PRESS RELEASE

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Egypt: slow recovery and structural challenges

- **Improved political stability, economic reforms and foreign investments are supporting Egypt's economic recovery**
- **Coface forecasts growth of 4.4% for 2015/2016**
- **Egypt is still dependent on donations and FDI from GCC countries**
- **Current account balance fell into deficit in 2015, fiscal deficit remains high**
- **A slight recovery in the tourism and automotive sectors, although security issues and the fragile economic recovery represent challenges**

A better economic outlook

After being severely hit during the social unrest and violence linked to the revolution of 2011, Egypt's economy is getting back on track, thanks to improved political stability, economic reforms and foreign investments. The authorities recently announced a real growth rate of 4.1% for 2014/2015 (the fiscal year running from July to June), compared to 2.2% for 2013/2014 - which in turn was slightly up from the average growth of 2% between 2011 and 2013. These latest results have been driven by growth in the manufacturing sector, higher tourism revenues (after a decline following the unrests) and a favourable base effect. On the demand side, the main growth driver was private consumption. Coface estimates that growth will accelerate to 4.4% for 2015/2016.

Recovery is still fragile, challenged by twin deficits and security issues

Although growth in public and private consumption should continue, its pace will remain subdued, due to high unemployment and subsidy reforms aimed at reducing the budget deficit. Despite the improvement in Egypt's fiscal situation, the budget deficit remains well above 10% of GDP. In addition, Egypt is still suffering from a wide external gap, weak infrastructure, microeconomic distortions and low competitiveness. In the 2014/2015 fiscal year, the current account deficit jumped to 12.2 billion USD, up from 2.7 billion USD the year before, mainly due to the enlarged trade deficit. If oil prices remain low, this may cause a fall in FDI, grants and remittances from Gulf countries – who are amongst the biggest contributors to Egypt's growth performance. This would restrict the funds for the much-needed investments in Egypt's infrastructures.

Regional and domestic security risks are weighing on the business environment, as well as on the recovery of tourism sector (which accounts for around 20% of the country's foreign exchange earnings). The capital outflow due to security issues and political uncertainties pulled down foreign reserves, from 7.6 months' of imports in 2010, to as low as 2.4 months in 2014. There is a continued shortage of foreign exchange in the banking system. This is hitting small and medium sized manufacturers especially hard, as they do not have the dollars they need to import machinery and raw materials.

Egypt macro indicators			
	2014	2015f	2016f
GDP (%)	2.2%	4.1%	4.4%
Current acc. bal. (1)	0.8%	-3.3%	-4.2%
Budget balance (1)	13.6%	-11%	-9.9%
Government debt (1)	90.5%	91%	89%

(1) % of GDP, the current account balance excluding grants reached -5 % of GDP
Source: Official statistics, IMF, BMI, Coface

"Improved political stability and the authorities' commitment to structural reforms are supporting economic performance in Egypt", said Seltem Iyigun, Coface Economist for Middle East and North Africa. "*International financial assistance constitutes an important pillar of the country's growth. In the future, economic recovery is also expected to benefit from the acceleration in fixed investments. The economic recovery and political stability are contributing to the redress of fiscal imbalances."*
"Nevertheless, sustainable growth will depend on continued progress in economic reforms and greater political stability", added Seltem Iyigun. *"Despite all the improvements cited above, structural weaknesses are still present in Egypt's economy and are continuing to weigh on private sector growth. Tough challenges remain - including vulnerable external accounts, low competitiveness and security risks."*

Cautious sectorial recovery

- **Tourism**: After suffering from the civil unrests and political uncertainties linked to the 2011 revolution, the tourism sector has made a slight recovery, mainly due to improved political stability. In the first half of 2015, the number of tourists visiting Egypt increased by 8.2% from a year earlier, to reach 4.8 million. The government expects to attract 10 million tourists during the course of 2015, with total tourism receipts of between 7.5 to 8 billion USD. The number of hotels and accommodation establishments are expected to rise slightly above the 2012 level, to 1,140 in 2015. Despite all of these improvements, the return of Egypt's tourism sector to its pre-turmoil levels will take time, as there are still security issues.

- **Automotive**: The automotive sector is also benefiting from a recovery since the Arab Spring period caused a drop in demand. Passenger car sales rose sharply in 2014, increasing by 55.5% compared to 2013. The economic recovery and higher political stability should support sales over the upcoming period. Nevertheless, constraints are weighing on the sector. Some companies are being driven into exiting Egypt, due to dollar scarcity, the unclear industrial strategy and the strengthening of the automotive sector in neighbouring countries.

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