4	25.6	24.4	26.3	18.1	9.0
2019	7.8	11.9	12.7	12.9	10.2	3.0	3.4	0.5	-0.5	-5.0	0.3	6.9
2020	3.9	-2.4	-12.1	-18.8	-15.2	-7.1	-7.5	-4.5	-6.9	-5.2	n/a	n/a
Goods exports fob (US$ m)												
2018	2,432	2,428	2,681	2,570	2,635	2,203	2,349	2,031	2,432	2,503	2,392	2,573
2019	2,448	2,609	2,730	2,716	2,727	2,451	2,215	2,113	2,367	2,392	2,372	2,587
2020	2,482	2,694	2,238	1,839	1,572	2,257	2,153	1,914	2,327	n/a	n/a	n/a
Goods imports cif (US$ m)												
2018	6,399	6,155	6,453	6,196	7,058	6,533	7,532	6,758	7,329	7,254	6,362	6,444
2019	6,517	6,619	7,105	6,998	6,779	6,064	6,421	5,913	5,859	5,612	5,339	6,041
2020	5,316	4,643	4,932	4,194	4,158	5,558	4,431	4,934	5,033	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2018	-3,967	-3,727	-3,772	-3,626	-4,423	-4,330	-5,183	-4,727	-4,897	-4,751	-3,970	-3,871
2019	-4,069	-4,010	-4,375	-4,282	-4,052	-3,613	-4,206	-3,800	-3,492	-3,220	-2,967	-3,454
2020	-2,834	-1,949	-2,694	-2,355	-2,586	-3,301	-2,278	-3,020	-2,706	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2018	34,234	38,545	38,613	39,998	40,183	40,391	40,496	40,618	40,671	40,640	40,676	38,609
2019	38,564	39,970	40,030	40,239	40,276	40,289	40,605	40,393	40,491	40,548	40,779	40,685
2020	40,590	40,485	35,152	31,897	30,764	32,682	32,313	32,341	32,623	33,447	n/a	n/a

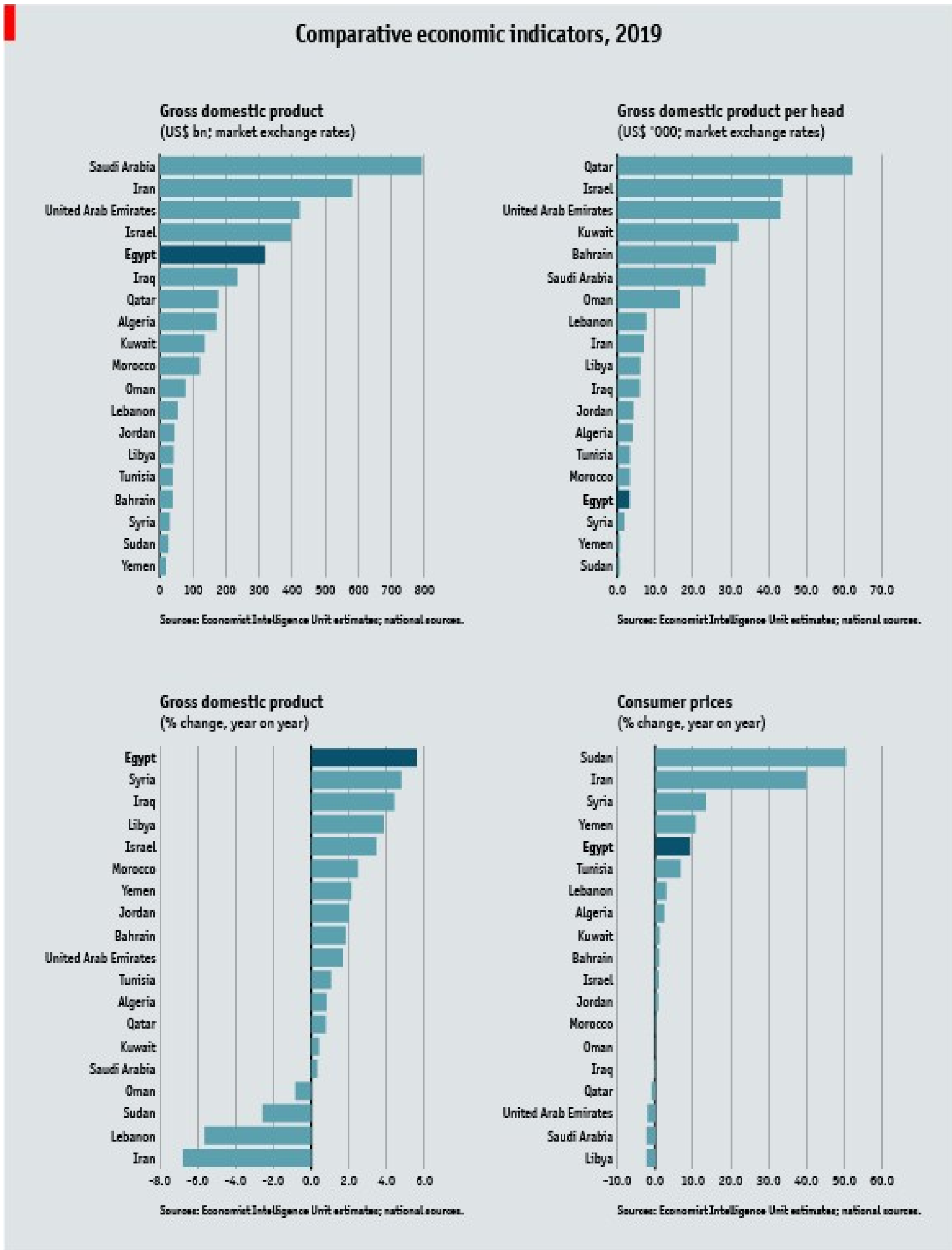
Sources: IMF, International Financial Statistics; Haver Analytics; Central Bank of Egypt.

Annual trends charts



Monthly trends charts

Comparative economic indicators



Basic data

Land area

997,739 sq km, of which only 5% is inhabited and cultivated territory

Population

101.4m (end-2020, CAPMAS estimate)

Main towns

Population (January 2019, official estimates)

Greater Cairo (capital; Cairo, Giza, Qalioubia governorates): 24.5m

Alexandria: 5.29m

Port Said: 764,499

Suez: 749,657

Climate

Hot and dry, with mild winter

Weather in Cairo (altitude 116 metres)

Hottest month, July, 21-36°C (average daily minimum and maximum); coldest month, January, 8-18°C; driest months, July, August, 0 mm average rainfall; wettest month, December, 5 mm average rainfall

Language

Arabic

Measures

Metric system. Local measures are also used, especially for land area: feddan=0.42 ha or 1.04 acres; cereal crops: ardeb=198 litres or 5.6 US bushels; 8 ardebs=1 dariba; cotton: Egyptian bale=720 lb (325.5 kg), qantar (metric)=50 kg (replacing the traditional qantar equivalent to 44.93 kg)

Currency

Egyptian pound (E£) = 100 piastres; E£16.82:US$1 (2019 average)

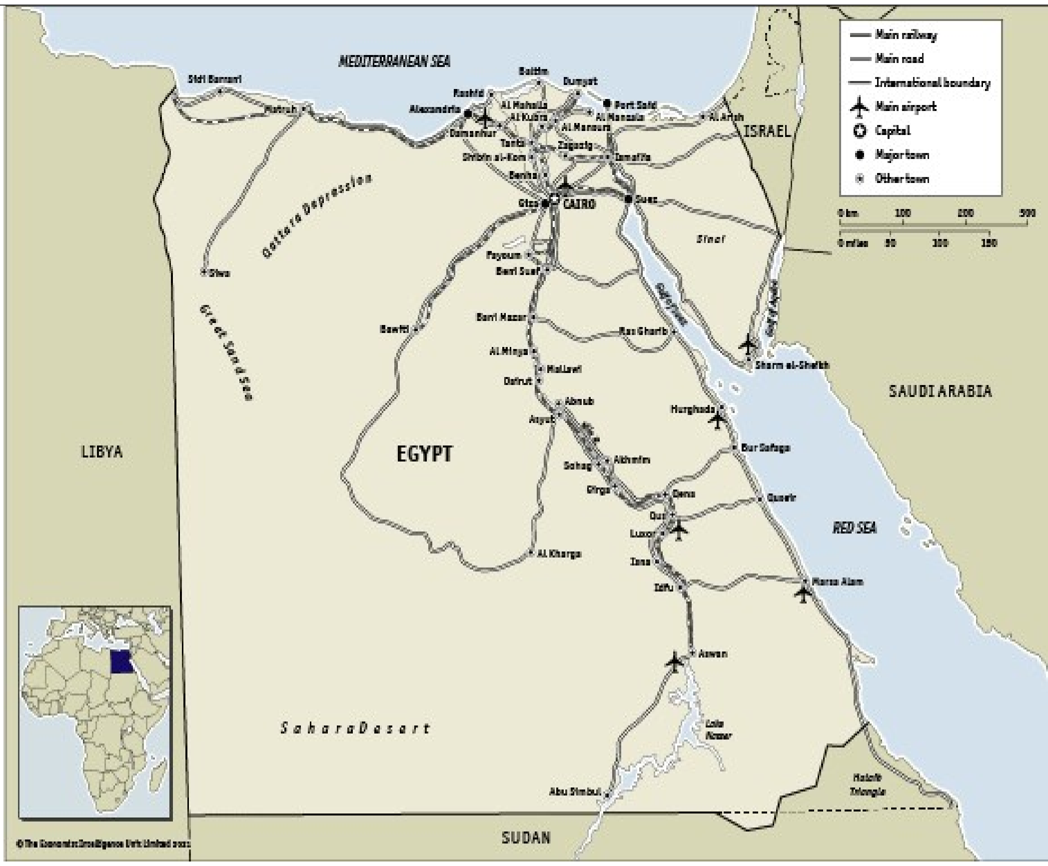
Time

Two hours ahead of GMT

Public holidays

Fixed: Coptic Christmas (January 7th); National Police Day (January 25th); Sinai Liberation Day (April 25th); Labour Day (May 1st); Revolution Day (June 30th); National Day (July 23rd); Armed Forces Day (October 6th)

