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

Summary

Outlook for 2019-23

Data and charts

Summary

Recent analysis

Politics

Economy

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Briefing sheet

Editor:	**Keren Uziyel**
Forecast Closing Date:	**July 22, 2019**

Political and economic outlook

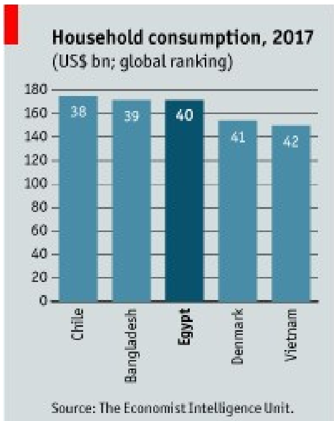
- The Economist Intelligence Unit expects the president, Abdel Fattah el-Sisi, to maintain his political dominance following recent constitutional amendments. His government will quell domestic disquiet over economic challenges and suppress dissent.
- Egypt's ties with the US and the UAE and Saudi Arabia will remain strong, but Mr Sisi will also cultivate diplomatic and economic engagement with Russia and China.
- The economic reform programme agreed with the IMF will ensure some progress on fiscal consolidation, although business-related structural reforms will proceed slowly owing to opposition from vested interests within state bodies.
- Efforts to reform the fiscal and business environment will continue throughout 2019-23, albeit at a modest pace. We do not expect Egypt to seek a new funded deal with the IMF when its current agreement expires later in 2019, given its improved funding position.
- As unemployment continues to fall and growth becomes increasingly broad-based, and given the government's focus on healthcare and education reform, the risk of public dissent over the high cost of living will diminish, in tandem with easing inflation.
- The fiscal deficit will narrow from 9.5% of GDP in fiscal year 2017/18 (July-June) to 6.0% of GDP in 2022/23, as a result of rising tax revenue and lower subsidy spending.
- The current account will move into surplus from 2021, owing to lower oil import costs in the second half of the forecast period and as export growth outpaces import growth.

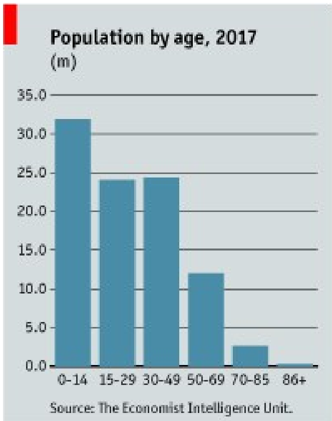
Key indicators

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth (%)	5.3	5.5[a]	4.9	5.5	6.0	5.7
Consumer price inflation (av; %)	14.4	11.8	10.9	9.3	8.3	7.5
Government balance (% of GDP)[c]	-9.5	-7.2	-7.2	-6.8	-6.5	-6.0
Current-account balance (% of GDP)[d]	-2.2	-1.2	-0.5	0.2	1.3	1.5
Money market rate (end-period; %)	19.8	17.0	15.5	13.5	12.5	11.0
Unemployment rate (%)	9.9	9.0	9.5	9.2	8.7	8.3
Exchange rate E£:US$ (av)	17.82	17.05	16.77	16.63	16.52	16.28

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

Market opportunities





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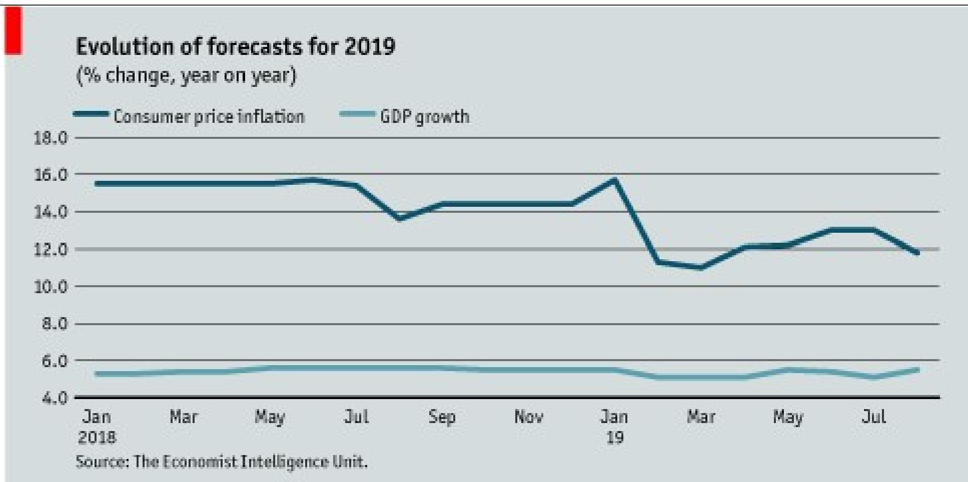

Key changes since June 28th

- We have revised down our inflation forecast slightly for 2019 to reflect the sharp dip in price pressures in June, although the average for the year will remain above 10% as subsidy reform pushes prices back up. Inflation will trend down further in 2020-23.
- We have revised up our trade deficit forecast in 2019-23 to reflect slower-than-anticipated export growth, but still expect the current account to move from a small deficit to modest surplus midway through the forecast period.

The month ahead

- **End-July—Scheduled date for holding municipal elections passes:** The Sisi administration has steadily increased its powers and tightened its crackdown on dissent, and may be concerned that voters who have so far largely acquiesced to the increasing authoritarianism will use the election to show their discontent.
- **August 5th—Emirates NBD's purchasing managers' index (PMI, July):** Economic growth in the domestic private sector has been relatively weak, reflecting a challenging period for businesses as a range of economic reforms led to high inflation and currency volatility. The PMI has been broadly trending up in recent months, but remains below 50.
- **August 9th—Consumer prices (July):** Inflation climbed in early 2019, owing to volatile food prices, but then dipped below 10% in June, to its lowest level since 2016. The removal of some subsidies in mid-year will keep price pressures significant, although the trend will be broadly downwards, owing to a stronger currency and lower oil prices.

Major risks to our forecast

Scenarios, Q2 2019	Probability	Impact	Intensity
Concern about continued popular unrest slows pace of socially sensitive reforms	High	High	16
Fiscal pressure forces government to hike corporate taxes	Moderate	Very High	15
Negative net foreign assets lead to heightened local currency volatility	Moderate	Very High	15
Opaque legal proceedings deter investors	Moderate	High	12
Radical Islamists launch a sustained terrorist campaign that threatens tourism sector again	Moderate	High	12

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 2019-23

Political stability

The president, Abdel Fattah el-Sisi, will remain in power over the 2019-23 forecast period and beyond. Recent constitutional amendments extend his current second term from four to six years, to 2024. They also allow him to stand for a further six-year term, until 2030, and tighten his control over other branches of power in several key ways: the creation of the office of vice-president; changes to the structure of parliament—including the creation of an upper house (Senate), in which one-third of members will be appointed by the president; direct presidential oversight of judicial appointments; and an expanded role for the military. Although Mr Sisi will keep a tight grip on power and contain social instability, the centralisation of the president's authority and the extension of his term pose risks to political stability beyond 2019-23, especially if the public do not begin to see substantial benefits from economic reform. The overthrow of the Egyptian president, Hosni Mubarak, during the 2011 Arab Spring, and the ousting earlier in 2019 of the presidents of Sudan and Algeria, illustrate the potential risks to long-serving authoritarian regimes. Mr Sisi, formerly the head of the armed forces, will ensure that he continues to retain the support of the military, including by allowing it to expand its business interests.

The risk of occasional protests will continue, especially as tough economic reforms have only recently started to translate into broader economic growth and lower unemployment. Public distaste for further instability is likely to keep such pressures muted for now. However, continued political repression could undermine Mr Sisi's rule in the longer term. Domestic policies will focus on economic development, particularly in the restive Sinai and other deprived areas, and security. Mr Sisi will exert even tighter control over the military and internal security, taking a tough line on dissent, media freedoms and security threats, with harsh crackdowns on Islamist militants continuing. Given the low risk of regime change, the pro-business policy direction under Mr Sisi will be maintained, providing consistency during the ongoing economic transition.

Mr Sisi has not allowed alternative political leadership to emerge, and the constitutional changes and tightening of other legislation that tighten control over civil society are intended to quell the development of rival power bases, but this carries a high risk over the medium term. Parliament—dominated by the Support Egypt bloc—is subservient and will be further kept in check by presidential appointees in the new Senate. The most active opposition to the government will remain Sinai-based jihadi groups, as well as the deposed Muslim Brotherhood and its militant offshoots Hassm and Liwa al-Thawra. The latter two groups have carried out attacks on state and security officials and on tourist sites since the removal in July 2013 of the Islamist president, Mohammed Morsi. Public sympathy for the Brotherhood has ebbed, however, amid concerns over the instability that forceful regime change would entail and the prospect of a robust security response.

