

Egypt: Reform anchor pays off

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- Egypt is faring better than other MENA countries: It is set to be the only one in the region with GDP growth this year.
- We expect a strong recovery at the onset of 2021, mainly due to the successful execution of central bank monetary policy and IMF aid.
- Supply and demand shocks, along with the decline in oil prices, have led to a decline in Sino-MENA investments. But for Egypt, the tide is turning with a gradual return in Chinese-led infrastructure projects.

Egypt: Relatively Robust

Despite the pandemic fallout, not least in the tourism sector, the Egyptian economy has held up well this year. The implementation of the IMF programme, including sustained progress in key structural reforms, will remain vital to build up Egypt's economic resilience. This will also ensure that investors remain confident in the positive outlook.

- The recovery appears to be gaining traction as Egypt is forecast to be the only country in MENA to see its economy grow this year. The IMF has revised its growth forecast up to 3.5% from 2%, with 2.8% growth in 2021 as Egypt benefits from newly implemented reforms and IMF support.
 - The Ministry of Finance (MoF) projects the economy will maintain its momentum and grow by 3.3% in FY 20/21.² We believe that growth could be slightly lower in the coming quarters and range between 2.5% and 3%.
 - This is mainly due to the elevated uncertainty around the pace of recovery of the tourism sector, which makes up as much as 15% of foreign currency and 12% of GDP.
 - Despite opening up its borders for travellers, the extent to which international tourism will support Egypt's economic recovery is still in doubt.
 - By the end of FY 19/20, total losses stood at USD 14B, around a 22% YoY decline in tourism revenue. This compares with the USD 12.6B gain in FY 2018/19, which was a record high in tourism revenue.
- Growth next year is expected to be driven by the increase in production from the Zohr gas field and Egypt's progress in addressing fiscal reforms.
 - Egypt boosted its gas production by 12.4% YoY to a record of 7.2 billion cf/d in FY 19/20. This is expected to increase following the recent gas discovery in Egypt's Greater Nooros region in the Nile delta by Italian oil company Eni and British oil company BP.
- On the fiscal front, despite the pandemic-induced pressure in H1 of 2020, progress has been made in improving public finances and the budget deficit.
 - Egypt's deficit narrowed to 7.8% of GDP in FY 19/20, down from 8.2% in the FY 18/19. Despite the MoF's target to reduce the deficit to 6.3% this fiscal year and achieve a primary surplus of 2% of GDP, we expect Egypt's fiscal position to remain under pressure.
 - Total expenditure is expected to increase by 8.9% YoY to reach USD 110B, as per the FY20/21 preliminary budget. This will be the largest budget in the country's history.
 - The spending increase is mainly to continue implementing structural reforms, which focus on increasing allocations for investments, infrastructure and expanding the export base.
- While lower oil prices will help improve the fiscal balance, reduced capital and remittance flows, especially from GCC countries, will weigh heavily next year.
- The IMF is providing additional support for the economy. Following the 12-month Stand-By Arrangement worth USD 5.2B in

Table 1 - Egypt Macroeconomic Indicators¹

	2015/16	2016/17	2017/18	2018/19	2019/20f
Real GDP Growth (%)	4.3	4.1	5.3	5.6	3.5
CPI Inflation (%)	14.0	29.5	14.4	9.2	5.5
Fiscal Balance (% of GDP)	-12.5	-10.6	-9.5	-7.5	-8.2
C/A Balance (% of GDP)	-6.0	-6.1	-2.4	-3.6	-3.2
Total Gov't. Gross Debt (% of GDP)	96.9	103.2	92.7	83.8	86.6
Total Gross Extr'n'l Debt (% of GDP)	18.3	41.3	37.4	34.1	34.5
Gross Official Reserves (Mos. of Imports)	3.0	5.0	6.7	7.5	7.8
Nominal GDP (USD B)	332.0	236.5	250.3	302.3	361.9
Population (Millions)	92.0	94.8	97.0	99.2	101.5

June to support the country's balance of payments, Egypt is expected to receive an additional USD 1.6B before the end of this year.

- This, along with the Central Bank of Egypt providing a stable anchor for inflation expectations and financial stability, is expected to rebuild the country's reserve buffers and contribute to the recovery of this year's private sector output losses.

Sino-Egypt: Towering BRI ambitions

COVID-19's ripple effect continues to be felt across MENA, and China-Egypt trade and investment relations are no exception. While bilateral trade is still growing, the rate has possibly slowed.

- Data from the Chinese Ministry of Commerce showed that bilateral trade between Egypt and China during H1 of 2020 reached around USD 6.7B, a 2.7% YoY increase compared with the same period last year. In Q1 alone, trade exchange stood at USD 3.2B, a 1% YoY growth.
 - Year-to-date, Egyptian exports to China have declined more than 14% YoY to stand at USD 591M, while Chinese exports to Egypt reached USD 6.1B, a 4.7% YoY increase. The drop in Egyptian exports is possibly due to disruptions in the supply chain and logistics.
 - We expect exports from Egypt to China to rise rapidly in 2021 as China's economic recovery continues.
 - For comparison, total trade between China and Egypt reached USD 13.2B in 2019.
- Given that developing an integrated land and maritime transport and trade infrastructure is a priority of Egypt's Vision 2030 and an integral part of China's Belt & Road Initiative (BRI), Chinese companies have been engaged in revamping Egypt's relatively poor railways and port facilities.
 - Egypt awarded an Egyptian-Chinese consortium led by China Civil Engineering Construction Corporation and China Railway Construction Corporation a second contract to construct and operate a high-speed electric railway that can accommodate passengers and cargo between Ain Sokhna and El Alamein. The project, which is planned to be completed by the end of 2021, will connect the Red Sea to the Mediterranean in a less than three-hour trip.
 - The cities lie at the east and west of Egypt, respectively, and two hours way from Cairo. The new line will span a total distance of 543KM and is set to be the region's longest and largest and the first electric railway line to be implemented in Egypt.
 - The Central Business District project in Egypt's new capital led by China State Construction Engineering Corporation has also completed the construction of the 30th floor of the Iconic Tower. This is a major milestone, given the numerous disruptions that occurred to the building of the new capital over the past few years, including contractors and financiers pulling out.
- Chinese companies have increased activity in Egypt as a result of its significant structural reform programme.
 - Given that reforms are yielding solid benefits in the form of liberalising the economy, and are attracting a strong base of foreign investors, we expect to see more Chinese investment arrive and potentially expand into new sectors.

¹ Arabia Monitor; IMF.

² Egypt's fiscal year runs from 1 July to 30 June.

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