All Muslim holidays are observed in accordance with the Islamic or hijri calendar, based on the lunar year, which is about 11 days shorter than the Gregorian year. The following dates for 2021 are therefore approximate: Eid al-Fitr (end of Ramadan, May 13th-15th); Eid al-Adha (Feast of the Sacrifice, July 20th-22nd); Islamic New Year (August 10th); Prophet's Birthday (October 19th)



Political structure

Official name

Arab Republic of Egypt

Legal system

Based on the new constitution approved in a referendum in January 2014

National legislature

Unicameral. Members of parliament serve a five-year term. There are 568 elected members in the new House of Representatives, and 28 members appointed by the president to boost the numbers of under-represented groups such as women and Copts. A constitutional amendment in April 2019 will reduce the number of seats from 596 to 450, with one-quarter reserved for women. A two-thirds-elected Senate (upper house) with 180 members has been created following a 2019 constitutional amendment and elections in August-September 2020

National elections

The most recent presidential election was held in March 2018. Voting for the elected seats in the reconstituted 300-seat Senate took place in August-September 2020. Voting for the elected component (568 of the 596 seats are elected in a two-round, two phase election, and a further 28 are appointed by the president) of the House of Representatives took place between late October and early December. The next parliamentary election will be in 2025. A constitutional amendment has extended the presidential term from four to six years; the next election is due in 2024

Head of state

President. Abdel Fattah el-Sisi won a second four-year term (extended to six years) in the March 2018 election

National government

Council of Ministers headed by the prime minister, Mostafa Madbouly, who was appointed to the role in June 2018

Main political parties

Mostaqbal Watan (Future of the Homeland); Republican People's Party; Wafd

Key ministers

Prime minister: Mostafa Madbouly

Agriculture: Ezzedine Abu Settait

Civil aviation: Younes el-Masry

Communications: Amr Talaat

Defence: Mohammed Zaki

Education: Tarek Galal Shawki

Electricity & renewable energy: Mohammed Shaker el-Markabi

Finance: Mohammed Maait

Foreign affairs: Sameh Shoukry

Health & population: Hala Zayid

Higher education: Khaled Atef Abdel-Ghaffar

Housing: Mostafa Madbouly

Information affairs: Osama Haikal

Interior: Mohammed Tawfik

International co-operation: Rania el-Mashat

Irrigation & water resources: Mohammed Abdel-Ati Khalil

Justice: Mohammed Hussam Abdel-Rahim

Labour: Mohammed Saafan

Local development: Mohammed Shaarawy

Petroleum & mineral resources: Tareq el-Molla

Planning & economic development: Hala Helmy el-Said Younis

Public enterprise: Hisham Tawfik

Social solidarity: Nevine el-Qabbaq

Tourism & antiquities: Khaled al-Anany

Trade & industry: Nevine Gamea

Transport: Kamel el-Wazir

Central bank governor

Tareq Amer

Recent analysis

Generated on January 20th 2021

The following articles were published on our website in the period between our previous forecast and this one, and serve here as a review of the developments that shaped our outlook.

Politics

Forecast updates

France mutes criticism of Egypt on human rights

December 8, 2020: International relations

Event

On December 6th-7th the Egyptian president, Abdel Fattah el-Sisi, conducted a state visit to France.

Analysis

During the visit the French government affirmed its commitment to close strategic and economic ties with Egypt, despite having recently voiced concerns about human rights in the country following the arrest of three leading figures from a human rights organisation—the Egyptian Initiative for Personal Rights (EIPR)—in November. The issue of human rights in Egypt garnered intense international attention in the wake of the activists' arrests under Egypt's broad anti-terrorism laws. Egypt's legislation around non-governmental organisations (NGOs) has also been tightened in recent years as the Sisi regime has sought to curtail criticism, although some of the more draconian measures in its 2017 legislation have been eased under US pressure.

The activists' case was widely publicised, with France one of the first countries to express concern about the arrests. The three men were released on bail on December 4th, just before Mr Sisi's departure for Paris, suggesting that Egypt would be responsive to international pressure, but only to the limited extent necessary to deflect attention away from the issue. On December 7th a Cairo court upheld a freeze on the three men's assets, although it lifted a similar measure imposed on the EIPR itself. The detention of another EIPR staff member, Patrick Zaki, who was arrested in February, was extended for 45 days.

During the visit Mr Sisi and the French president, Emmanuel Macron, focused on the importance of building on strong economic and security ties. France has been a major source of development aid and investment in Egypt, and has in recent years become one of Egypt's largest suppliers of military equipment. The French and Egyptian governments have collaborated in Libya, and are closely aligned on the goal of challenging Turkey's aspiration to extend its reach in the eastern Mediterranean.

However, Mr Sisi did refer to human rights, noting that his government had started to implement a 2019 law clarifying the regulatory framework for NGOs and had launched a national strategy for human rights in consultation with civil society groups. However, we do not anticipate marked easing of the current harsh human rights environment.

Impact on the forecast

Although human rights will remain a point of friction for US and European governments, Egypt will continue to win strong security backing from Western powers, given its strategic importance. Our forecasts are therefore unchanged.

Palestinian Authority head meets Jordanian, Egyptian leaders

December 15, 2020: International relations

Event

On November 29th-30th Mahmoud Abbas, the president of the Palestinian Authority (PA), held separate talks with Egyptian and Jordanian leaders to try to forge a common position, in the light of the approaching transfer of power to a new US president in January 2021.

Analysis

The PA, which governs in the West Bank, has felt increasingly marginalised during the tenure of Donald Trump, the outgoing US president. This was epitomised in January 2020 by the launch of the US's new "peace plan", which abandoned the historic international commitment to Palestinian statehood for a deal considered highly favourable to Israel, and would allow the annexation of large swathes of the West Bank. The sense of diplomatic isolation was deepened from August onwards by the US-sponsored normalisation deals struck by Israel with the UAE, Bahrain, Sudan and Morocco, which did not make the advancement of Palestinian claims central to the process.

Egypt and Jordan, the only Arab states with full diplomatic ties to Israel prior to 2020, have traditionally had good relations with the PA. Mr Abbas's visits were designed to reaffirm solidarity with these countries ahead of the forthcoming accession of the US president-elect, Joe Biden, who has indicated a intent to take a more even-handed approach to the Israeli-Palestinian conflict than his predecessor.

Mr Abbas's meeting with the Jordanian monarch may have been the easier of the two visits: the king shares the view of the US peace plan as an existential threat to Jordan, as around two-thirds of Jordan's population is of Palestinian origin. Israel's (currently suspended) annexation plan has stoked domestic hostility toward Israel and raised concern that any upswing in Israeli-Palestinian violence could destabilise Jordan, creating social and economic upheaval.

This visit came as the PA resumed security co-operation with Israel, in an attempt to appear more accommodating to the incoming Biden administration. The visit also indicated a tacit acceptance by the PA that normalisation between Israel and Arab states is likely to continue and that it will need to maintain good relations with all major players, to maximise the possibility of getting an acceptable peace deal with Israel and to retain access to financial support.

Impact on the forecast

The meetings support our view that the PA will seek to rebuild regional and international support under the new US administration, maintaining a policy of good relations with Arab countries while also reaching out to new allies.

AU health body to get new headquarters with Chinese support

December 17, 2020: International relations

Event

On December 15th China's ambassador to Ethiopia (one of the two countries where the African Union, AU, is based) attended the ground-breaking ceremony for work to begin on the new headquarters of the Africa Centres for Disease Control and Prevention (AC-DCP), the AU's public health body.

Analysis

The site chosen for the new headquarters of the AC-DCP is near the Ethiopian capital, Addis Ababa. The site will cover some 90,000 square metres and include an emergency operation centre, data centre, laboratory, resource centre, briefing rooms, training centre, conference centre, offices and apartments for expatriate workers; these facilities are all to be constructed, furnished and equipped at China's expense. China claims that the headquarters will be one of the best-equipped centres to tackle disease on the continent, which will allow the AU's public health body to co-ordinate with member states' Ministries of Health at a much higher level.

Following the outbreak of the coronavirus (Covid-19) pandemic in early 2020, China has been keen to show itself as a global leader in the fight against the disease, particularly in developing markets. It has already sent health teams to 16 African states as part of this drive, which is meant to burnish its international reputation among countries struggling under the economic and humanitarian effects of the crisis. China's plans to assist in the global Covid-19 vaccine rollout, including by distributing its own manufactured vaccines (primarily to developing nations), also dovetail with this strategy.

Under the international COVAX facility set up to ensure equitable international distribution of Covid-19 vaccines, developing nations face a scenario where only about 20% of their citizens would receive inoculation by end-2021. The AC-DCP would probably be receptive to any Chinese offer to deliver extra vaccine shipments to Africa in 2021, particularly in view of constraints regarding cold-chain logistics, which many African countries would struggle to overcome. Nonetheless, we remain wary about the risk of China overpromising on but underdelivering its manufactured vaccine to key partners next year.