The sweeping anti-terrorism offensive launched in February 2018 has inflicted severe damage on terrorist infrastructure and has helped to restore the fortunes of Egypt's vital tourism sector. Although eradicating terrorism is unrealistic, given broader regional turmoil, we expect the military operation to continue to reduce the number of attacks. Nonetheless, there is still a considerable risk from jihadi groups, which will carry out attacks intermittently on tourist areas, as well as on military and minority religious targets.

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Election watch

The voter turnout at the March 2018 presidential election was just 40.5%, and only one (pro-Sisi) candidate was allowed to stand against the incumbent; the April 2019 referendum on constitutional change saw a similarly low turnout. The constitutional changes approved in April extend Mr Sisi's second presidential term from four to six years, until 2024, and allow him to stand for an additional six-year term (after which the presidential mandate will be limited to two six-year terms). Mr Sisi—who is 64 and appears to be in relatively good health—is therefore likely to remain in power until 2030. Repeatedly delayed municipal elections (due in July) are likely to take place towards the end of 2019 or early 2020 instead. These are particularly important for companies, as local councils will implement Egypt's new, streamlined investment regulations at municipal level. We expect the central government to ensure that only candidates who are broadly supportive of the president's agenda are allowed to contest the elections.

International relations

The government's priorities will remain centred on maintaining cordial ties with the US and the EU, and building a broadening range of international links, including deepening relationships with Russia and China. It will also seek to secure maximum economic support from the Gulf Arab states. We expect Egypt, the UAE and Saudi Arabia to maintain close ties and increase joint efforts against security threats from Islamist groups and in the Red Sea, and to broadly align over Libya, although regional policy priorities will not always match exactly. In mid-2017 Egypt joined its Gulf Arab allies—Saudi Arabia, the UAE and Bahrain—in a diplomatic and economic boycott of Qatar, in protest at Qatar's support for Islamists and its close relations with Iran. The boycott will remain in place, and relations between Egypt and Qatar will remain tense throughout 2019-23, although there will be some co-ordination over Gaza, where both governments are involved in peace and reconstruction efforts.

Relations with European and Asian suppliers of military hardware will remain a priority in the context of Egypt's security campaigns and rising geopolitical tensions in the gas-rich Eastern Mediterranean region, where Egypt is taking an increasingly central role in developing the resource. Since the discovery of major offshore natural gas reserves in 2015, Egypt has procured European defence systems and submarines to guard its gas infrastructure and to deter incursions by Turkey, which does not recognise the 2003 maritime border demarcation agreement between Egypt and Cyprus.

Of equal importance are relations with Ethiopia, which is pursuing the development of the Grand Ethiopian Renaissance Dam. The dam will severely constrain the flow of water from the Blue Nile to Egypt. Although efforts to find a negotiated solution will intensify, tensions between Egypt and Ethiopia could flare up and affect ties between Egypt and other African nations that are politically aligned with Ethiopia. However, we expect Egypt to press its case through diplomacy and do not expect a military escalation. More broadly, Egypt will seek to strengthen diplomatic and commercial ties in Africa.

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Policy trends

In the short term, economic policy will continue to be shaped by IMF-agreed conditions. In November 2016 the IMF approved a three-year US$12bn extended fund facility (EFF) for Egypt, of which US$10bn has been disbursed, with the final US$2bn tranche to be disbursed imminently. Egypt is now able to raise funds elsewhere. It is therefore unlikely to seek a new IMF programme once the current one expires and, if it does, it is likely to be a looser, unfunded arrangement. Since 2016 the government has pushed through major reforms, including the introduction of value-added tax (VAT); the initial 13% rate was raised to 14% in fiscal year 2018/19 (July-June). The government has pushed through a series of cuts to fuel subsidies, most recently in April 2019, although implementation of further subsidy reforms could well be delayed by political considerations. A more flexible exchange-rate policy will stay in place.

These measures have been accompanied by structural reforms to address deficiencies in the business environment. The 2017 investment law has eased considerably the process of establishing companies and obtaining licences, with further changes planned to improve investment incentives and regularise data. Reforms have brought in significant new foreign investment, but some hurdles remain. Moreover, the influence of powerful interest groups within government, especially the extensive and growing business interests of the military, will limit the effectiveness of the reform process. Positively, the Central Bank of Egypt (CBE) has relaxed most capital controls (introduced in 2011), owing to the growing availability of hard currency and improved access to foreign capital markets, although rollover risks remain.

The government has also resumed its sale of state assets but will proceed cautiously due to political considerations. Concerned at restoring his popularity after three years of tough economic reforms and ongoing subsidy tightening, public-sector wage and pension increases have been introduced. The World Bank is providing support for social safety-net programmes. Water and rail infrastructure and addressing rural underdevelopment—especially in the restive Sinai region—will be prioritised, as will slum clearance, although fiscal constraints will limit these efforts.

Egypt will also consolidate its incipient role as a regional energy hub for the Eastern Mediterranean. The 30 trn-cu-ft Zohr gasfield—production from which began in late 2017—off the Egyptian coast is the largest gasfield so far discovered in the Mediterranean and is potentially large enough to meet Egypt's entire domestic gas needs for a decade. Egypt has also signed export deals with Jordan, effective from 2020, and with Israel for gas transport and processing. Further exploration and exploitation of hydrocarbons reserves will continue, strengthening exports.

Fiscal policy

Government policy will seek to balance the goal of achieving fiscal sustainability—as illustrated by the continued reduction of the budget deficit as a share of GDP since the start of the IMF-backed reform programme—with containing public discontent over the ramifications of economic reform through supportive transfer payments for the less well-off. The decision to increase minimum levels for public-sector wages and pensions will add to the fiscal burden and slow the pace of consolidation. However, the public finances will still be strengthened in 2019-23 by rising tax revenue, in tandem with continued robust GDP growth. The government will gradually divert spending away from subsidies towards public services such as healthcare and education. The government will rely primarily on VAT to generate tax revenue. It is likely to leave the corporate tax rate unchanged at 22.5% in the early part of the forecast period in order to encourage investment. The narrowing (albeit still large) deficit will reduce crowding-out and should allow local interest-rate cuts, reducing the cost of companies' borrowing from domestic banks. The latest round of fuel-subsidy cuts, which began in April, with additional cuts in July for more widely used fuels, will increase firms' production costs, although lower global oil prices in 2019-20 and rising natural gas production from the Zohr field should help to stabilise domestic energy prices. We expect the fiscal deficit to narrow in 2018/19, to 7.3% of GDP, from 9.5% of GDP in 2017/18. Thereafter, the pace of decline will ease, with the deficit narrowing to 6.0% of GDP in 2022/23. International sovereign bonds will finance the bulk of the deficits, with multilateral and bilateral borrowing likely to cover the remainder.

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Monetary policy

Monetary policy will be used mainly to target inflation, which averaged almost 30% in 2017—after the Egyptian pound's flotation—but eased to 14.4% in 2018. This allowed the CBE to cut policy rates by 200 basis points in 2018, with a further 100-basis-point cut in February 2019, although it has left the key rate at 15.75% since then. Once subsidy reform costs have been absorbed, with inflation trending down and interest rates moving down globally, further loosening is likely in the medium term. The CBE will also be wary of the risk of currency volatility, although concerns about capital outflows are easing. An eventual decline in inflation and real currency appreciation (as gas exports rise), should encourage further monetary easing and lead to improved credit conditions.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
EU28 GDP growth	2.0	1.3	1.5	1.7	1.8	1.7
World GDP	2.9	2.4	2.5	2.8	2.9	2.8
World trade	4.4	3.1	3.5	3.8	3.9	4.0
Inflation indicators (%)						
US CPI	2.4	2.0	1.4	2.2	2.1	1.8
EU28 CPI	1.9	1.6	1.7	1.9	2.0	1.9
Manufactures (measured in US$)	5.1	1.0	3.0	3.8	3.2	3.3
Oil (Brent; US$/b)	71.1	67.7	62.0	67.0	73.2	75.0
Non-oil commodities (measured in US$)	1.8	-4.7	4.0	3.5	1.4	0.7
Financial variables						
US$ 3-month commercial paper rate (av; %)	2.0	2.4	1.7	1.7	2.2	2.5
Exchange rate E£:US$ (av)	17.82	17.05	16.77	16.63	16.52	16.28
Exchange rate US$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24

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Economic growth

Real GDP growth strengthened to 5.5% in 2018/19, but we expect it to slow in 2019/20 as global demand weakens. Egypt's economy will grow strongly nevertheless, expanding at an annual average rate of 5.5% in 2019-23. Lower unemployment and the improved investment climate will boost private consumption, which currently remains subdued, although widespread poverty and high inflation will remain a constraint on consumer demand growth. The construction and energy sectors are the main engines of growth. In partnership with private contractors, the government is pursuing various low-income housing schemes, as well as the construction of a new (administrative) capital city, to the east of Cairo, to be completed in 2020. Production from the Zohr gasfield, which came on stream at end-2017, will sharply reduce (but not eliminate) the need for fuel imports, but capital imports will remain high to support the country's infrastructure projects. The slowdown in Europe, Egypt's main export market, will affect tourism and other sectors.

