Egypt

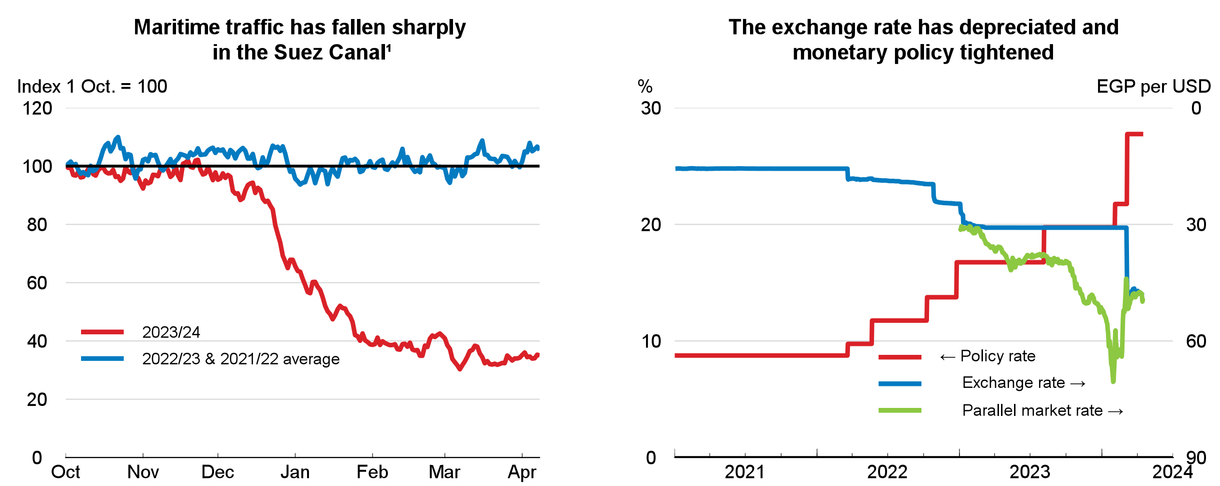
Growth slowed to 2.8% in FY 2023-24 but is expected to regain strength gradually, to 3.9% in FY 2024-25 and 5.6% in FY 2025-26. The shift to a flexible exchange rate regime has eased balance of payments tensions and improved confidence. Private consumption will gain momentum as inflation declines. A weaker exchange rate will boost exports but they will remain below potential due to adverse geopolitical conditions.

Regaining control of inflation, improving public financial management and increasing the role of the private sector are essential to reestablish the foundations for strong and sustainable growth. This requires a restrictive monetary policy stance and structural reforms to reduce public indebtedness. Government spending, including subsidies and investments, must be rationalised, and the announced plan of asset sales and removal of tax exemptions for state-owned enterprises must be implemented fully and timely.

Growth remained depressed but confidence has improved

Activity remained weak in early 2024 amidst continued high inflation. Headline consumer price inflation, which stood at 33.1% year-on-year in March 2024 with continued strong rises in food prices, weighed on private consumption. The weakening of demand and tight financial conditions penalised activity and investment, as indicated by the persistently low level of the purchasing managers index in March. Moreover, the conflict in the Middle East and attacks in the Red Sea have halved maritime traffic in the Suez Canal since the start of the year and disrupted exports. Activity in the tourism sector, which performed well in 2023, slowed in recent months.

Egypt



1. 7-day moving average of transit trade volumes. “2023/24” represents trade volume between October 2023 and April 2024. “2022/23 & 2021/22 average” represents average trade volume between October 2021 and April 2022 and between October 2022 and April 2023.
Source: IMF PortWatch; Central Bank of Egypt; and parallelrate.org.