Impact on the forecast

In 2021 China will continue to portray itself to pan-African institutions (and parts of the continent where it seeks influence) as the partner-of-choice for African governments in the battle against Covid-19, despite risks of diplomatic blowback, should its vaccine diplomacy fail. In particular, China will focus these efforts on countries that are home to the commodities that it needs under Made in China 2025—a strategic plan to further develop its manufacturing sector.

Iraq, Egypt and Jordan sign electricity agreements

December 21, 2020: International relations

Event

In mid-December Iraq, Egypt, and Jordan signed an agreement to connect Iraq's power grid to Egypt and Jordan.

Analysis

During a recent visit to Cairo, the Egyptian capital, Iraq's electricity minister, Majid Mahdi Hantoush, said that Iraq was in the process of connecting to the 300-km Jordanian electrical line, which he said would be completed within two years and followed by connecting a power line with Egypt within a period of three years.

This ministry delegation's visit was preceded by an Egyptian visit to Baghdad, the Iraqi capital, in November. The meetings resulted in 15 Memorandums of Understanding (MoUs) on bilateral co-operation related to oil and water resources, construction and transportation. Before that, Egypt and Iraq were hosted by King Abdullah II of Jordan in Amman, the Jordanian capital. It is the transportation agreements that appear to be taking shape, and the proposed Arab Bridge Land Transport Company was discussed recently during the 75th General Assembly of the Arab Bridge Maritime Company, which will reportedly implement the latter. However, the three countries have been meeting for several years, with little to show for the aspirations of greater interconnectivity, and we do not expect any quick progress on these fronts.

Shifting Iraq's power grid away from its reliance on Iranian imports will be a welcome development to its US backers. Roughly 1,200 MW/day is sent from Iran through three 400-kV transmission lines to Basra, Al Amarah and Diyala, and the country also imports Iranian gas to fuel approximately 2,800 MW of domestic generation for Iraq's power sector. The US administration has repeatedly derided Iraq's dependence on energy imports from Iran, and the likelihood is that the incoming administration of Joe Biden will maintain the pressure—albeit to a lesser extent—promoting US-favoured alternatives and energy independence. General Electric (US) announced on December 9th that it had synced two gas turbines to the national power grid at Zubair Permanent Power Generation Plant in Iraq, adding an additional 125 MW to the national electricity grid in Iraq. The US could also offer finance for the joint projects between Iraq, Egypt and Jordan, although the political situation in Iraq—especially rising Iranian influence in 2021—will put this at risk.

Impact on the forecast

We maintain our forecast that economic ties between Jordan, Egypt and Iraq will increase, especially in the power generation and electricity infrastructure sectors, supported by US interests to reduce Iraqi dependence on Iranian imports, but progress will be slow.

Egyptian parliament rejects human rights criticism from EU

December 21, 2020: International relations

Event

The two dominant political parties in Egypt's parliament have denounced a European Parliament resolution passed on December 18th that strongly criticised the Egyptian authorities for their treatment of civil society activists.

Analysis

The resolution was a response to the recent detention of three leading members of the Egyptian Initiative for Personal Rights on terrorism charges after the organisation had made a presentation to senior diplomats in the Egyptian capital, Cairo, in mid-November. The three men have since been released on caution; the resolution called for all charges against them to be dropped, and for the release of dozens of other civil society activists, some of whom have been in detention for years. It also mentioned the January 2016 kidnapping, torture and murder of Giulio Regeni, an Italian researcher, for which four Egyptian security officials have recently been charged in absentia by an Italian prosecutor.

The European Parliament resolution called on the European Commission to conduct a thorough review of EU relations with Egypt. This would include setting tighter conditions on the provision of aid, so as to ensure that it is directed primarily at supporting democratic actors and civil society groups, and providing more transparency in all forms of financial support, in particular loans from the European Investment Bank and the European Bank for Reconstruction and Development. The resolution stated that export licences must not be approved for the supply of security equipment that might be used for domestic repression, but it stopped short of recommending an arms embargo. Egypt is one of the largest clients for French, German and Italian weapons exports.

Mostaqbal Watan, a party that recently won resounding victories in elections for both houses of parliament, condemned the resolution and accused the European Parliament of being influenced by testimony from the banned Muslim Brotherhood, which is designated a terrorist organisation in Egypt. Tarek el-Khouly, the secretary of the House of Representatives' foreign relations committee, downplayed the resolution, saying that it was merely a non-binding opinion of EU member states. Nevertheless, the comprehensive scope of the resolution is a clear indication that Egypt's human rights record is coming under closer scrutiny from the West, although European leaders have muted their criticism after initial protestations.

Impact on the forecast

Egypt will make some conciliatory gestures in order to avoid provoking a harsher response but is also aware that its strategic value will limit the extent of any damage to relations with European powers.

Egypt plans to open embassy in Libyan capital

December 30, 2020: International relations

Event

A delegation of senior Egyptian officials, headed by Ayman Badie, the undersecretary of the General Intelligence Service, visited the Libyan capital, Tripoli, on December 27th to hold talks with the Turkey-backed internationally recognised Government of National Accord (GNA).

Analysis

Egypt is taking the diplomatic initiative in the long-running Libyan conflict, making overtures to the GNA, in a bid to prevent a resumption of military hostilities. This marks an important shift in Egypt's position, although it has been clear for some time that the Egyptian president, Abdel Fattah el-Sisi, has had reservations about the conduct of its principal ally in Libya, Khalifa Haftar, whose early 2020 offensive against GNA-allied forces in Tripoli ended in ignominious defeat. It remains unclear whether the UAE, Egypt's closest regional ally and which is heavily engaged within Libya in support of Mr Haftar's self-styled Libyan National Army (LNA), is supportive of Egypt's initiative.

It was the first official Egyptian visit to Tripoli since 2014, when Egypt's embassy there was closed. News of the visit was carried in Libyan media and reported in several Egyptian newspapers, although without directly citing Egyptian officials. The GNA also said that its foreign affairs minister, Mohammed Taher Siala, had held a telephone conversation with his Egyptian counterpart, Sameh Shoukry, on December 28th. The Libyan sources said that Egypt is planning to reopen its embassy in Tripoli in early 2021.

The visit suggests that Egypt is prepared to recognise the status quo in Libya, with the country roughly divided between GNA and LNA zones of influence, while supporting further political dialogue. The visit also indicated that Egypt accepts the reality of its rival, Turkey's considerable military presence in western Libya, although Mr Sisi has made clear that he would respond militarily if Turkish forces came closer to the Egyptian border. Moreover, the presence in Tripoli of Mr Badie, whose agency reports directly to Mr Sisi, marked a clear departure from Egypt's previous designation of the GNA as being tied to the banned Muslim Brotherhood.

Impact on the forecast

By taking the initiative in Libya, Mr Sisi has paved the way to work with the new administration of the US president-elect, Joe Biden, on a political settlement and supports our forecast that Egypt will seek to avoid direct military conflict. However, this effort could be undermined if Mr Haftar fulfils his threat to go back on the offensive. Much will depend on what position the UAE adopts.

Analysis

Qatari-Turkish summit builds on strong ties

December 7, 2020: International relations

On November 26th the emir of Qatar, Sheikh Tamim bin Hamad al-Thani, arrived in the Turkish capital, Ankara, to participate in the Qatar-Turkey Supreme Strategic Committee. Qatar and Turkey have alternately hosted the heads-of-state summit since 2015, which serves as a strategic co-ordination mechanism between Sheikh Tamim and Turkey's president, Recep Tayyip Erdogan.

Meeting for the third time in 2020, the two leaders have forged a close friendship since Sheikh Tamim's ascension to the throne, coming to one another's aid in their respective countries' economic and political crises. The 2020 summit resulted in ten bilateral agreements that focused mainly on materialising Qatari investments in Turkey's flagging economy.

Qatar builds greater exposure to Turkey's economy

On the commercial side, the key tangible outcome of the summit was the announcement that the

Qatar Investment Authority (QIA), the Qatari sovereign wealth fund, has agreed to buy a 10% stake in the company that runs Turkey's main stock exchange, Borsa Istanbul AS, for an undisclosed amount from QIA's Turkish counterpart, Turkey Wealth Fund. Qatar signed another preliminary deal to invest in a multibillion dollar port project in Istanbul and finalised an earlier agreement to buy a stake (worth about US$300m) in Istinye Park, one of Istanbul's largest shopping malls, which is popular among tourists from the Middle East. In addition, a memorandum of understanding (MoU) between Turkey's Ministry of Commerce and the Qatar Free Zones Authority to establish a Turkish free economic zone in Qatar intends to boost Qatar's foreign direct investment (FDI) inflows and create a platform for Turkish investors to increase their access to markets in Asia and Africa.

Although the QIA has kept a relatively low profile in 2020, compared with its regional peers (for instance, Saudi Arabia's Public Investment Fund), its planned acquisitions in Turkey—and the fanfare surrounding them—are intended to signal confidence in the Turkish economy as a way of bolstering Qatar's ties with its closest regional ally. Compared with previous injections of Qatari cash into the Turkish economy, including through a US$15bn package of investments during Turkey's 2018 currency crisis, the amounts associated with the latest deals are much smaller. However, Qatar's exposure to Turkey's shaky macroeconomic environment, not least the inherent exchange-rate risks of investing in Turkey, is significant. Qatar National Bank's largest international franchise is its Turkish subsidiary, QNB Finansbank, which posted 12% growth in profitability in 2019, but, like the overall Turkish banking sector, is exposed to the unorthodox monetary policies of Turkey's politicised central bank. Qatar's apparent bullishness about Turkey's economy also bucks the downward trend in Turkey's FDI inflows, which fell by 35% to US$8.4bn in 2019, according to data from the UN Conference on Trade and Development (UNCTAD).