Growing confidence in the availability of hard currency will provide a much-needed boost to business sentiment and will help to attract foreign investors, especially in the latter years of the forecast period. With growth becoming increasingly broad-based and unemployment falling, consumer spending should pick up from 2020. The development of hydrocarbons resources and processing capabilities could further boost growth in the longer term.

Economic growth

%	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
GDP	5.3	5.5[a]	4.9	5.5	6.0	5.7
Private consumption	1.1	3.3	3.5	4.4	4.4	4.1
Government consumption	1.7	2.7	3.0	2.4	2.6	2.9
Gross fixed investment	10.1[c]	11.5	9.0	8.2	8.5	8.2
Exports of goods & services	32.2	14.6	8.8	10.4	9.9	8.4
Imports of goods & services	11.3	6.3	5.6	7.3	5.6	4.8
Domestic demand	2.4[c]	4.8	4.4	5.0	5.0	4.8
Agriculture	3.1	3.0	3.1	3.2	3.2	3.2
Industry	6.0	5.7	5.5	6.0	7.0	6.3
Services	5.1	5.9	4.9	5.5	5.7	5.6

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

Inflation

Inflation deviated from its downwards trend in the early months of 2019, owing to volatile food prices. Further price rises are likely in the wake of subsidy changes currently taking effect. In 2019-20 we expect inflation to decline, but to remain high by historical standards, at about 11.3% a year on average. The effects of fuel-subsidy cuts and continued growth in non-oil commodity prices (except in 2019) will be contained by lower international oil prices. Thereafter, we expect inflation to ease further, with currency appreciation the dominant factor. Overall, average annual inflation should ease, returning to single digits as the pound appreciates against the US dollar, falling to 7.5% in 2023.

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Exchange rates

Having weakened from E£8.88:US$1, following the currency flotation in late 2016, to E£17.91:US$1 at end-2018, the pound has experienced a marked appreciation, which will be broadly sustained during the forecast period. The pound was trading at E£16.62:US$1 in mid-July, owing to rising confidence in the CBE's management of exchange-rate policy and stronger capital inflows. In the short term, some of the recent sharp gains in the pound are likely to be reversed, but, in the longer term, there is potential for more real exchange-rate appreciation, reflecting a growing natural-resource endowment and a downwards trend in inflation. The flotation has eliminated the black market and helped to restore confidence in the pound, while allowing the banking system to capture much of the US dollar liquidity in unofficial circulation. The pound will come under renewed pressure, with the CBE or state banks selling foreign exchange in a bid to support the currency, although the level of intervention will fall, with the CBE reducing the banking sector's powers to influence the market directly. We expect sporadic volatility, but, overall, the pound will strengthen, appreciating to an average of E£16.28:US$1 in 2023.

External sector

Although slowing export growth will push up the trade deficit slightly in 2019, it will narrow thereafter and the current-account deficit will narrow in 2019-20 moving to surplus from 2021, owing to hydrocarbons export expansion. The surplus will edge up to 1.5% of GDP in 2023 because of rising goods exports and tourism earnings. Despite production from the Zohr gasfield from late 2017, imports will continue to trend gently upwards, reflecting a steady flow of capital inputs for infrastructure projects. Sources of income such as official transfers, tourism receipts, remittances and Suez Canal earnings are likely to be affected by slower global growth in 2020, but will continue to grow overall. The current-account deficit will be financed from the CBE's foreign reserves, buttressed by inflows of loans—including Eurobonds and central bank deposits from Arab and non-Arab donors—and by foreign direct investment (FDI).

Forecast summary

Forecast summary
(% unless otherwise indicated)

	2018[a]	2019[b]	2020[b]	2021[b]	2022[b]	2023[b]
Real GDP growth	5.3	5.5[a]	4.9	5.5	6.0	5.7
Industrial production growth	6.0[c]	4.5	5.5	6.3	7.3	6.8
Gross agricultural production growth	3.1	3.0	3.1	3.2	3.2	3.2
Consumer price inflation (av)	14.4	11.8	10.9	9.3	8.3	7.5
Lending rate (av)	18.3	16.6	15.0	13.5	12.3	11.1
Government balance (% of GDP)	-9.5	-7.2	-7.2	-6.8	-6.5	-6.0
Exports of goods fob (US$ bn)	28.0	29.9	32.7	38.0	43.0	46.7
Imports of goods fob (US$ bn)	65.8	68.7	71.5	76.3	79.4	83.2
Current-account balance (US$ bn)	-6.3	-4.3	-2.2	1.1	7.1	8.8
Current-account balance (% of GDP)[d]	-2.2	-1.2	-0.5	0.2	1.3	1.5
External debt (end-period; US$ bn)	96.6[c]	110.3	120.3	127.9	133.8	137.8
Exchange rate E£:US$ (av)	17.82	17.05	16.77	16.63	16.52	16.28
Exchange rate E£:US$ (end-period)	17.91	16.81	16.65	16.58	16.35	16.06
Exchange rate E£:¥100 (av)	16.13	15.52	15.42	15.88	16.44	16.95
Exchange rate E£:€ (av)	21.05	19.22	19.79	20.08	20.44	20.19

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

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Data and charts

Annual data and forecast

	2014[a]	2015[a]	2016[a]	2017[a]	2018[a]	2019[b]	2020[b]
GDP[c]							
Nominal GDP (US$ bn)	300.8	316.8	269.1	194.5	249.1	319.9	376.1
Nominal GDP (E£ bn)	2,130	2,444	2,709	3,470	4,437	5,454	6,307
Real GDP growth (%)	3.3	4.3	4.3	2.7	5.3	5.5[a]	4.9
Expenditure on GDP (% real change)[c]							
Private consumption	4.6	2.9	4.5	5.1	1.1	3.3	3.5
Government consumption	8.5	7.0	3.9	2.5	1.7	2.7	3.0
Gross fixed investment	1.0	14.5	11.1	12.6	10.1[d]	11.5	9.0
Exports of goods & services	-11.4	-0.3	-14.8	81.3	32.2	14.6	8.8
Imports of goods & services	0.4	0.2	-1.7	56.3	11.3	6.3	5.6
Origin of GDP (% real change)[c]							
Agriculture	3.0	3.1	3.1	3.2	3.1	3.0	3.1
Industry	2.2	1.7	0.8	2.1	6.0	5.7	5.5
Services	3.6	5.0	3.2	24.6	5.1	5.9	4.9
Population and income							
Population (m)	86.8	89.0	91.0	95.2	97.1	99.2	101.2
GDP per head (US$ at PPP)	11,044	11,362	11,722	11,895	12,559	13,224	13,862
Recorded unemployment (av; %)	13.0	12.8	12.5	11.8	9.9	9.0	9.5
Fiscal indicators (% of GDP)[c]							
Central government revenue	24.4	22.0	20.3	21.8	20.6	23.5	23.8
Central government expenditure	35.7	33.0	32.7	32.2	30.1	30.7	30.9
Central government balance	-11.3	-10.9	-12.5	-10.4	-9.5	-7.2	-7.2
Central government debt	93.2	97.8	111.3	99.7	89.5	81.2	77.8
Prices and financial indicators							
Exchange rate E£:US$ (av)	7.08	7.71	10.07	17.84	17.82	17.05	16.77
Exchange rate E£:€ (av)	9.41	8.56	11.14	20.15	21.05	19.22	19.79
Consumer prices (av; %)	10.1	10.4	13.8	29.5	14.4	11.8	10.9
Producer prices (av; %)	4.3	-3.1	13.8	33.2	24.1	9.2	7.6
Stock of money M1 (% change)	19.3	16.8	20.2	17.9	13.4	15.0	13.1
Stock of money M2 (% change)	15.8	18.6	39.0	20.9	13.3	12.5	14.6
Lending interest rate (av; %)	11.7	11.6	13.6	18.2	18.3	16.6	15.0
Current account (US$ m)							
Trade balance	-39,182	-38,551	-38,312	-36,515	-37,780	-38,786	-38,768
Goods: exports fob	25,269	19,031	20,018	23,339	28,046	29,889	32,747
Goods: imports fob	-64,451	-57,582	-58,330	-59,855	-65,826	-68,675	-71,515
Services balance	12,353	8,182	3,635	9,166	13,071	15,237	17,113
Primary income balance	-6,751	-5,003	-4,310	-5,344	-7,058	-7,589	-8,021
Secondary income balance	27,657	18,161	18,519	24,774	25,489	26,850	27,465
Current-account balance	-5,923	-17,211	-20,468	-7,919	-6,277	-4,288	-2,212
External debt (US$ m)							
Debt stock	41,743	48,340	67,641	82,886	96,612[d]	110,281	120,336
Debt service paid	5,960	3,779	6,543	6,588	7,274[d]	9,667	11,590
Interest	826	892	1,438	1,983	2,295[d]	2,721	2,837
International reserves (US$ m)							
Total international reserves	14,445	15,493	23,204	35,887	41,325	47,647	53,787

[a] Actual. [b] Economist Intelligence Unit forecasts. [c] Fiscal year data ending June 30th. [d] Economist Intelligence Unit estimates.