StatLink https://stat.link/9y12zl

Egypt: Demand, output and prices

Egypt	2020	2021	2022	2023	2024	2025
	Current prices EGP billion	Percentage changes, volume (2022/2023 prices)				
GDP at market prices	6 663.1	6.7	3.8	2.8	3.9	5.6
Private consumption	5 730.6	3.8	3.8	3.2	4.0	5.2
Government consumption	503.6	-17.3	-2.8	5.1	6.2	6.5
Gross fixed capital formation	1 010.9	30.5	-21.6	-7.8	0.2	3.5
Total domestic demand	7 245.1	5.4	-0.7	2.0	3.7	5.1
Exports of goods and services	703.7	51.7	31.4	4.0	5.0	8.2
Imports of goods and services	1 285.7	25.2	1.1	0.2	4.0	5.4
Net exports[1]	- 582.0	0.8	4.5	0.7	0.1	0.5
Memorandum items						
GDP deflator	_	10.4	24.8	35.9	21.9	8.7
Consumer price index[2]	_	9.7	25.1	35.6	23.4	8.6
Core inflation index[3]	_	7.9	29.2	35.5	24.5	8.6
Budget sector financial balance[4] (% of GDP)	_	-6.2	-6.0	-7.4	-7.3	-6.6
Central government gross debt (% of GDP)	_	87.2	95.7	91.9	89.7	86.6
Current account balance (% of GDP)	_	-3.4	-1.2	-2.1	-1.4	-1.1

Note: Data refer to fiscal years starting in July. The numbers for the fiscal years 2023/2024 onwards are OECD projections. The fiscal projections do not incorporate the impact of the recent Ras El-Hekma deal.
1. Contributions to changes in real GDP, actual amount in the first column.
2. Data refer to the nationwide inflation rate.
3. Consumer price index excluding food and energy.
4. Data refer to the budget sector that comprises central administrative units, local administrative units, and public service authorities.
Source: OECD Economic Outlook 115 database.

StatLink https://stat.link/w6vnk1

Investor confidence has improved since March, as evidenced by falling sovereign debt spreads and a better outlook for Egypt's credit rating. This change follows significant inflows of foreign currency linked to the announcement and partial disbursement of a direct investment of USD 35 billion from a sovereign fund of the United Arab Emirates and agreement with the IMF on a vast reform programme to be backed by USD 8 billion in total. In this context, the central bank adopted a flexible exchange rate regime and substantially relaxed exchange rate controls. The unification of the official and parallel foreign exchange markets opens the door to gradually lifting restrictions on imports and removing obstacles to foreign currency flows, thereby greatly facilitating economic recovery.

The authorities are working to restore stability and build confidence

The central bank raised its policy rate by 8 percentage points in two steps, to 27.25% in early March. The official exchange rate against the US dollar moved from around 31 to around 49 Egyptian pounds in early March and has fluctuated around 48 since. Further monetary tightening may be necessary given the very high rate of inflation. To preserve fiscal sustainability in the face of rising interest payments, the government curtailed investments in the 2023/24 budget and plans to restrict them in the next budget, given its aim to increase the primary budget surplus to 3.5% of GDP in 2024/25. It also committed to continuing its privatisation programme and obtaining divestment proceeds of USD 2 billion (0.5% of GDP) by June 2024 and of around 1% of GDP in 2024/25. The authorities adopted a social plan of EGP 180 billion (1.3% of GDP) to protect the population in the face of rising living costs. This plan includes salary increases in the public sector, including the minimum wage, tax cuts and pension increases, particularly Takaful pensions.

The recovery is set to be gradual

Growth is expected to pick up to 3.9% and 5.6% in FY 2024-25 and FY 2025-26, respectively. Disinflation will be held back temporarily by the weakening of the currency but will in due course strengthen consumption, which will also be supported by fiscal measures. Although hampered by the impact of the conflict in the Middle East, exports are expected to gain strength thanks to the currency's depreciation. Private investment will recover as financial conditions ease. Faster-than-expected budgetary consolidation could boost confidence and private investment, particularly foreign investment, with beneficial effects for disinflation and growth. The dynamism of the recovery is also dependent on regional geopolitical tensions, which can evolve in either direction.

Reforms must be maintained to buttress growth

Maintaining a flexible exchange rate regime and a credible inflation targeting policy is essential for confidence and the return to macroeconomic stability. Continuing to reduce public debt requires further efforts to rationalise the public accounts over time. The gradual increase in the coverage of the general government accounts to include numerous extra-budgetary entities and the control of their investments and debt from FY 2024-25 are key. So are the implementation of the privatisation plan and the removal of preferential tax treatments for state-owned enterprises. Food subsidies must also be strictly targeted to those who are most in need and subsidies for domestic fuel gradually phased out.