Qatar's investments in Turkey could sour if a Turkish balance-of-payments crisis materialises. The risks of such an event would be heightened if Mr Erdogan's mismanagement of the economy continues amid a muted recovery in 2021 from the pandemic-induced global recession of 2020. For instance, the QIA's investment in Istinye Park, giving Qatar a foothold in Turkey's high-end retail sector, is vulnerable to Turkey's high rate of inflation (which we estimate at 12.1% in 2020), which hurts domestic demand and weakens Turkey's consumption-driven economy. In addition, Qatar's acquisition of Turkish port assets, which are part of Qatar's ambitions to become a key maritime logistics player in the region, come as the outlook for the sector worsens. Global maritime trade is expected to plunge by 4.1% in 2020, according to UNCTAD, but assuming that global economic output recovers in 2021, this is expected to return to a positive territory and expand by 4.8% in 2021. However, Qatar views the commercial viability of its investments in Turkey as secondary to the strategic value that they impart on Qatar's broader ties with Turkey, especially in defence and security.

The Qatari-Turkish axis is source of regional tension

On the geopolitical front, Qatar's close political alignment with Turkey risks the reputational damage of being associated with Turkey's controversial foreign policy. Turkey is embroiled in a maritime delimitation dispute with Greece, a NATO ally, and is involved in conflicts ranging from Libya to the Caucasus, and its relations with the EU and the US have deteriorated. In Libya, Qatar and Turkey have recently strengthened their defence and security ties, and the UN-recognised Government of National Accord (GNA) has threatened to undermine a fragile intra-Libyan political dialogue. Apparent Qatari-Turkish efforts to influence the outcome of the Libyan Political Dialogue Forum in favour of GNA-aligned factions, amid the UN's warnings against foreign involvement in Libya, risk straining Qatar's relations with key European powers, such as Germany, which are invested in a resolution to the Libyan crisis.

Turkey's frayed relations with the four Arab states that have boycotted Qatar since 2017, despite a recent thaw in relations between Turkey and Saudi Arabia, also hamper the potential for a rapprochement between Qatar and the Arab Quartet (comprising Saudi Arabia, the UAE, Bahrain and Egypt). The UAE's opposition to the lifting of the boycott is driven, in part, by its view of Qatar's close defence ties with Turkey as an "emergency" for the region. The UAE, which has been a key provider of military and diplomatic cover for the self-styled Libyan National Army, has been engaged in a proxy conflict with Turkey and Qatar in Libya. Thus, Qatar's alignment with Turkey, especially on Libya, is likely to represent a key stumbling block in the latest US push to mediate an end to the boycott.

Although an end to the boycott remains a priority for Qatar, not least owing to the importance of an open regional airspace to the success of the 2022 FIFA Football World Cup, Qatar's leadership is unlikely to scale back its ties with Turkey, which will displease the UAE in particular. Such a concession would run contrary to Qatar's vehement rejections of foreign attempts to curtail its sovereignty. In addition, Qatar's investments in its partnership with a military power of Turkey's stature are intended to safeguard Qatar's sovereignty in the event of future, unforeseen episodes of the Gulf crisis.

Hopes rise for Qatari-Saudi rapprochement

December 7, 2020: International relations

On December 2nd Jared Kushner, senior adviser and son-in-law to the US president, Donald Trump, met with the emir of Qatar, Sheikh Tamim bin Hamad al-Thani, in an attempt to bring about a resolution to the boycott of Qatar by the Arab quartet of Saudi Arabia, the UAE, Egypt and Bahrain. Mr Kushner arrived in Doha, the Qatari capital, from the Saudi city of Neom, where he met with Saudi Arabia's crown prince and de facto ruler, Mohammed bin Salman al-Saud, to push for a reconciliation between Saudi Arabia and Qatar.

In recent weeks, Saudi Arabia had been signalling its openness to negotiating a deal with Qatar that would see elements of the Qatar boycott lifted. Initial reports indicated that mediation efforts led by Kuwait and the US were focused on achieving a bilateral agreement between Saudi Arabia and Qatar.

Reconciliation on the cards

As a precondition to direct talks, Qatar reportedly sought confidence-building measures in the form of a lifting of the restrictions on Qatari aircraft using Saudi airspace. It is not clear what Qatar would offer in return, with Qatar refusing to accede to the Arab quartet's original 13 demands, although Saudi Arabia has reportedly requested that the Qatari state-owned Al Jazeera Media Network refrain from criticising Saudi Arabia, but there is no indication that Qatar would agree to that. Mr Kushner's visit appears to have provided fresh impetus to the negotiations. Kuwait has been one of the key mediators throughout the dispute and on December 4th Kuwait's foreign minister stated that the latest reconciliation talks were "fruitful", while Qatar's foreign minister said that the process was moving in the "right direction" and Saudi Arabia's foreign minister expressed optimism that a final agreement on the Qatar dispute was "within reach".

On December 5th, despite expectations that an initial agreement would involve only Qatar and Saudi Arabia, the Saudi foreign minister told the news agency AFP that "all parties involved"—in a reference to the UAE, Bahrain and Egypt—would be "satisfied" with the resolution being discussed. As president-elect, Joe Biden, prepares to assume the US presidency in January, Saudi Arabia's softened stance on its differences with Qatar appears to have been hastened by an eagerness to be perceived by Mr Biden as a constructive regional player. For the outgoing Trump administration, Mr Kushner's last-ditch diplomacy on the Gulf rift is intended both to score a late foreign policy win and to strengthen Gulf unity behind the containment of Iran amid a possible softening of approach towards Iran by the next US administration.

Mr Trump's administration's desire to bring Qatar back to the negotiating table is motivated, in part, by its campaign of "maximum pressure" against Iran, which has been undercut by the nearly US$100m in annual overflight fees that Qatar has paid to Iran to circumvent the Arab quartet's airspace. Although the chances of a limited agreement between Saudi Arabia and Qatar have risen sharply in recent weeks, a comprehensive resolution is not imminent. Resistance will be strongest from the UAE, which remains a vocal critic of Qatar and stated in November that resolving the dispute was not a main priority. A limited agreement between Saudi Arabia and Qatar is possible before the end of Mr Trump's term, but ideological differences between the UAE and Qatar will obstruct a comprehensive lifting of the boycott and we maintain our forecast that the boycott will not be lifted in full until 2022.

Israel and Morocco agree to establish diplomatic ties

December 11, 2020: International relations

On December 10th Israel and Morocco confirmed that they had agreed to establish diplomatic ties. The agreement is the fourth such bilateral accord between Israel and an Arab state brokered by the administration of the US president, Donald Trump, in 2020 and reinforces the growing realignment in the region centred on countries with close strategic ties to the US and concerned about Iran's regional ambitions. Meanwhile, the linkage made by Arab states between agreeing to recognise Israel and the assertion of Palestinian claims to statehood is fragmenting as more and more Arab leaders prioritise unilateral strategic and economic concerns over what was once seen as the pivotal issue within the region.

Israel and Morocco, which already had significant low-level diplomatic contact, plan to open representative offices and move rapidly to full diplomatic ties. Morocco follows the UAE, which established ties in August, when it launched the "Abraham Accords", Bahrain (September) and Sudan (October) in deciding to establish ties with the Jewish state. Although Morocco has a long history of backchannel ties with Israel, and relations tentatively began to improve in the aftermath of the 1993 Israeli-Palestinian peace deal, the outbreak of the second intifada in 2000 ended that process. In recent years there has been increased co-ordination between Israel and Morocco in some areas, including allowing about 50,000 Israelis to travel to the north African state annually (there are about 1m Israelis with some Moroccan heritage), but concerns about the domestic reception to normalising ties without including progress on the Palestinian-Israeli peace process led to Morocco holding back as normalisation gained traction again in 2020. In November the Moroccan prime minister, Saadeddine el-Othmani, rejected calls for normalisation, although the king, Mohammed VI, has been more reserved about the issue while still criticising Israeli policy towards the Palestinians.

Morocco keen to lock in both Israeli and US support on strategic issues

However, Morocco, in common with the other Arab monarchies (and Sudan) that have recently established ties with Israel, is keen to keep a key strategic ally supportive, even as the US reduces its direct presence in the region. Morocco, like Israel, is also worried about Islamist militancy and about Iran's regional ambitions, claiming that Iran backs the Polisario Front—the movement pressing for independence in the Moroccan-occupied Western Sahara. Morocco's relations with the UAE have strengthened considerably in the past year, and the Gulf state's strong support for normalisation could have also influenced Morocco's decision as it seeks economic support and investment from the Gulf region in order to recover from the steep downturn caused by the coronavirus (Covid-19) pandemic.

The normalisation deal will be welcomed in Israel, especially by the beleaguered Israeli prime minister, Binyamin Netanyahu, who will seek to deflect attention away from a collapsing government and increased domestic unpopularity with this diplomatic win as the country progresses toward its fourth election within two years. The deal with Morocco paves the way for full diplomatic ties, overflight rights for Israeli aircraft and direct flights between the two states, as well as considerable trade and investment opportunities for both. Commercial opportunities are likely to focus on areas such as agriculture and tourism initially.

US agrees to recognise Moroccan sovereignty in Western Sahara

However, the normalisation deal is likely to have more significant repercussions for Morocco. Mr Trump confirmed during his announcement on normalisation that the US would recognise Morocco's sovereignty over the disputed region, and the US has said that it would open a consulate in the disputed territory. Although a truce has largely held until recently, the UN has failed to bridge the divide between Morocco and Polisario sufficiently to allow progress in resolving the conflict. Morocco is unwilling to offer more than autonomy for the region, while Polisario continues to call for independence. The US said in the announcement on recognition that "genuine autonomy under Moroccan sovereignty is the only feasible solution". Diplomatic recognition of Moroccan sovereignty over Western Sahara (the US is the first Western state to do this) could face pushback when the administration of the US president-elect, Joe Biden, takes office in January 2021, but Morocco could be hoping that by tying this development to peace with

Israel, which will be broadly looked on favourably by the new Democrat administration, that it can keep hold of this achievement.