Source: IMF, International Financial Statistics.

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Quarterly data

	2017		2018				2019	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Output								
Real GDP at 2016/17 prices (E£ bn)	877.0	901.0	923.3	953.1	923.9	951.0	975.0	1007.4
Real GDP (% change, year on year)	5.2	5.3	5.4	5.4	5.3	5.5	5.6	5.7
Prices								
Consumer prices (Jan 2010=100)	250.7	257.6	259.2	268.5	287.3	296.5	294.9	301.1
Consumer prices (% change, year on year)	32.2	26.1	14.9	13.0	14.6	15.1	13.7	12.1
Wholesale prices (Jan 2016=100)	161.2	171.2	180.3	190.2	204.3	201.4	199.7	n/a
Financial indicators								
Exchange rate E£:US$ (end-period)[a]	17.643	17.772	17.662	17.893	17.848	17.912	17.329	16.690
Deposit rate (av; %)	18.7	18.8	18.2	16.8	16.8	16.8	16.2	15.8
Discount rate (end-period; %)	19.2	19.3	18.7	17.3	17.3	17.3	16.7	16.3
Lending rate (av; %)	19.2	19.7	19.6	18.2	17.5	17.9	17.5	n/a
M1 (end-period; E£ bn)	738.5	737.5	765.1	820.6	840.1	836.1	862.6	n/a
M1 (% change, year on year)	21.6	17.9	21.2	16.0	13.8	13.4	12.7	n/a
M2 (end-period; E£ bn)	3050.4	3202.7	3343.5	3454.3	3549.3	3628.7	3724.7	n/a
M2 (% change, year on year)	39.7	20.9	21.9	18.4	16.4	13.3	11.4	n/a
EGX 30 stockmarket index (end-period; Jan 1st 1998=1,000)	13,889	15,017	17,450	16,349	14,632	13,036	14,666	14,101
Sectoral trends								
Crude oil production (m barrels/day)	0.68	0.68	0.68	0.66	0.67	0.67	0.68	0.66
Foreign trade (US$ bn)								
Exports fob	5.84	6.22	6.76	7.02	6.79	7.49	6.64	n/a
Imports cif	14.75	16.06	16.01	16.29	16.60	16.93	17.13	n/a
Trade balance	-8.91	-9.84	-9.26	-9.27	-9.81	-9.44	-10.50	n/a
Foreign reserves								
Reserves excl gold (end-period; US$ m)	32,690	33,214	38,613	40,391	40,671	38,609	40,030	n/a

[a] Spot middle rate, NY close.

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

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Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate E£:US$ (av)												
2017	18.690	16.980	17.720	18.090	18.090	18.110	17.910	17.750	17.640	17.640	17.670	17.810
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	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate E£:US$ (end-period)												
2017	18.723	15.843	18.047	18.050	18.094	18.115	17.902	17.638	17.643	17.655	17.681	17.772
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	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2017	20.2	21.3	19.1	21.1	23.7	23.5	20.7	21.0	21.6	18.2	17.1	17.9
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2017	41.5	36.6	38.0	38.8	39.4	39.3	38.7	39.6	39.7	40.5	20.7	20.9
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	11.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	14.8	14.8	14.8	14.8	15.5	16.8	18.5	18.8	18.8	18.8	18.8	18.8
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	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	16.5	16.5	16.6	16.7	17.0	18.0	18.5	19.6	19.6	19.6	19.7	19.8
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	16.8	n/a	n/a	n/a	n/a	n/a	n/a
3-month money market rate (end-period; %)												
2017	19.0	18.5	19.4	19.4	19.5	20.4	21.6	19.4	18.5	18.8	18.9	18.8
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a
EGX 30 index (end-period; Jan 1st 1998=1,000)												
2017	12,672	11,938	12,995	12,526	13,340	13,396	13,419	13,416	13,889	14,342	14,582	15,017
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	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	28.2	30.2	30.9	31.5	29.7	29.8	33.0	31.9	31.6	30.8	26.0	21.9
2018	17.1	14.4	13.3	13.1	11.5	14.4	13.5	14.2	16.0	17.7	15.7	11.9
2019	12.7	14.3	14.2	13.0	14.1	9.4	n/a	n/a	n/a	n/a	n/a	n/a
Wholesale prices (a; % change, year on year)												
2017	45.0	43.3	35.1	33.5	26.7	23.5	32.6	34.6	37.9	33.2	30.8	26.9
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods exports fob (US$ m)												
2017	2,006	2,023	2,395	2,183	2,444	1,946	2,052	2,260	1,903	2,269	2,287	2,519
2018	2,432	2,428	2,681	2,263	2,479	2,098	2,235	1,984	2,316	2,424	2,330	2,571
2019	2,330	2,481	2,576	2,579	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Goods imports cif (US$ m)												
2017	5,493	5,342	5,594	5,369	5,858	4,464	5,835	5,919	5,252	5,774	5,757	5,912
2018	6,399	6,155	6,453	5,579	6,322	5,723	6,335	5,936	5,324	6,989	6,107	6,444
2019	5,118	6,109	6,729	6,455	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-cif (US$ m)												
2017	-3,487	-3,319	-3,199	-3,186	-3,414	-2,518	-3,783	-3,659	-3,349	-3,505	-3,470	-3,393
2018	-3,967	-3,727	-3,772	-3,316	-3,843	-3,625	-4,100	-3,952	-3,008	-4,565	-3,777	-3,873
2019	-2,788	-3,628	-4,153	-3,876	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US$ m)												
2017	22,828	22,862	24,833	24,912	27,382	27,595	32,278	32,325	32,690	32,937	32,880	33,214
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	n/a	n/a	n/a	n/a	n/a	n/a	n/a

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

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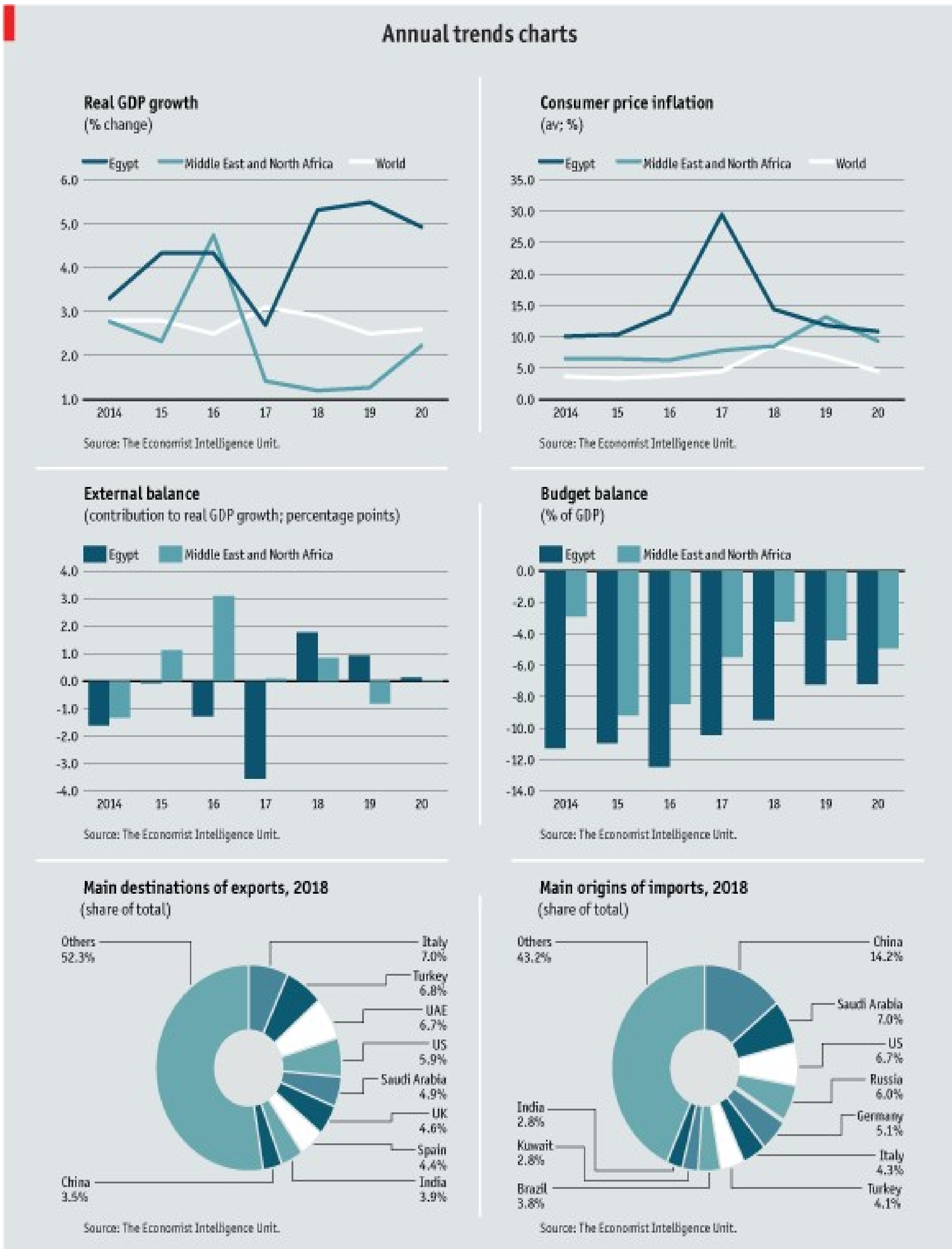
Annual trends charts



