

Egypt Business Forecast Report Q1 2015

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Abstracts

Core Views

2015 will be a relatively positive year for the Egyptian economy, as the currency stabilises and investment returns to the county. The fiscal and net export position will improve significantly on the back of fuel subsidy reform. Subsidy cuts will likely be watered down if public unrest occurs on a significant scale, however, the bulk of reform will remain in place.

Hikes to domestic energy prices will push consumer price inflation back into the double digits by the end of the year. Egypt's geopolitical importance will ensure that even if an IMF agreement is delayed for longer than expected, further foreign aid commitments will materialise around the turn of the year. Western powers such as the US and EU have an interest in ensuring the North African country does not experience a more pronounced economic and political crisis. However, it will be donations from the GCC which keeps Egypt afloat this year.

We do not expect an IMF deal in 2014, as the economic rationale has waned somewhat since the influx of foreign aid and it is politically unpalatable at present.

Major Forecast Changes

Following an influx in foreign aid in 2013 as well as subsidy reform Egypt will be avoid a pronounced balance of payments crisis in 2015. That said, as the aid inflows are likely to weaken the government's resolve to push ahead with necessary tax and business environment reforms, we do not expect an IMF agreement to be signed in the near term. Our baseline scenario sees the economy expanding by 3.0% in FY2014/15 and 3.8% in FY2015/16.

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Elections To Result In Fragmented Parliament

We expect parliamentary elections in Egypt to be held in December or early Q115 and to result in a very fragmented legislature. With the Muslim Brotherhood banned, and a focus on individual candidates as opposed to parties, parliament will do little to keep a check on President Sisi's power. Elections are likely to be met by localised disruptions by supporters of the Muslim Brotherhood and terrorist groups, however, on the whole, we expect them pose little threat to the regime.

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Long-Term Political Outlook

Four Scenarios For The Coming Decade

Egypt's transition to a fully fledged democracy is likely to take several years at least, and there is no guarantee that it will achieve this goal. Although the momentum for democratisation is strong, we cannot preclude a return to authoritarianism in some form. Prolonged uncertainty and instability would be negative for economic reform, potentially undermining Egypt's appeal as an investment and tourism destination.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Index
Economic Activity
Acceleration In Growth On The Back Of Political Stability

The outlook for Egypt's economy is the most positive it has been since the onset of the Arab Spring in January 2011. A combination of low base effects, relative political stability and commitment to necessary economic reform bode s well across most sectors. Whilst subsidy reform will weigh on private and government spending, investment activity will pick up substantially. The outlook for exports is less positive as

Egypt will remain a net hydrocarbon s importer. We forecast real GDP growth of 3.0% in FY2014/15 and 3.8% in FY2015/16.

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Egypt's fiscal position is on an increasingly stable trajectory as the government commences subsidy reform which will restrict growth in expenditures over the coming quarters. In addition, an improving economy will result in higher tax receipts, an area which has potential for further boosts with reform of income tax likely over the coming year. We forecast Egypt's budget deficit to fall from 12.8% of GDP in FY2014 to 8.3% in FY2017.

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The outlook for Egypt's external position is the most positive it has been since the onset of the Arab Spring in January 2011. While Egypt will record a slightly larger current account deficit over the coming two years compared with FY2014 as Gulf assistance dwindles, the long-term outlook for the country's balance of payments is sustainable due to greater political stability and subsidy reform. We forecast an improving position across Egypt's external accounts, namely tourism receipts, foreign direct investment inflows and net goods exports.

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Political instability in large parts of the Middle East and North Africa will continue to weigh heavily on foreign direct investment inflows to the region as a whole over the coming years. That said, we see several bright spots for foreign investment and highlight particularly strong prospects for Morocco, Saudi Arabia and Egypt. By contrast, Iraq and Algeria are set to fall behind.

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The Egyptian Economy To 2023

Policy Uncertainty Weighs On Outlook

Egypt has a lot to look forward to with its many inherent advantages, including a strategic and cultural position in the world, a large and growing population and an underdeveloped private sector providing ample room for expansion. However, the highly uncertain political outlook poses a key downside risk to our long-term growth forecasts.

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