Popular domestic pushback in Morocco likely

Despite Morocco's significant diplomatic gain, the normalisation deal will still face public hostility in Morocco, where sympathy for the Palestinian cause and opposition to Israel is still strong, at a time when the Covid-19 pandemic has already hurt the economy and led to surging unemployment, further heightening the risk of social unrest. When the agreement to normalise ties with Israel was announced, the king said that the "measures do not in any manner affect Morocco's ongoing and sustained commitment to the just Palestinian cause". Nonetheless, the king will remain committed to the deal, and we expect significant economic and political advances, encouraged by the US and potentially bringing in further commercial and political backing from the UAE.

As the Trump administration is leaving office soon, it might push for further normalisation between Israel and other Arab states such as Oman, which already has considerable contact with Israel, but the biggest prize, that of Saudi Arabia, is only likely to advance once the current ruler, King Salman bin Abdel-Aziz al-Saud, who is determined to make normalisation dependent on progress towards a two-state solution to the Israeli-Palestinian conflict, is replaced by the crown prince, Mohammed bin Salman al-Saud, who is likely to strongly favour formalising relations with Israel. When this occurs, possibly as soon as 2021, further normalisation with Israel is likely to follow in the Arab world.

Covid-19 exacerbates risk of civil unrest in Africa in 2021

December 11, 2020

- **Africa is largely out of lockdown but the Covid-19 pandemic has exacerbated underlying fault lines in African society, which raises the risk that civil unrest will prove a major threat to social and political stability in the year ahead.**
- **Stretched national finances, stagnant labour markets and unsettled populations are aggravating anti-government sentiment and will drive protests in the major economies of Nigeria, Ethiopia and South Africa, among others.**
- **The world appears on the cusp of a clear route out of the pandemic with the emergence of a batch of seemingly effective vaccines that could be rolled out in 2021, but the socioeconomic impact of Covid-19 will linger and exacerbate political, economic and social grievances.**

Africa experienced a surge in anti-government protests during 2019 with large mobilisations occurring in countries such as Algeria, Cameroon, the Democratic Republic of Congo, Ethiopia, Kenya, Nigeria, South Africa and Sudan. Protests abruptly came to an end in the first quarter of 2020 as the Covid-19 pandemic unfolded and most governments imposed stringent lockdowns even before the virus took hold within their borders. Strict enforcement of restrictions stifled protests and protesters' attention turned to getting through the pandemic unscathed.

Lockdown conditions have eased considerably and severe health impacts have been avoided across much of Africa, while the world appears on the cusp of a clear route out of the pandemic with the emergence of a batch of seemingly effective vaccines that could be rolled out in 2021. The cloud of Covid-19 may be lifting, but Africa will emerge from the crisis with pre-existing grievances intact and, in many cases, exacerbated by the socioeconomic impact of the pandemic. Civil unrest has already begun to re-emerge and will prove a major threat to social and political stability in the year ahead, especially for a few highly volatile countries.

Frustration boils over during lockdown

National and international travel restrictions, night-time curfews, bans on large public gatherings, closed schools and universities and suspended non-essential business were just some of the lockdown measures that forced protesters off the streets. Their attention turned to getting through the pandemic unscathed, which entailed protecting their own jobs and incomes, securing everyday essentials and looking after loved ones. Anti-government sentiment was stifled but did not disappear and was probably intensified by the strict, and in some cases brutal, enforcement of lockdown policies across largely informal economies where social safety nets range from the inadequate to the non-existent.

Protesters frustrated with lockdowns took to the streets in mid-2020, which led to clashes with security forces, multiple arrests and some deaths in countries such as Côte d'Ivoire, Ghana, Kenya, Madagascar, Mali, Nigeria, Senegal and South Africa. The economic impact of lockdown measures and the growing threat of civil unrest most likely played an important part in the easing of lockdown conditions that was observed in many African countries during the third quarter of 2020.

Africa's Covid-19 government response

(Stringency Index: 100=strictest; monthly maximum)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Morocco	0	0	68	83	83	86	70	74	74	71	67
South Africa	2	2	68	74	85	82	82	82	77	56	55
Kenya	2	9	69	77	82	82	79	74	72	72	59
Egypt	0	10	71	74	80	80	65	67	67	75	75
Uganda	9	13	73	73	78	76	76	73	73	71	57
Sudan	4	4	58	64	74	74	70	60	56	45	35
Tunisia	0	0	75	75	76	71	38	42	42	70	70
Angola	0	6	61	76	73	71	70	70	71	64	61
Nigeria	7	17	63	71	71	71	65	64	63	59	48
Senegal	0	0	60	71	71	67	51	51	56	57	52
Ethiopia	2	4	50	67	67	67	70	70	70	68	48
Mozambique	0	5	40	46	55	67	67	63	55	55	50
Algeria	0	0	58	72	64	66	73	79	71	71	70
Ghana	2	2	70	77	63	65	55	55	50	50	46
Côte d'Ivoire	0	0	64	68	68	59	66	54	55	49	39
Cameroon	0	4	40	60	55	58	58	58	54	51	46
Zambia	0	11	43	60	64	51	51	51	51	49	48
Tanzania	2	2	34	38	38	27	24	21	19	14	14

Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, Oxford University.

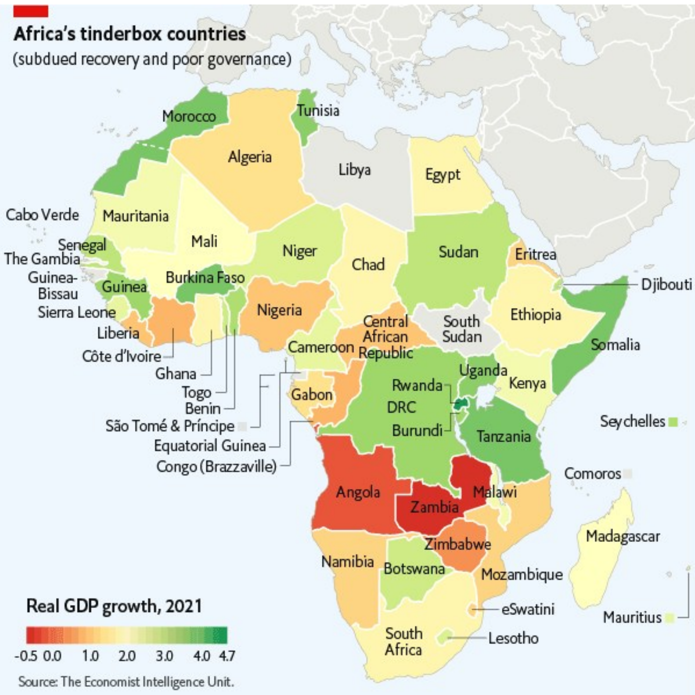
Drivers of unrest still intact

Africa is largely out of lockdown but the Covid-19 pandemic has exacerbated underlying fault lines in African society that include socioeconomic inequalities, suppressed civil and political freedoms and widespread government corruption. These issues will prove a major stumbling block for governments in Africa as they attempt to implement recovery plans against a backdrop of stretched national finances, stagnant labour markets and unsettled populations.

Almost all economies across Africa will have suffered a full-year recession in 2020 and most will post only a modest recovery in 2021. Further job losses and painfully high unemployment rates are expected in the major economies of South Africa, Nigeria, Angola, Ethiopia and Kenya during 2021, while income inequalities will widen and dealing with poverty will become a major challenge for many more millions of lower-income households. Add to the mix evidence of increased levels of corruption and uncomfortable times could lie ahead for numerous administrations.

Tinderbox countries on red alert

Nigeria experienced anti-government protests in October following allegations of police brutality that saw demonstrators clash with security forces and fatalities ensue. Protests began with an initial focus on the Special Anti-Robbery Squad (SARS), which human rights groups accuse of extortion, harassment, torture and the murder of civilians, but reflect years of public frustration over abusive policing, restricted job opportunities, declining living standards and rampant corruption among officials. The president, Muhammadu Buhari, was able to appease the central demand of the demonstrators by disbanding the SARS and promising security reform, while at the same time warning government critics against "undermining national security". Conciliation will be harder to repeat in the year ahead should a fresh, co-ordinated movement harness the more fundamental grievances that the protests tapped into. High inflation, partly resulting from petrol and electricity price deregulation, and further job losses stand to be particular drivers of renewed unrest in 2021, with a strong risk of organised mass protests in normally stable cities such as the commercial capital, Lagos, and the administrative capital, Abuja.