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Monthly trends charts

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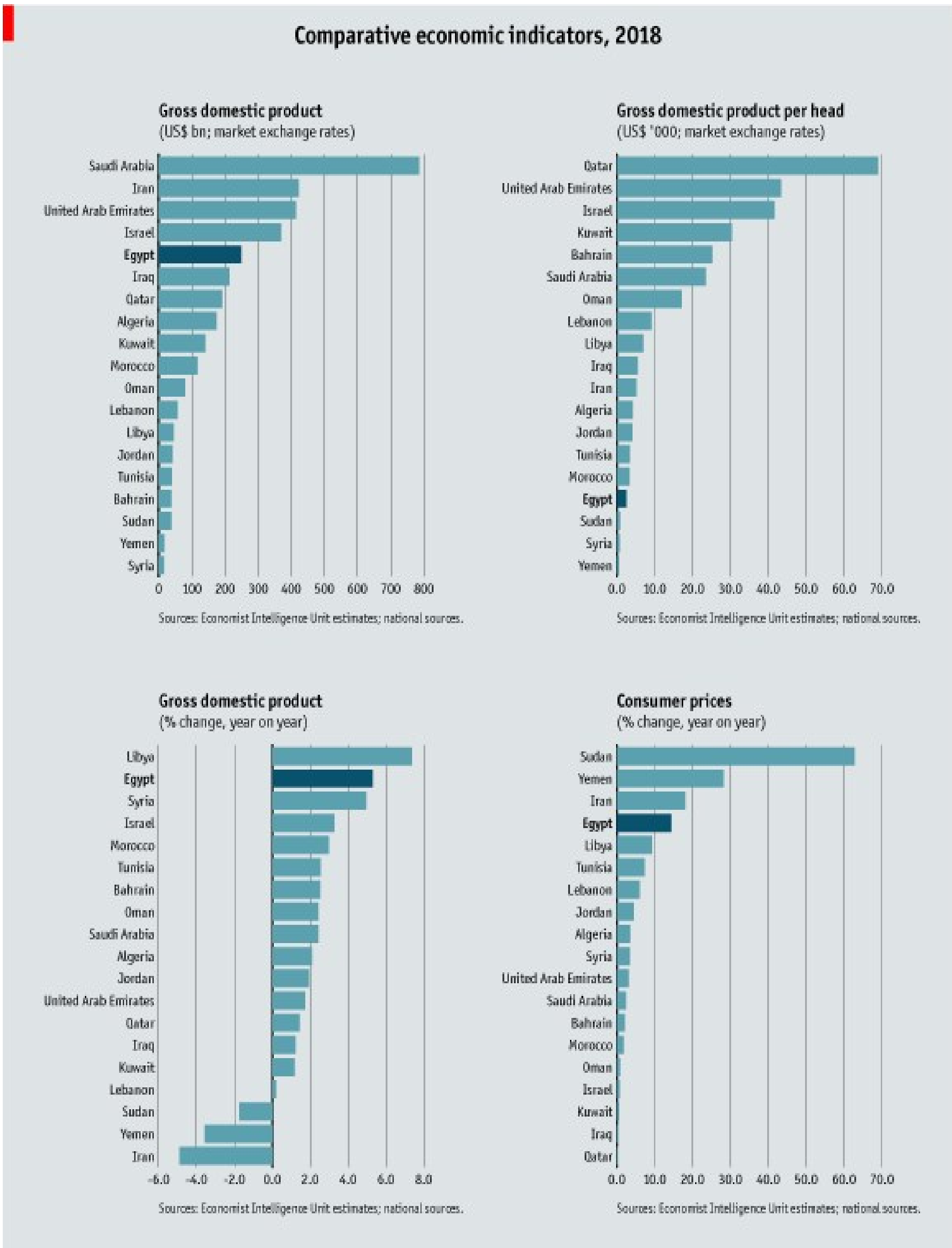
Comparative economic indicators



Basic data

Land area

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

Population

97.1m (2018 CAPMAS estimate)

Main towns

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Population (January 2017 official estimates)

Greater Cairo (capital; Cairo, Giza, Qalioubia governorates): 22.9m

Alexandria: 4.99m

Port Said: 689,529

Suez: 649,697

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£17.82:US$1 (2018 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); National Day (July 23rd); Armed Forces Day (October 6th); Prophet's Birthday (November 10th)

In addition, 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. This means that the following dates for 2019 are approximate: Eid al-Fitr (end of Ramadan, June 7th); Eid al-Adha (Feast of the Sacrifice, August 14th); Islamic New Year (September 1st)

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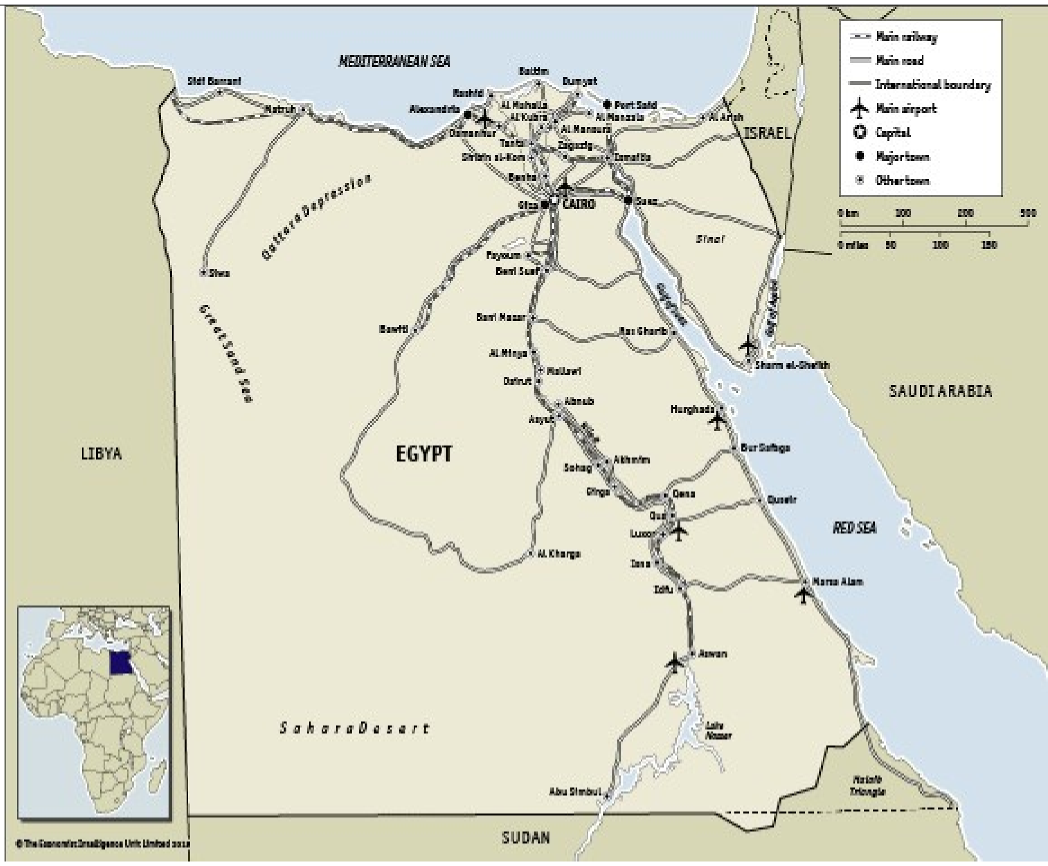

Political structure

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 minorities 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 upper house (Senate) with 180 members is also to be created as a result of the 2019 amendment

National elections

The most recent presidential election was held in March 2018. Elections for the House of Representatives took place in 2015 over two rounds: the first on October 18th-19th and the second on November 22nd-23rd. The next presidential election was scheduled for 2022 but a constitutional amendment has extended the term to six years, to 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

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

Main political parties

Free Egyptians; Future of a Homeland; 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: Mohammed Shaker

Finance: Mohammed Maait

Foreign affairs: Sameh Shoukry

Health: Hala Zayid

Higher education: Khaled Atef Abdel-Ghaffar

Housing: Mostafa Madbouly (acting)

Interior: Mohammed Tawfik

International co-operation & investment: Sahar Nasr

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: Hala Helmy el-Said Younis

Public enterprise: Hisham Tawfik

Social solidarity: Ghada Waly

Supply & internal trade: Ali Museilhi

Technical education: Tarek Shawky

Tourism: Rania el-Mashat

Trade & industry: Amr Nassar

Transport: Kamel el-Wazir

Central bank governor

Tareq Amer

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Recent analysis

Generated on August 26th 2019

The following articles have been written in response to events occurring since our most recent forecast was released, and indicate how we expect these events to affect our next forecast.

