Dcode
Economic & Financial Consulting

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EGYPT'S ECONOMIC OUTLOOK

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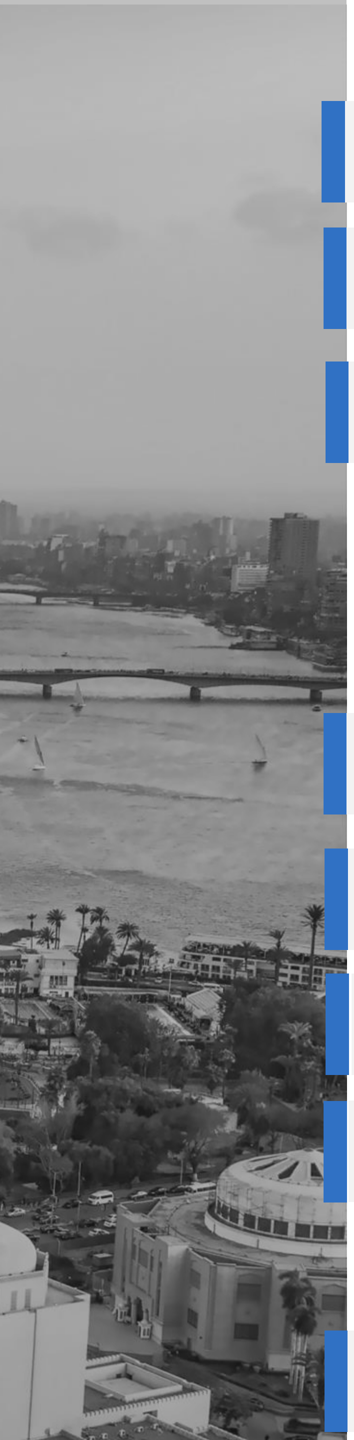

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EXECUTIVE SUMMARY

- Egypt's overall GDP growth has accelerated for the third consecutive year in FY 2018/19. **Growth was primarily driven by the extractions** (benefiting from recent gas discoveries), wholesale & retail trade, construction & building and tourism sectors. The latter has grown by 37.7% and 20.1% in real terms in FY 2017/18 and FY 2018/19, respectively, thanks to improving security conditions, the pound devaluation, and the enhanced promotion and marketing strategy. **Manufacturing sector was among the least expanding sectors**; with real growth nearly halving compared to previous year (2.8% growth, down from 4.8% last year).
- However, in a rare record, official data show discrepancy between growth from the supply and demand sides. The former, which we believe is a more accurate gauge, registered growth of 5.1%, around 0.5 PPT lower than growth of the GDP calculated from the demand side, with the difference attributed to changes in net taxes and subsidies during the fiscal year.
- Fiscal performance has been steadily improving over the past three years. **In FY 2018/19, budget deficit has not only declined but has surpassed the target for the first time in nine years**, recording 8.2% of GDP versus a target of 8.4% and actual deficit of 12.7% in FY 2015/16. This was accompanied by a decline in the budget sector debt ratio to reach an estimated 90.3% down from 97.3% last year and a peak of 108% in FY 2016/17. This achievement represents extended reaping of the fruits of fiscal reforms enacted since 2016.
- Most of the consolidation achieved is attributed to restrained current expenditure growth (except for interest payments), and then to higher non-sovereign taxes (which excludes taxes collected from CBE, Suez Canal and Egyptian General Petroleum Corporation as well as taxes on T-bills and T-bonds returns), which recorded a cumulative increase of 130% over three years (during the period of July-May of each year).
- **As forecasted by Dcode EFC, current account trend has started to reverse**, with the deficit increasing again to reach USD 8.2 bn (37.4% y-o-y deterioration). This was predominantly the result of deterioration in the non-oil trade balance and a decline in private transfers. However, data for the first quarter of FY 2019/20 show better performance of these factors and a cut in the deficit by around a third.
- Despite widening current account deficit, Egypt's improving credit worthiness and favourable global borrowing conditions have increased its ability to tap global markets, maintain its reserves and allow its currency to appreciate.