Government effectiveness risk
(100=more risk)

Country	Score	Country	Score
Somalia	97	Mali	75
DRC	94	Zambia	75
Eritrea	94	Uganda	72
Zimbabwe	94	Niger	72
Equatorial Guinea	94	Madagascar	72
Burundi	91	Ethiopia	72
Sudan	91	Gabon	72
Chad	91	eSwatini	72
CAR	91	Côte d'Ivoire	72
Congo (Brazzaville)	88	Togo	69
Guinea	84	Egypt	69
Nigeria	84	Morocco	66
Djibouti	81	Benin	66
Sierra Leone	81	Lesotho	66
Malawi	81	Rwanda	59
Algeria	81	Senegal	59
Liberia	81	Ghana	59
Angola	81	Tunisia	56
Cameroon	78	Namibia	53
Mauritania	78	Mauritius	47
Mozambique	78	Botswana	44
Burkina Faso	75	Cabo Verde	41
Tanzania	75	Seychelles	38
Kenya	75	South Africa	38

Ethiopia has seen conflict flare up in the unsettled northern Tigray region, which presents a significant threat to the unity and stability of Ethiopia and the wider Horn of Africa region. The federal government declared a state of emergency in Tigray in November and the prime minister, Abiy Ahmed, ordered troops in to restore law and order. The regional government headed by the Tigray People's Liberation Front had organised regional elections in October, which contravened the federal government mandate to postpone all regional and parliamentary elections on account of the disruptive effects of the Covid-19 pandemic. The federal government declared the Tigray regional elections illegal and the results void, while federal budgetary support to the region was cut. The prime minister's decision to send in the army will do little to ease tensions and could spark further conflict in northern parts of the country. Any escalation of the conflict in the north could destabilise other regions that are seeking greater autonomy (especially the populous and already unsettled Oromia and Amhara regions), discourage new foreign investment and spill over to unsettle the wider Horn of Africa.

South Africa has reasonably strong and effective governance compared with many other countries in Africa but nevertheless has a legacy of widespread corruption and graft. The president, Cyril Ramaphosa, assumed office back in 2018 with a promise to root out corruption and propel the economy through job creation and massive investment. Progress was made but this came to a standstill in 2020 as the economy entered a Covid-19-induced recession and allegations of corruption surfaced involving the misuse of enormous amounts of public funds earmarked for vulnerable households and businesses. Mr Ramaphosa has launched a probe into Covid-19-related corruption, bolstered law-enforcement resources and reinforced his commitment to his recovery plan, but his government will nevertheless face growing distrust among the electorate and a heightened risk of intense industrial action in 2021. Further job losses, wage cuts and difficult to dislodge patronage networks and vested interests will provide little room for mismanagement of the recovery and keep anti-government sentiment simmering.

Angola and **Zambia** have a history of weak, ineffective and corrupt governance, and both will suffer a prolonged recession in 2021 that will serve to heighten resentment among disgruntled populations. Angola's patience with its president, João Lourenço, is being tested as early expectations of change have given way to frustration over the lack of real progress in raising living standards. Covid-19 restrictions and the faltering economy create a volatile mix. Anti-government protests began peacefully in October driven by anger and frustration over entrenched state corruption, massive unemployment, the rising cost of living and the loss of political freedoms. Protesters were met by brutal suppression from security forces that deployed tear gas and live ammunition to disperse large gatherings in the capital, Luanda. Tensions remain high and could spill over into renewed civil unrest as the country struggles to emerge from recession for a sixth consecutive year.

The economic fallout from the pandemic has contributed to Zambia formally defaulting on its sovereign debt to Eurobond holders. The default will weigh on political and civil stability in 2021, especially as the government will inevitably embark on a course of painful fiscal austerity while the debt issue is being resolved and the country is largely cut off from international capital. In addition to this, public resentment over the growing influence of Zambia's main creditor, China, is high and rising. The perceived influence of China in Zambian policymaking and its economic affairs has become a major issue for the government and anti-Chinese sentiment could soar to become a destabilising factor in 2021 should Chinese companies seize Zambian assets as part of a debt restructuring arrangement. The run-up to the 2021 legislative and presidential elections will be a particularly unstable period.

Algeria had a change of leadership in late 2019 but anti-government protests have continued. Abdelmadjid Tebboune took office as president in December 2019 after his predecessor Abdelaziz Bouteflika was forced to resign following prolonged social unrest. A referendum on constitutional reform in November and an early election in December are efforts to appease protesters and demonstrate greater accountability and transparency. The election could secure another large majority for the incumbent regime but a lack of real political change and slow recovery from the Covid-19-related recession of 2020 will further antagonise opposition and civil rights groups, driving up the risk of a return to extensive civil unrest.

Injection of hope

The world is holding its breath for good news surrounding regulatory approvals and the rollout of vaccines that could facilitate mass immunisation and bring real hope of an end to the pandemic in the first half of 2021. Western and northern hemisphere countries are pinning their hopes on vaccines developed by Pfizer-BioNTech, Moderna and Oxford-AstraZeneca, which would benefit first countries in North America and Europe before contributing to the global effort led by the World Health Organisation to provide supplies more widely and to every country in need. On another front, China and Russia appear keen to share their own state-backed vaccines once ready for distribution to all countries in need, which at the same time would support efforts to expand their political and economic spheres of influence. Africa will benefit from the development of vaccines, but the timing of mass immunisation is unclear. The distribution of effective vaccines appears likely in 2021, which will bring relief to governments and aid the recovery and could help to ease some tensions within wider society.

However, underlying sources of tension across Africa have become more fraught and the situation will not be aided by the pace of the economic recovery in 2021. A quick bounce-back to pre-pandemic levels of economic wealth and stability is not anticipated for most countries and for a number of years. The adverse effects of Covid-19 will linger in 2021, even in the event of effective vaccine rollout and of the pandemic disappearing just as fast as it arrived. Unsettled and aggrieved populations may be less forgiving and less willing to sit back and take what they are given in a post-pandemic world. Africa could be headed for trouble if the so-called "third wave of civil unrest" that was stalled by the pandemic truly regains momentum.

Pro-Sisi party secures big majority in Egyptian elections

December 16, 2020: Election watch

Mostaqbal Watan (MW), a party founded in 2014 by activists who played an important role in the rise to power of Egypt's president, Abdel Fattah el-Sisi, has secured a solid majority in the new House of Representatives (the lower house of parliament), following an election conducted over two rounds and two run-off rounds between early September and early December 2020. On December 14th, following the final run-off, the National Election Authority (NEA) announced the results. MW ended up with 316 of the 568 elected seats; a further 28 seats will be appointed by Mr Sisi. The official turnout in the four rounds ranged between 20% and 30%, higher than in the Senate election earlier in the year but still extremely low even by Egyptian standards, reflecting growing public disengagement with an uncompetitive electoral process and the impact that has on parliamentary checks on government conduct.

MW had a strong influence in the previous (single-chamber) parliament, but only won about 10% of the seats in the election in 2015, with the vast majority going to independents, most of whom coalesced to form a pro-Sisi bloc, ensuring that parliament rubber-stamped most legislation, but tighter control by one party will also increase the direct influence of the president over parliament. The party also secured a large majority in the resurrected 300-member Senate election in August, and is now set to dominate the new legislature, strengthening Mr Sisi's influence. MW's core basis of support lies in the business community, the intelligence services (Mr Sisi was formerly the head of military intelligence) and among local power brokers in rural areas.

Complex electoral process

The electoral system entailed 50% of the elected seats (as previously mentioned, 28 seats are appointed by the president) in the 596-member lower house being decided on a closed list basis, and 50% through individual constituencies. A bloc set up by MW with 13 other parties won all of the 284 list seats, with party quotas allocated in a process dominated by MW. Of the total list seats, MW took 145, the People's Republican Party (PRP) secured 28, independents 25 and the Wafd 21, with the remainder shared among smaller parties. The PRP, set up in 2012 by establishment supporters of the uprising against the late president, Hosni Mubarak, won 50 seats in total, while independents won 95. Hizb al-Nour, a Salafi party, was the only party not on the MW-led list to win a significant number of seats, securing seven in individual races.

The new parliament will have hardly any well-known dissenting voices. In the previous parliament, there was an opposition bloc of 25-30 members of parliament (MPs). Most of these, including its leading spokesman, Haitham el-Hariri, lost their seats in the 2020 election. The most substantial critical voice in the previous parliament was Mohamed Anwar el-Sadat (a nephew of the former assassinated president of the same name). He served briefly as chair of the House of Representatives' Human Rights Committee, but was removed from that position on the grounds that he had spoken to foreign human rights groups. In early 2017 he was stripped of his membership. Mr Sadat recently came back to prominence through playing a part in the release of three human rights activists, whose detention had attracted wide international attention.

Uncompetitive managed election strengthens presidential control

The Ministry of Interior-affiliated National Security Agency played an active role in managing the conduct of the election. On the same day as the results were announced, the detention period of a group of activists who had sought to contest the election as part of a "Coalition of Hope" was extended by 45 days. They were originally arrested on terrorism charges in June 2019.

The new parliament will hold its inaugural session on January 9th 2021. This will trigger the resignation of the current government, and parliament will be required to approve the programme of the new administration, following Mr Sisi's appointment of a prime minister. The current prime minister, Mostafa Madbouly, has been in office since June 2018, when Mr Sisi began his second presidential term. Given that he has been heavily involved in directing the government's ongoing response to the coronavirus pandemic, as well as in pushing forward with major new projects such as the new administrative capital, Mr Madbouly is likely to be reappointed, and it is doubtful whether there will be major changes in the cabinet line-up. The election will not have a direct bearing on this, as MPs are not permitted to serve in the executive. However, the new government will have to liaise closely with MW in elaborating and implementing policy. The party is likely to be broadly supportive of the government's policy and will not be a substantive check on its power (although it may occasionally question more unpopular policies such as a recent drive in September to demolish unauthorised building). Nevertheless, the broader change will be of even tighter government control of political discourse and fewer critical voices to challenge policies.

Economy

Forecast updates

Egypt's current-account deficit widens in Q4 2019/20

December 1, 2020: External sector

Event

On November 30th the Central Bank of Egypt (CBE) released external sector data for 2019/20 (July 1st-June 30th) pointing to a significant widening of the current-account deficit in the final quarter (April-June) of the fiscal year, which coincided with the height of the global coronavirus (Covid-19) pandemic.