Politics

Forecast updates

Iraq, Jordan and Egypt look to strengthen economic ties

August 12, 2019: International relations

Event

The foreign ministers of Iraq, Jordan and Egypt met in the Iraqi capital, Baghdad, on August 4th with the aim of furthering their trilateral co-operation.

Analysis

The meeting was a follow-up to a summit of the three countries held in the Egyptian capital, Cairo, in April. The three states are looking for enhanced economic, political and security co-operation, and in the recently held meeting in Iraq, Egyptian foreign minister, Sameh Shukri, said they had discussed common challenges and prioritised plans for co-operation in various sectors, including housing, energy and trade. According to Jordanian foreign minister, Ayman Safadi, his country was keen to expand its economic, investment and trade co-operation with Iraq and Egypt.

In the meeting in April, officials from these nations made efforts to improve trade and implemented measures such as eliminating Iraqi customs duties on a range of Jordanian products and an agreement for Iraq to resume crude oil shipments to Jordan. The officials are now talking of a possible extension of the planned Basra-Aqaba oil pipeline to Egypt, national grid connections and joint industrial zones.

There are obvious economic reasons for the increased co-operation among the three countries. Rising tensions in the Strait of Hormuz constitute a timely reminder for Iraq of the benefits of having an alternative export route for its oil and for its imports, and Jordan's Aqaba Port is the most favourable choice, given its logistical advantages. The planned oil pipeline from Basra to Aqaba would be a source of substantial revenue for Jordan. Jordan and Egypt perceive Iraq to be good export market for their capital goods, as Iraq is undertaking reconstruction efforts after its infrastructure was devastated during the war with Islamic State (IS) in 2014-17. All three countries are also keen to strengthen security ties to combat, among other things, the ongoing threat from IS, which has been seriously weakened but still has the potential to inflict damage. Establishing closer political relations could be more complex, particularly over relations with Iran, with neither Jordan nor Egypt likely to compromise their ties with their Gulf allies for the sake of trade with Iraq, which has strong ties with the Islamic Republic.

Impact on the forecast

We forecast that the three countries will focus on pushing ahead with strengthening practical economic co-operation, mainly to enhance trade. Our international relations forecast for the three nations is unchanged for 2019-23.

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Islamist groups blamed for explosions

August 22, 2019: Political stability

Event

The Ministry of Interior blamed Hassm, an armed group with links to the banned Muslim Brotherhood, for an explosion outside the National Cancer Institute in central Cairo in early August, in which 20 people were killed. On August 18th a car bomb targeting security forces killed an army officer in Al Arish in northern Sinai.

Analysis

No group has taken responsibility for the second attack, but it is believed that a local Islamic State offshoot is responsible. Despite the launch of a massive security campaign in the restive Sinai region in early 2018 and a subsequent improvement in security, there have been sporadic attacks, including several in the Sinai that targeted the military.

The Cairo bomb incident is the latest in a series in which Hassm has been implicated in recent months, suggesting that the group may be seeking to step up its activities. Hassm issued a statement expressing condolences to the victims of the explosion, and denying any connection to the incident.

The interior ministry said that police had initially judged the incident to have been the result of a collision between several vehicles in the area, but later found traces of explosives in one of the vehicles. It said that the stolen vehicle had been used by Hassm members to transport the explosives in order to prepare a bomb attack, with the explosion resulting from the collision, and that the Cancer Institute was not the intended target. Since December 2018 the interior ministry has announced at least four incidents in which suspected Hassm members have been killed during police raids. However, human rights monitors have raised questions about such incidents, suggesting that many of them amounted to extra-judicial killings.

Hassm made clear in its statement that its policy is to avoid harming civilians, and that its mission is to punish "criminal elements in this treacherous regime". Hassm emerged in mid-2016 when it claimed responsibility for a number of attacks on police officers and prominent state figures. It opposes the government of the present, Abdel Fattah el-Sisi, who led the security forces that in July-August 2013 removed from office Mohammed Morsi, the elected president from the Muslim Brotherhood, during which an estimated 1,000 people were killed as protests were suppressed.

Impact on the forecast

The government will continue to crack down on Islamist militancy, as well as more peaceful expressions of dissent, but smaller sporadic attacks will still occur. Our political stability forecast is unchanged.

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Economy

Forecast updates

Poverty trends up

August 1, 2019: Economic growth

Event

The poverty rate reached 32.5% in the 2017/18 (July-June) fiscal year, according to the results of a household survey published by CAPMAS, the state statistics agency, on July 30th.

Analysis

The poverty rate was 4.7 percentage points higher than in the previous published survey, for 2014/15, and reflected the impact of economic reforms enacted since 2016 with the support of the IMF. The prime minister, Mustafa Madbouly, said that the rise in the poverty rate was relatively small in the context of the scale of the fiscal adjustment that the government had been obliged to make, and that effects had been mitigated by social protection programmes.

CAPMAS said that it had calculated the poverty line at E£735.7 (US$43.15) in income per head per month. At the average exchange rate in 2017/18 this would be equivalent to US$41 (or US$1.4 per day). The poverty line for 2014/15 was set at E£482 per month (which was equivalent to US$55, or US$1.8 per day, at the official exchange rate at that time). The calculations are based on the World Bank poverty line for developing countries of US$1.9 per day at 2011 purchasing power parity. The absolute poverty rate in 2017/18 was 6.2%, according to a line set at E£490.8 per month, compared with a rate of 5.3% in 2014/15, based on income of E£322 per month.

The household income survey is usually published every two years. The earlier results showed a small rise between 2010/11 and 2012/13. Neither CAPMAS nor the government has explained why there was no published survey for 2016/17; there were reports in the local media that CAPMAS had prepared a report showing that poverty rate rising to 30.2% in that year, but that it had been withheld.

The rise in the poverty rate is consistent with other indicators, in particular the surge in inflation to 30% in 2017 on the back of the plummeting local currency at the end of 2016. Real GDP data have also reflected the squeeze on household budgets, as 1.1% growth in private consumption in 2017/18 lagged well behind the overall rate of economic growth of 5.3%.

Impact on the forecast

The rise in poverty supports our assessment that private consumption was hit hard by the 2016 reforms, but we maintain our view that with the currency stronger, inflation easing, unemployment falling and the government recently increasing the minimum wage, poverty rates will diminish, although they will stay high.

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IMF approves final tranche of funding

August 1, 2019: Policy trends

Event

In late July the IMF board approved the disbursement of the final US$2bn tranche of Egypt's US$12bn extended fund facility (EFF) for 2016-19.

Analysis

The approval was widely anticipated following a positive fifth and final staff-level review of the EFF in May. Egypt has broadly followed the strictures of the EFF since it's launch in late 2016, including fiscal consolidation that has encompassed several rounds of subsidy cuts, tax changes including the introduction of value-added tax (VAT), liberalisation of the exchange rate, improvements to the business environment and investment climate, and measures to strengthen the central bank. There were reports of IMF concerns over the pace of subsidy reform in the penultimate review, but adjustments to fuel pricing in April and July have now been implemented bringing most energy prices in line with market costs. Electricity prices have also been raised.

At the July meeting the IMF board noted that reforms had supported Egypt's economic stabilisation and strengthened its resilience to external shocks. The Fund also commended Egypt's commitment to ongoing structural adjustment. Although the economy has grown strongly, this has been largely driven by government-related projects and by the external sector—boosted by improved security that has led to a recovery in exports as well as reduced dependence on energy imports—both outside the IMF reform remit. Moreover, private-sector consumption growth has been weak until recently, although declining unemployment, greater currency stability and lower inflation and interest rates should begin to filter through to consumer demand.

Egypt has raised external financing on the capital markets in several tranches recently and thus reduced its dependence on the IMF for funding. A sharp rise in portfolio inflows since the beginning of 2019 has helped to support currency appreciation too, but the economy remains vulnerable to a reversal in sentiment. The Egyptian authorities have yet to announce whether they will seek a follow-up programme with the IMF and the accompanying strictures once the EFF formally concludes in November. The finance minister, Mohammed Maait, hinted earlier in the month that Egypt was aiming to conclude a two-year non-funded agreement with the IMF before the current one expires; this is in line with our assessment that a looser arrangement will be sought to ensure reforms are entrenched and maintain investor confidence in the economy and policymaking.

