ARAB REPUBLIC OF EGYPT

Table 1	2023
Population, million[a]	112.7
GDP, current US$ billion	395.9
GDP per capita, current US$	3512.6
Lower middle-income poverty rate ($3.65)[b]	17.6
National poverty rate[b]	29.7
Gini index[b]	31.9
School enrollment, primary (% gross)[c]	91.6
Life expectancy at birth, years[c]	70.2
Total GHG emissions (mtCO2e)	310.3

Source: WDI, Macro Poverty Outlook, and official data.
a/ Reflects the UN data.
b/ Most recent value (2019), 2017 PPPs.
c/ Most recent WDI value (2022).

With the ongoing macroeconomic adjustment, growth is projected to recover to 3.5 percent in FY25 from an estimated 2.5 percent in FY24. Inflation remains in double digits with disproportionate implications for the poor. External financing provides near-term relief. Ensuring long-term stability (notably through wider fiscal consolidation, consistent with external sector sustainability) remains crucial to addressing human development needs, social protection, and enabling private activity for better growth, jobs, and exports.

Key conditions and challenges

Amidst rising geopolitical tensions, Egypt is pursuing macroeconomic stabilization and structural reforms, underpinned by the IMF Extended Fund Facility (EFF), large-scale UAE investment deal in Ras El-hekma, and development partners' financing including the World Bank and the European Union. Sovereign ratings and market sentiment have started to improve, contributing to a rebound of portfolio inflows, remittances, and gradually recovering non-oil private sector activity.

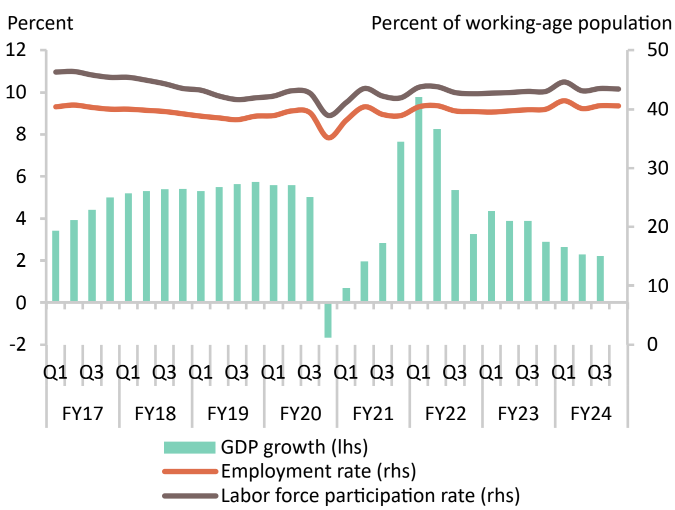
Notwithstanding the monetary tightening and exchange rate adjustment of March 2024 that helped ease the two-year-long foreign currency crisis, the escalation of the Middle East conflict continues to impact foreign income sources, especially the Suez Canal revenues. Scarring effects of the longstanding challenges that intersected with global shocks continue to manifest in key sectors. Notably, electricity generation and supply suffer from legacy energy sector inefficiencies, delayed price adjustments, as well as domestic gas production shortfalls (partly) due to the foreign currency arrears to International Oil Companies (IOC) accumulated over the past two years. Similarly, shortages in medicines persist, as the domestic pharmaceuticals sector grapples with the spike in costs and price controls. More broadly, productivity growth remains sluggish, reflecting ongoing business environment constraints. Poverty is expected to have increased substantially from the last officially reported poverty rate of 29.7 percent in 2019 at the national poverty line, due to the inflation spike over the past two years. Measured by the international poverty line for lower middle-income countries ($3.65/day in 2017 PPP), the poverty rate is estimated to have increased to 23.5 percent in 2024; about 4 percentage-points higher than its estimated level in 2022.

Key factors to unlock productivity growth, exports, and job-creation include: (i) Reorienting the role of the state as an enabler of private activity. This is critical for fiscal and external sustainability, and to reverse the trend favoring non-tradables; (ii) creating a conducive business environment; and (iii) addressing human development needs.

Recent developments

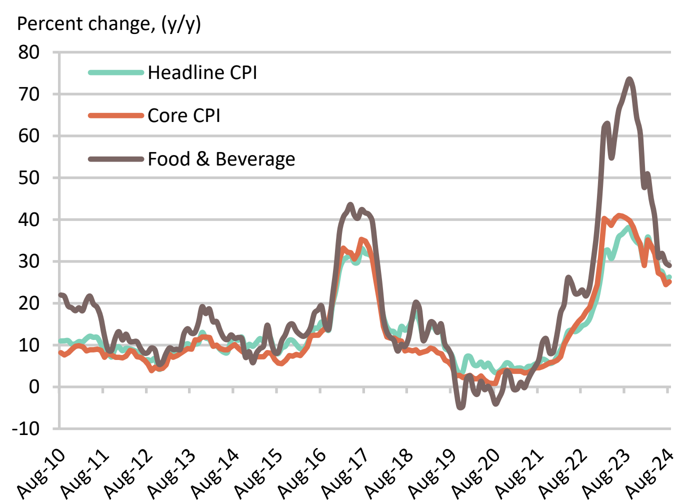
Growth declined to a projected 2.5 percent in FY24 (July 2023-June 2024) from 3.8 percent in FY23. The Industrial Production Index points to improved growth in recent months, although shockwaves from the Middle East conflict, as well as the scarring effects of the March 2022—2024 foreign exchange crisis, continue to soften the nascent recovery. Despite the recent drop in unemployment to 6.5 percent in Q4-FY24 (compared to 7 percent in Q4-FY23), labor market indicators reflect key challenges, including low quality job-creation and below-potential female labor force participation (15.9 percent in Q4-FY24).