Analysis

The current-account deficit widened to US$3.8bn in April-June 2020, from US$2.8bn the previous quarter and was more than three times higher year on year. The impact of the pandemic was most clearly evident in the collapse in tourism revenue to just US$305m, compared with US$3.2bn in April-June 2019. Petroleum export earnings fell by 62% year on year, but the slump in prices also pushed down the value of petroleum imports by 70% year on year. Non-oil exports fell by a relatively modest 5.9% year on year. Suez Canal revenue fell by 7.8% year on year to US$1.35bn, reflecting the slowdown in global trade, which we estimate contracted by 10.6% in volume terms in 2020. Remittances dipped to US$6.2bn in April-June, 10% less than the equivalent period of 2019. Many Egyptians working in the Gulf Arab states have returned home after losing their jobs owing to the pandemic, while others, including in Europe and North America, have seen their incomes drop.

In terms of external financing, borrowing from international institutions and the bond market, as well as a recovery of portfolio investment since end-May, has eased external account pressures. The capital and financial account showed a surplus of US$1.2bn in April-June. This was attributable to US$7.2bn in net inflows through medium- and long-term loans and a US$5bn bond issue during this period. The loans included facilities from the IMF with an IMF staff mission recently recommending the disbursement of a further tranche in funding. Excluding the net proceeds of the bond issue, there was a US$3.1bn outflow of portfolio investment, but this was much lower than the US$8.2bn outflow in January-March, and there have been net inflows of portfolio investment since end-May. Foreign direct investment inflows showed a modest recovery to US$1.5bn in April-June compared with January-March, but this was still below the 2019 quarterly average of US$2.25bn.

Impact on the forecast

The outturn is broadly in line with our estimate for the current-account deficit in 2020 and the key drivers of the shift. The recovery in capital and financial account inflows also confirms our forecast that Egypt will be able to meet these higher financing needs.

UAE firm plans investment in Egypt's pharmaceutical sector

December 2, 2020: External sector

Event

ADQ, an investment holding company owned by the government of Abu Dhabi, is considering the acquisition of Amoun Pharmaceutical Company, one of Egypt's leading drugs manufacturers, in a deal that could be worth US$650m-700m.

Analysis

According to *Alborsanews*, an Egyptian financial newspaper, ADQ is currently performing due diligence for the acquisition, with the aim of completing it in the first quarter of 2021. Amoun is owned by Canadian-based Valeant, which has been offloading some of its international assets in recent years. According to a recent survey published by Bepac, an Egyptian pharmaceutical industry education institute, Amoun ranks fourth among the country's pharmaceutical producers, behind the local affiliates of three multinationals: Novartis (Switzerland), Sanofi (France) and GSK (UK). Amoun has a share of about 5% of the estimated E£70bn (US$4.5bn) market. Egypt's healthcare and pharmaceuticals sectors have grown considerably in recent years and witnessed reforms to healthcare insurance aimed at strengthening provision.

ADQ is part of a US$20bn Egypt investment initiative by the UAE in one of its main regional allies, launched in November 2019. The UAE already accounts for a significant portion of foreign investment in Egypt. Emirati economic interests have grown in recent years in parallel with the development of an increasing close military relationship. ADQ recently announced plans to support a major expansion in Egypt of the retail activities of Lulu International Holdings, a UAE-based hypermarket and supermarket operator. ADQ said in early November that it had reached a non-binding agreement with Lulu to support the company's planned expansion into Egypt, with a target of establishing 30 hypermarkets and 100 mini-markets. The UAE's growing investment base in Egypt is widely spread, including in real estate, telecoms, banking and retail. Earlier interest in investing in medium-to low-end housing (a priority for Egypt), failed to progress, however.

Other potential acquisition targets for the UAE include the Egyptian affiliates of two Lebanese banks, BLOM Bank and Bank Audi, which are looking to raise finance to bolster capital for their domestic bases. A Dubai-based bank, Emirates NBD, has expressed interest in BLOM Bank, and Bahraini-based Arab Banking Corporation recently emerged as a rival bidder, and First Abu Dhabi Bank has held talks about acquiring Bank Audi Egypt.

Impact on the forecast

The development is in line with our view that the UAE will be among Egypt's most important strategic and economic partners and our forecast that the UAE will use its economic leverage to strengthen its position regionally.

Egypt's budget position holds up despite pandemic shock

December 10, 2020: Fiscal policy outlook

Event

In early December the Ministry of Finance published actual budget outturn figures for the first quarter of the 2020/21 (July-June) fiscal year, which showed that revenue from taxation and other sources rose by 18.3% year on year in that quarter.

Analysis

Although the economy contracted in the final quarter of 2019/20 amid severe coronavirus (Covid-19)-induced pandemic restrictions, it returned to growth in July-September, helping to support fiscal revenue growth. The authorities also introduced some revenue-raising measures in the 2020/21 budget. Income tax revenue rose by 58.8% year on year, almost half of which was derived from corporate profits from sources other than the state petroleum corporation, the Suez Canal

Authority and the Central Bank of Egypt. This category of "taxes from other companies" increased by 84% to E£24bn (US$1.5bn). The target for the full fiscal year is E£146bn. By contrast, value-added tax (VAT) revenue rose by only about 1%, to E£74.3bn, as some sectors remain subdued during the pandemic, especially tourism. Since it was introduced in 2016, VAT income has made a major contribution to reducing the fiscal deficit and is budgeted to account for 36% of total revenue in 2020/21, compared with 27% for income tax.

Budget performance

(E£ m, unless otherwise indicated; fiscal year July-June)

	2018/19	2019/20	2020/21	2019/20	2020/21	% change	% change
	Outturn	Budget	Budget	Jul-Sep	Jul-Sep	Budgets[a]	Outturn[b]
Expenditure	**1,369.9**	**1,574.6**	**1,713.2**	**303.3**	**336.8**	**8.8**	**11.0**
Employees' compensation	266.1	301.1	335.0	74.9	78.7	11.3	5.1
Interest	533.0	569.1	566.0	138.5	135.1	-0.5	-2.5
Subsidies, grants & social benefits	287.5	327.7	326.3	34.1	54.7	-0.4	60.4
Food subsidies	87.0	89.0	84.5	12.4	12.4	-5.1	0.0
Fuel subsidies	84.7	53.0	28.0	0.0	0.0	-47.2	-
Social benefits	76.0	109.6	158.8	13.5	35.0	44.9	159.3
Investment	143.3	211.2	280.7	24.9	39.9	32.9	60.2
Revenue	**941.9**	**1,134.4**	**1,288.8**	**173.0**	**204.7**	**13.6**	**18.3**
Tax revenue	736.1	856.6	964.8	131.6	150.2	12.6	14.1
Income tax	250.1	291.1	351.6	34.5	54.8	20.8	58.8
VAT	350.6	415.4	469.6	73.5	74.3	13.0	1.1
Non-tax revenue	205.8	277.8	324.0	41.4	54.6	16.6	31.9
Cash deficit	428.0	440.1	424.4	130.4	132.1	-3.6	1.3
Net acquisition of financial assets	2.0	5.0	7.7	1.1	2.9	54.0	163.6
Overall deficit	**430.0**	**445.1**	**432.1**	**131.5**	**135.0**	**-**	**-**
Overall deficit (% of GDP)	**8.1**	**7.2**	**6.3**	**2.3**	**2.1**	**-**	**-**
Primary balance (% of GDP)	**1.9**	**2.0**	**2.0**	**0.1**	**0.0**	**-**	**-**

[a] Change year on year in budget plan. [b] Change year on year in July-September outturn.

Source: Ministry of Finance.

Total expenditure in the first quarter rose by 11% year on year. The biggest increase was for social assistance benefits, which rose by more than threefold, to E£35bn. This was mainly attributable to the increased Treasury contribution to pensions, following the passage of pensions legislation in 2019. The law allowed for contingent pension provisions that had previously been classified as part of total public debt to be transferred to pension funds for investment, which has been reflected in the higher budget allocation. There was also a 60% year-on-year increase in investment in the actual budget outturn, while interest payments fell by 2.5% to E£135bn—the first such fall in many years as the government benefitted from lower interest rates. Interest payment is the largest single item in the full-year budget, accounting for about one-third of total expenditure.

Overall, the year-on-year cash deficit increased only marginally, and the deficit as a proportion of full-year estimated GDP fell to 2.1% from 2.3%. The primary balance was zero, compared with a 0.1% surplus in the first quarter of 2019/20.

Impact on the forecast

Given the strength of revenue growth, we will revise down our fiscal deficit forecast to about 9% of GDP for 2020/21 and put the primary position at close to balance.

Egypt's inflation rate stays modest despite uptick

December 11, 2020: Inflation

Event

Data released on December 10th by CAPMAS, the state statistical agency, show that prices rose significantly for the third consecutive month in November, ticking up by 1.2% month on month and rising above 5% year on year for the first time since June, as annual inflation reached 6.3%.

Analysis

Rebasing of the index in late 2019 accounts for some of the uptick. The increase in inflation has also been driven by the strengthening in economic activity as coronavirus (Covid-19) pandemic-related restrictions imposed earlier in the year have largely been lifted. Price growth for most imported goods has been relatively muted, reflecting the appreciation of the Egyptian pound against the US dollar in recent months, as well as subdued international prices; for instance, prices of clothing—a sector heavily affected by the pandemic—rose only gently on a year-on-year basis. Food prices, which had declined earlier in 2020, rose strongly; food accounts for about 30% of Egypt's total consumer price index. The sectors seeing the strongest price growth are services industries that were most severely hit at the height of the pandemic restrictions, such as healthcare, recreation and culture and education, as normal activity begins to resume, but supply remains affected.