Impact on the forecast

The disbursement and the government's plans for an unfunded follow-on arrangement are in line with our existing policy forecast.

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First Israeli gas exports to Egypt delayed

August 1, 2019: External sector

Event

In late July Israel's minister of energy, Yuval Steinitz, confirmed that gas exports to Egypt are now not expected to begin until Q4 2019, when the Leviathan field comes on stream.

Analysis

Delek Drilling, an Israeli exploration and production (E&P) company, and Noble Energy, a US counterpart—partners in the development of both the Leviathan and Tamar fields—signed a landmark US$15bn agreement with Dolphinus, a privately owned Egyptian consortium, in February 2018, calling for the supply to Egypt of a total of 64bn cu m of gas from the two fields over ten years. In September, the oil companies provisionally inked a deal to acquire the existing East Mediterranean Gas (EMG) pipeline, originally built in the early 2000s to transport gas from Egypt to Israel, to fulfil the contract. That deal is due to close by August 31st—triggered by completion of tests on the long-idle pipeline.

Mr Steinitz admitted that commercial sales would begin only after commissioning of the 1.2bn-cu-ft/day first phase of Leviathan's development, since high domestic demand over the intervening months would absorb the entirety of the smaller Tamar field's production of about 305m cu m/d. The postponement will have little effect on the Israeli economy or its external balance: only small surplus gas volumes had ever been envisaged being exported this calendar year under the Egyptian deal—the terms of which deem the 3.5bn cu m/y of supplies from Tamar "interruptible", to ensure that domestic needs can always be prioritised. The same volume from Leviathan is contracted on a "firm" basis from field start-up in 2020. Neither is Egypt facing a gas shortage—having achieved self-sufficiency during the export project's prolonged gestation.

Mr Steinitz also revealed that the two countries were considering additional pipeline connections—either onshore or offshore—so that Israel can enhance its use of Egypt's processing facilities. Further investment in Israel's offshore gas industry is being deterred by the current lack of export infrastructure for any additional production, while two liquefaction plants on Egypt's Mediterranean coast are running below capacity.

Impact on the forecast

The Israeli economy will not begin feeling the positive effect of gas sales to Egypt until Q1 2020, in line with our current forecast that significant exports would not begin until 2020 at the earliest, while the delay will have little impact on Egypt, where domestic production meets current needs.

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Inflation continues to fall, despite subsidy cuts

August 12, 2019: Inflation

Event

The year-on-year inflation rate fell July to its lowest level in four years in July, despite increases in fuel and electricity prices that went into effect at the start of the month.

Analysis

The headline urban year-on-year inflation rate dropped to 8.7%, following a sharp fall to 9.4% in June from 14.1% in the previous month. Core inflation, which excludes volatile and regulated items, continued its steady downward trend, falling to 5.9% year on year, compared with an average of 8.2% during the first half of the year.

The increases in energy prices, as part of the government's plan to reduce subsidies, were reflected in the 1.8% month-on-month rise in the consumer price index in July, which followed a 0.8% fall in June. However, this increase was offset by favourable base effects, as the scale of the energy price increases was less than the adjustments made om the previous year. Fuel and electricity prices rose by 20.7% and 19.4%, respectively, in July 2019, compared with rises of 42% and 26.9% one year earlier. There has also been a marked slowdown in food price inflation, which makes up about 40% of the consumer price index.

The appreciation of the Egyptian pound, which rose by 8.5% against the US dollar between end-2018 and early August, and which is currently trading at E£16.55:US$1, has played an important part in containing inflation. This has been reflected in lower import and fuel costs—the latter are calculated in US dollar terms. Fuel prices are to be adjusted in September as part of a new indexation system. Prices will be raised or lowered by up to 10%, in line with a cost-covering formula based on global oil prices and the exchange rate. The government is also considering replacing the lowest-grade petrol (80-octane) with 87-octane. Officials have said that the resultant higher pump prices will be offset by improved engine efficiency, while yielding environmental benefits.

The monetary policy committee of the Central Bank of Egypt is scheduled to meet on August 22nd. The central bank's main operation rate has remained at 15.75% since February, when the rate was cut by 100 basis points, but given declining inflation and the fact that interest rates are falling globally, a cut looks imminent.

Impact on the forecast

The trends are broadly in line with our monetary policy, inflation and exchange-rate forecasts, but we will factor in slightly lower inflation and a stronger Egyptian pound than previously anticipated.

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Canadian firm signs final contract for monorail project

August 15, 2019: Economic growth

Event

On August 13th Canada-based Bombardier Transportation announced that it had signed the final contract documents for a project to build monorail systems linking the Egyptian capital, Cairo, to the new administrative capital, to the east, and 6th of October City, to the south-west.

Analysis

The design, build and operations and maintenance contract is valued at €3.72bn (US$4.16bn), of which Bombardier's share will be about 63%, with the remainder accruing to its local partners, Orascom Construction and Arab Contractors. The Bombardier-led group was declared the preferred bidder in May, following a tender in which it faced competition from Chinese and Malaysian groups.

Bombardier told The Economist Intelligence Unit that the financing for the project was the responsibility of the Egyptian government, with support from the consortium. It added that UK Export Finance had indicated support—relating to the supply of 300 Innovia monorail cars from Bombardier's production plant in Derby in the UK—and that constructive discussion had been held with multilateral lenders, including the European Investment Bank and the European Bank for Reconstruction and Development, about further finance. However, the complete financing package has yet to be announced

The 54-km line to the administrative capital will be built in two phases, with the first scheduled for completion within three years and the second by end-2023. It will start from Cairo Stadium, in the east of the city, and have 21 stations. The line to 6th of October City will be 42 km long, starting from the Mohandeseen area, and will be carried out in a single phase over four years. It will have 12 stations. The monorail cars will be assembled and tested in Derby from 2021. The line will be operated by the National Authority for Tunnels, which is responsible for the Cairo metro.

The project is part of a major drive to upgrade Egypt's transport infrastructure, which is poor, with a particular focus on railways and light transport systems, which have a dire safety record. Other projects under consideration include a rail link between the Red Sea port of Sokhna and Alexandria, on the Mediterranean.

Impact on the forecast

The deal is in line with our policy forecast that transport infrastructure will be a key government policy priority, drawing foreign investment, and that this will be a significant driver of economic growth.

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Advisers quit ministry as it faces export incentives row

August 22, 2019: Policy trends

Event

Three senior officials have resigned from the Ministry of Trade and Industry in August, amid controversy over the level of government support for exporters of manufactured goods and agricultural produce.

Analysis

The resignations came after the government approved a package of E£6bn (US$360m) in export incentives for the 2019/20 (July-June) fiscal year. However, businesses have complained that this falls short of what is required to enable exporters to enhance their competitive edge, and that the issue of E£20bn of previous incentives that have been promised but not disbursed has not been addressed.

Egypt's non-oil exports have benefited only marginally from the 50% devaluation of the local currency at the end of 2016, and their performance lags well behind regional peers such as Turkey and Morocco. According to Central Bank of Egypt data, non-oil exports totalled US$17.1bn in 2018, compared with US$15.9bn in 2017 and US$14.5bn in 2016. The most recent data show that exports in the first quarter of 2019 dipped to US$4.1bn, compared with a quarterly average of US$4.3bn during 2018.

The officials who have resigned are Khaled Youssef, head of the Export Development Authority; Hossam Farid, an adviser to the trade and industry minister and co-ordinator of export councils; and Hossam Abdel-Aziz, an adviser on the engineering industries sector. None of them has explicitly linked their departure to export policy, with the latter two having completed one-year assignments. Mr Youssef assumed his position only in early 2019.

The 2019/20 export support package comprises E£2.4bn in financial incentives, E£1.8bn to enhance export infrastructure and E£1.8bn to settle outstanding fees and tax obligations. The main mechanism for financial incentives is a tax rebate of up to 12%, provided that the exported goods are of at least 40% local origin, with additional rebates for small and medium-sized enterprises. The Ministry of Finance has said that it will form a committee to investigate the arrears on previous incentive packages. Business groups have suggested that these could be settled through waiving tax and utility payments. However, the lack of disbursements is not the main source of Egypt's export woes. The real problem is many years of underinvestment and long-term structural problems that have left exporters with a poor business environment.

Impact on the forecast

Egypt's export's woes will not be fixed quickly, although the authorities will accelerate efforts to support exporters. Gas exports will lift export earnings during the 2019-23 forecast period. Our policy and external forecasts are unchanged.

Analysis

Drilling setback casts cloud over gas development

August 5, 2019

Following a rapid increase in production over the past three years, Egypt has once more become a net exporter of natural gas, and in late July it hosted the second meeting of the East Mediterranean Gas Forum, set up to promote co-operation between producers and consumers in the region and in southern Europe. Egypt's role as the leading regional natural gas player depends on its ability to increase, or at least sustain, production so as to counter the effects of depletion and rising domestic consumption. However, the announcement by UAE-based Dana Gas that it had abandoned drilling of its first offshore exploration well in Egypt's East Mediterranean natural gas basin and that it was seeking a buyer of its Egyptian assets has cast a cloud over the country's aspiration to become a regional gas hub.