FIGURE 1 Arab Republic of Egypt / Real GDP growth, employment and labor force participation rates



Sources: World Bank estimates based on Central Agency for Public Mobilization and Statistics (CAPMAS) and Ministry of Planning, Economic Development and International Cooperation (MoPEDIC).

FIGURE 2 Arab Republic of Egypt / Inflation rates



Sources: Central Bank of Egypt (CBE) and CAPMAS.

After averaging 33.6 percent in FY24 (from 24.1 percent in FY23), headline urban inflation declined somewhat but remained high at 26.2 percent in August 2024. Food inflation (54.7 percent in FY24), as well as revisions to administered prices—including energy tariffs, transport, and quadrupling the price of subsidized bread—are especially constraining the purchasing powers, notably among the poor, which thus underscores the importance of well-targeted social assistance. The CBE continues to tighten monetary policy through deposit auctions. With policy rates at 27.25 percent and 28.25 percent for overnight deposit and lending transactions, respectively (1,900 bps above the levels prevailing prior to March 2022), real interest rates turned positive in July 2024 for the first time in over two years.

External account buffers improved with the inflows received in March–July 2024. Of these, US$14.1 billion was used to replenish reserves, and the rest was used to repay debt, clear import backlogs, and start repaying arrears to IOC. As such, official (Tier 1) reserves and other foreign currency assets (Tier 2 reserves) jointly reached a historical high of US$59.4 billion at end-July 2024. The banking system's net foreign assets position surged into a surplus (LE626.6 billion or US$13.1 billion at end-June 2024). It however recently witnessed a downtick; affected by the outflows with the temporary turbulence in global financial markets and the flare up of the Middle East conflict.

The budget deficit declined sharply to an estimated 3.6 percent of GDP in FY24, from 6.0 percent of GDP in FY23, due to the one-off US$12 billion that was recorded as government revenues (half the fresh inflows from Ras Elhekma investments deposited in the CBE, with an equivalent amount transferred to the Treasury). This one-off transaction overcompensated for the increase in interest payments, estimated at 9.8 percent of GDP in FY24 (54.4 percent of government revenues).

Outlook

Growth is expected to start a gradual recovery—to 3.5 percent and 4.2 percent in FY25 and FY26, respectively—driven by favorable base effects, as well as investment, notably that financed by the UAE deal, in addition to improved private consumption with the gradually abating inflation and projected pickup in remittances, although the latter may be moderated by the decline in international oil prices (as Egypt's diaspora is largely in the GCC).

The budget deficit is forecast to widen to 7.0 percent of GDP in FY25, mainly due to the higher interest payments and the vanishing impact of the (one-off) Ras Elhekma transaction, before starting to decline thereafter, supported by fiscal consolidation stemming from declining energy subsidies (due to tariff adjustments and the decline in international oil prices), as well as improving revenues. Off-budget borrowing is expected to be contained following the Prime Ministerial Decree capping public investments.

The government debt-to-GDP ratio is projected to reach 94.5 percent and 91.6 percent at end-FY24 and end-FY25, respectively.

External financing requirements remain substantial, but the financing gap is expected to be closed in the short-term. Principal external debt maturing during July-December 2024 is estimated at around US$20 billion and IOC arrears are estimated at US$5 billion. Further, the widened current account deficit may put pressure on foreign currency resources, if the Middle East conflict continues to cast a shadow on the economy.

Meanwhile, soft per capita growth and still high inflation constrain poverty-reduction; emphasizing the importance of growth-enhancing reforms and advancing the human capital agenda.

TABLE 2 Arab Republic of Egypt / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	3.3	6.6	3.8	2.5	3.5	4.2
Private consumption	6.2	2.8	3.8	4.6	4.8	4.5
Government consumption	3.4	4.9	-2.8	3.3	3.0	2.5
Gross fixed capital investment	-3.2	18.5	-21.7	-11.9	6.5	9.7
Exports, goods and services	-13.9	57.4	31.4	7.0	13.5	11.5
Imports, goods and services	0.5	24.3	1.1	0.5	19.5	13.7
Real GDP growth, at constant factor prices	2.0	6.2	3.6	2.5	3.5	4.2
Agriculture	3.8	4.0	4.1	4.4	4.0	4.0
Industry	-1.2	6.9	-0.6	-2.2	2.0	4.0
Services	3.7	6.2	6.2	4.9	4.2	4.4
Inflation (consumer price index)	4.5	8.5	24.1	33.6	17.2	13.6
Current account balance (% of GDP)	-4.3	-3.5	-1.2	-5.3	-3.9	-4.3
Net foreign direct investment inflow (% of GDP)	1.1	1.8	2.5	11.7	2.8	2.3
Fiscal balance (% of GDP)	-7.1	-6.2	-6.0	-3.6	-7.0	-6.9
Revenues (% of GDP)	16.6	17.2	15.4	18.0	16.0	16.4
Debt (% of GDP)	87.9	88.3	95.2	94.5	91.6	87.0
External government debt (% of GDP)	19.0	19.5	25.1	29.6	28.3	25.3
Primary balance (% of GDP)	1.4	1.3	1.6	6.2	4.0	3.2
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	19.9	19.7	21.9	23.5	23.4	23.2
GHG emissions growth (mtCO2e)	2.3	1.9	0.9	0.4	0.8	1.4
Energy related GHG emissions (% of total)	63.3	63.3	63.8	64.4	66.1	67.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2010-HIECS, 2015-HIECS, and 2019-HIECS. Actual data: 2019. Nowcast: 2020-2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2010-2015) with pass-through = 0.02 based on GDP per capita in constant LCU. Poverty estimates for 2020, 2023, and 2024 are based on microsimulations of the impacts of Covid, high inflation, and government mitigating measures.