The steep decline in inflation since 2018 has been reflected in a declining poverty rate until earlier in 2020. Inflation surged following the flotation of the Egyptian pound in late 2016 and the currency's consequent sharp depreciation, which triggered high imported price growth. High inflation and government subsidy reform hurt disposable incomes and resulted in several years of subdued private consumption growth. However, the most recent data from CAPMAS published in early December, which covered the 2019/20 (July-June) fiscal year, indicate the first fall in the poverty rate in two decades, as a result of more stable prices and growing private consumption as the unemployment rate fell, with the impact of IMF-backed economic reforms starting to be felt more widely. The poverty level (income below E£857/month; about US$55) had fallen by 29.7% as at March 2020, compared with 32.5% in June 2018 when the poverty line was at E£736/month; the absolute poverty rate also fell, from 6.2% to 4.5%, during the same period.

Impact on the forecast

We took account earlier in the year of a likely uptick in inflation at year-end and the relative buoyancy of private consumption, and our forecasts of modest economic growth and inflation at about 5% are therefore unchanged.

Egypt begins to sell off military-owned businesses

December 17, 2020: Policy trends

Event

Egypt's government announced in mid-December that it had identified the first two military-owned companies to be presented for sale to private investors, as part of a policy announced by the president, Abdel Fattah el-Sisi, in November 2019.

Analysis

The sales are to be promoted by the Sovereign Fund of Egypt (SFE), which earlier in 2020 agreed with the economic arm of the Ministry of Defence, the National Service Products Organisation (NSPO) to help to transfer military assets into private hands. It has indicated that it may take minority stakes in the two companies, Safi (which produces mineral water, olive oil and salt) and Wataniyya Petroleum (which operates a national network of filling stations). EFG-Hermes, an Egyptian investment bank, has been engaged as financial adviser for the two deals. Ayman Soliman, the SFE's chief executive, said that the two companies could be transferred to private hands by the second quarter of 2021, and that they were likely to be listed on the stockmarket.

Egypt's privatisation programme started in the early 1990s, but no major state assets have been sold for more than ten years, although in 2018 23 companies with state shareholdings were placed on a privatisation list. Since Mr Sisi became president in 2014 the role of the military in the economy has increased substantially. The IMF, which is preparing to approve a second tranche of a US$5.2bn stand-by credit agreement struck in June, has repeatedly urged the government to open up the economy to private investment. Military companies enjoy advantages over civilian private firms, including tax exemptions and privileged access to land, capital and labour. Information about the value of military assets and their financial performance is not available in the public domain.

Safi and Wataniyya are among about 30 subsidiaries of the NSPO. Safi extracts mineral water from aquifers near the Siwa oasis, in the Western Desert near the Libyan border. It also mines salt, and processes olives grown around the oasis. Wataniyya's chief executive, Brigadier Mahmoud Arafat, said in a 2018 television interview that the company had a 10% share of the filling stations market. He said that its role was strategic, and that it was not aiming to make profits.

Impact on the forecast

We expect some smaller privatisations to proceed from 2021, but the military will still play a pivotal role in several strategic sectors and especially in larger infrastructure and construction projects. Our policy forecasts are therefore unchanged.

UAE backs major renewable power projects in Egypt

December 17, 2020: Economic growth

Event

The Abu Dhabi crown prince (and de facto UAE ruler), Mohammed bin Zayed al-Nahyan, visited Egypt in mid-December to hold talks with the Egyptian president, Abdel Fattah el-Sisi, and discuss strategic bilateral ties and commercial opportunities.

Analysis

Egypt and the UAE are already extremely close allies. During the visit, the Egyptian government agreed to an expansion of a solar power project to be undertaken by AlNowais Investments of the UAE from 200 MW to 500 MW, with a reduction of the tariff in the power purchase agreement to just US$0.02/kWh, according to Egypt's electricity and renewable energy minister, Mohammed Shaker el-Markabi. Nowais has also agreed to carry out a 500-MW windpower project, with a competitive tariff of US$0.031/kWh. The announcement reflects both the ambitious scale of Egypt's renewable energy programme and the growing involvement of Emirati investors in the Egyptian economy.

The initial agreements with Nowais for a 200-MW solar park north of Aswan, and the 500-MW wind farm on the Gulf of Suez were announced at the end of 2019. At that time, Mr Markabi said that the tariff for the solar project would be US$0.0248/kWh. Nowais had earlier proposed to invest in a large coal-fired power station in Sinai, but that project was cancelled, as a result of the expansion of Egypt's natural gas supply and growing focus on renewables capacity, as well as on environmental grounds.

Egypt kick-started its solar power programme in 2016-17 with two bid rounds based on guaranteed feed-in tariffs. Developers signed 32 contracts, most of them at US$0.082/kWh; the 1,650-MW solar park at Benban, north of Aswan, has been in full operation since late 2019. The low tariff agreed with Nowais for its solar project reflects the dramatic fall in costs for solar projects in the past few years.

In a press interview, Mr Markabi said that renewables capacity will increase to 6,378 MW by end-2021 from 5,878 MW currently and that 2,400 MW of solar and wind capacity is scheduled to come on stream in 2022 (presumably including the Nowais projects). Egypt's total installed power generating capacity is currently about 60,000 MW comfortably above current demand. Most generation is made up of gas turbines and combined-cycle plants, with the renewables likely in part to replace older thermal capacity that is being retired.

Impact on the forecast

The agreements are in line with bilateral strategic interests and with Egypt's energy policy priorities, and our forecasts are therefore unchanged.

IMF releases second tranche of stand-by arrangement to Egypt

December 22, 2020: Policy trends

Event

On December 18th the IMF completed its first review of a 2020-21 stand-by arrangement (SBA) that was signed in June as part of measures aimed at dealing with the economic impact of the coronavirus pandemic.

Analysis

The completion of the review triggered the release of a second tranche of US$1.67bn from the US$5.2bn SBA, bringing total disbursements to just over US$3.6bn. The IMF commentary was generally positive, but it included calls for more resolute action to enable private-sector investment and for "two-sided flexibility" in exchange-rate management. These concerns have been expressed before by the Fund, including during the 2016-19 US$12bn extended fund facility. At the time, the IMF said that the transparency of state-owned enterprises should be enhanced and that efforts should be made to ensure a level playing field for all economic agents. The government recently made a gesture in this context by announcing plans to sell shares in two companies controlled by the Ministry of Defence.

The IMF said that a recent easing of monetary policy should support economic activity and ease "appreciation pressure from large capital inflows". Portfolio investors withdrew about US$14bn from Egypt in February-May 2020, but inflows have recovered strongly. The exchange rate has consequently strengthened and has stabilised at about E£15.65:US$1 in recent months. The IMF's reference to "two-sided flexibility" being required to absorb external shocks and to enhance competitiveness suggests that it believes that the Central Bank of Egypt may have intervened to moderate the downward and upward movements of the exchange rate in response to these capital flows.

The release of the second SBA tranche will help the government to continue to cover extra budgetary expenses arising from the pandemic, as well as sustain foreign-exchange reserves at their current level—they stood at US$33.4bn at end-October—which is lower than just before the pandemic but still sufficient to cover more than six months of imports. The continued support from the IMF will also provide encouragement for international bond investors. The Ministry of Finance has indicated that it plans to raise US$7bn in sovereign bonds in the first half of 2021, with a group of investment banks currently being selected for the first issue, likely to be US$4bn.

Impact on the forecast

The release of IMF financing and further bond issuance is in line with our policy and external forecasts; we continue to expect some shortcomings in compliance with IMF objectives but not to the extent that funds will be withheld.

Egypt looks ahead to vaccine rollout amid coronavirus surge

December 29, 2020: Policy trends

Event

On December 27th Egypt's prime minister, Mustafa Madbouly, announced that the government would be tightening social distancing rules in response to a marked increase in recorded coronavirus (Covid-19) cases and fatalities, even as the country prepares to roll out vaccines.

Analysis

The new counter-measures included a ban on all celebrations of the New Year. From January 3rd the authorities will levy spot fines of E£50 (US$3.2) on anyone not wearing a face covering in public. Inspections of restaurants and cafés will be intensified to make sure that they are obeying rules to limit attendance to 50% of capacity, and fines of E£4,000 will be charged for violations. Indoor weddings and funerals will be banned.

The measures came following marked increases in the daily incidence of cases and deaths. New recorded cases rose by more than 1,000 per day from mid-December, and fatalities exceeded 50 per day in the final days of 2020, after having ranged between ten and 20 since mid-2020. The government has acknowledged that the official figures understate the prevalence of the virus, as testing tends to be restricted to severe cases and patients deemed to be vulnerable, and the Ministry of Health's figures do not include all tests undertaken privately. Egypt's official tally of deaths from Covid-19 as at December 29th was about 7,500.

Preparations have started for administration of a vaccine that has been developed by China's Sinopharm. The government is working on plans to manufacture this and other vaccines under licence in Egypt, for both the domestic market and the wider Middle East and Africa region. The health ministry is carrying out clinical trials for the Sinopharm vaccine, and by late December had received 100,000 doses via the UAE. The vaccine will be provided free of charge, and the government has said that health workers and people with chronic diseases will be prioritised in the initial phase of the rollout. Egypt is also hoping to access a substantial number of vaccines through the Covax system, and is negotiating with international firms over different vaccines, but fiscal pressures and global supply and logistics issues will hinder distribution, despite recent health sector reforms.

Impact on the forecast

We maintain our forecast that widespread vaccine rollout will begin only in March-April 2021 and continue well into 2022-25, using a range of sources from both Western allies and China. Continued pandemic-related concerns in the first half of 2021 will slow economic performance.