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The Dana Gas disappointment and the failure, so far, of the Nour field, operated by Italy's Eni—which developed the massive Zohr field—to live up to expectations raise questions about the sustainability of Egypt's gas boom and its broader aspirations. The hub project envisages Egypt's own supply being supplemented by gas from fields in Israel and Cyprus. However, the start-up of supplies from Israel's Tamar and Leviathan fields through a pipeline that was originally built to pump gas from Egypt has faced delays (although they are now scheduled to begin in late 2019), and production from fields discovered in Cypriot waters will not start until 2024, according to the most recent schedule announced by Cypriot officials. The hub project also has to contend with hostility from Turkey, as well as the challenge of the global oversupply of natural gas, which has driven prices down to a level that threatens the commercial viability of costly offshore development.

Pullback from several projects

Dana Gas announced on July 27th that its drilling operations in the Merak-1 well in its North el-Arish (Block 6) concession off the coast of north Sinai had not encountered any commercial reserves of oil or gas, and that the well had been plugged and abandoned. According to the concession agreement, which was ratified in 2014, Dana Gas was obliged to drill one well in the initial phase. As drilling started in May 2019, the company said that prospective resources from the well in the case of exploration success could be in the order of 4trn cu ft, which would put it in the mid-range of East Mediterranean discoveries so far. The company said that, despite this setback, there were at least three other promising prospects in Block 6 that were not affected by the Merak-1 result. Three days later, Dana Gas said that it had been conducting a strategic review of its Egypt operations, which currently produce 34,000 barrels oil equivalent per day (mainly natural gas from onshore Delta fields), and that it had appointed financial advisers to look at a potential sale.

The start of drilling of the Merak-1 well came two months after Eni announced that it had made a discovery in the Nour North Sinai concession, to the west of Block 6. Over the previous nine months there had been speculation that Nour would contain reserves comparable to the 30trn cu ft Zohr field, discovered by Eni in 2015. However, Eni has yet to provide any reserve estimates for the Nour-1 well, which suggests that the earlier exuberance in industry circles may have been misplaced.

Export markets remain undeveloped

The Zohr field itself has been rapidly developed, and production is set to be ramped up from 2.3bn cu ft/day to 2.95bn cu ft/d towards the end of 2019. Owing to Zohr and other fields, notably those in BP's West Nile Delta development, Egypt's gas output has recovered strongly after falling below 4bn cu ft/d in 2016, and is currently running at about 6.8bn cu ft/d, compared with demand of about 6.1bn cu ft/d. According to officials quoted by *Al Borsa*, a local financial newspaper, recent boosts to production from the Giza and Fayoum fields in the West Nile Delta cluster have led to a 50% increase in the allocation of gas to the Idku liquefied natural gas (LNG) export terminal to 750m cu ft/d. The two trains at Idku, which are operated by Royal Dutch Shell, have the capacity to process about 1.1bn cu ft/d of gas, and the Damietta LNG plant can process a further 750m cu ft/d. Owing to the decline in Egypt's production from 2010 onwards, the two LNG complexes virtually ceased operating in 2014, and between 2015 and mid-2018 the government imported LNG to make up for a shortfall in supply.

According to BP's *Statistical Review of World Energy*, Egypt's natural gas production rose by 20% year on year in both 2017 and 2018, while consumption rose by 12.5% and 5.8%, respectively. The rate of increase in domestic gas demand was higher in 2017 because of the rise in the proportion of gas used in thermal power generation to its current level of about 85%, following major power supply development. Gas consumption is likely to continue to increase at a brisk rate, but, at least for the next few years, Egypt is likely to have a sufficient surplus to allow the Idku and Damietta LNG plants to run at close to full capacity, as Zohr and West Nile Delta reach their plateau output of 3.2bn cu ft/day and 1.4bn cu ft/day, respectively, from 2020 onwards. Once the pipeline from Israel is operating, supply will be boosted by up to 700m cu ft/day. With the addition of Cypriot gas to the mix from the mid-2020s, there may be scope to expand the existing LNG plants, or, as has been recently suggested in the Israeli media, to build a new plant on the south Sinai coast, oriented towards exports to Asian markets.

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However, for such a scenario of an expanding natural gas hub to be realised, a number of critical conditions will have to be met. These include the smooth development of fields discovered in Israeli and Cypriot waters, in the face of tough financial and political challenges. Another important consideration will be whether Egypt will be able to continue to increase its production, or at least sustain it at a stable level, despite an estimated depletion rate of about 10% per year. This in turn depends on a healthy level of exploration activity, and on a regular flow of new discoveries.

Change of management for Suez authorities

August 23, 2019

The retirement of Vice-Admiral Mohab Mamish as chairman of the Suez Canal Authority (SCA), the public-sector agency in charge of overseeing the canal, has paved the way for the agency responsible for economic development in the canal zone to regain its autonomy. The president, Abdel-Fattah el-Sisi, on August 17th announced that Mr Mamish was to be replaced as chairman of the SCA by Admiral Osama Rabie, a former commander of the navy who had served as Mr Mamish's deputy since December 2016. Mr Mamish has also been replaced as head of the General Authority for the Suez Canal Economic Zone (SCZone), the body charged with promoting private-sector development of the area. These changes mark an opportunity to allow greater private-sector independence in the area, although the military remains the dominant influence in decision-making.

Mr Sisi issued a decree appointing Yehia Zaki, the former head of an engineering consultancy, as chairman of SCZone, which had been headed by Mr Mamish since April 2017, when its first chairman, Ahmed Darwish, was dismissed. The appointment of Mr Zaki is likely to be welcomed by investors, as it should enable the agency to operate more smoothly, now that its head will not have to combine this task with that of running the Suez Canal. The status of the SCZone was further strengthened on August 22nd with the appointment to its board of General Ehab el-Far, the head of the Egyptian Army Engineering Agency, and Brigadier Amir Sayed Ahmed, who was recently appointed as an adviser to Mr Sisi on economic development projects and who also served as a senior official at the New Urban Communities Authority (NUCA).

Previous head oversaw expansion but also centralised control

Mr Mamish, himself a former commander of the navy, had been in charge of the SCA since 2012. During his stewardship the canal was expanded through the dredging of a new channel, to enable swifter transit for international shipping, as well as widening and deepening of existing sections and building several tunnels beneath the waterway. Mr Mamish said recently that the E£64bn (US$3.9bn) in investment certificates issued to the Egyptian public in 2014 to pay for the expansion, will be redeemed in full on their maturity on September 4th. He said that the expansion had allowed for an increase in traffic, reflected in the rise in the SCA's toll revenue to a record US$5.9bn in the 2018/19 (July-June) fiscal year. Mr Mamish has been appointed as an adviser to Mr Sisi on economic projects and port affairs in the Suez Canal region, a way to ease the pain of what was likely to be an enforced retirement, although he is 71. The new SCA chairman is 64.

The SCZone was launched at the end of 2015 with a mandate to oversee the development of a 461-sq-km region alongside the Suez Canal, including six ports and four designated development zones. The authority has the power to issue licences to investors, and businesses are entitled to customs and tax exemptions for activities within the zone.

Mr Darwish, a former minister of local administration, ran the SCZone for just over a year, before being dismissed. There was no public explanation for his removal, although there were reports that the new agency's autonomy had fostered resentment among public-sector port operating companies in the area. His dismissal coincided with controversy over discussions being held at that time with Port of Singapore Authority (PSA) about investing in a new container terminal at East Port Said, to complement the existing terminal operating by a venture controlled by APM Terminals, part of Denmark-based Maersk Group. Mr Mamish had also initiated discussions with France's CMA CGM, but as yet no final agreement has been concluded for the proposed second terminal at East Port Said.

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Projects progress despite earlier friction between public and private sectors

Mr Mamish was originally appointed as head of the SCZone on a temporary basis, but he ended up serving in that role for more than two years. During his tenure, several heavy industrial and logistics projects in the Sokhna area at the southern entrance to the canal have made progress, and agreements have been announced with Russian and Chinese groups to set up dedicated investment zones.

Businesses have been pressing for further improvements in the Suez area for some time. Mr Zaki is uniquely qualified to take over the task of heading the SCZone, as he was responsible for drawing the masterplan for the area's development in his previous position, which was presented at the economic development conference held in Sharm el-Shaikh in March 2015, when many of the larger projects under the Sisi government were first outlined. Mr Zaki will ultimately defer to the military on major issues, but the appointment at least gives the impression that this is a more business-friendly regime and that the authorities are keen to inject greater momentum into further developing the area, although slower global trade growth in the medium term is likely to constrain these efforts.

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