



بنك الإمارات دبي الوطني
Emirates NBD

Egypt
Update
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Egypt Update

IMF focus turns to long-term growth

On January 23, the IMF released its second review of Egypt's performance under the Extended Fund Facility (EFF) programme it entered into in November 2016. **The review was largely complimentary on the progress made by Egypt so far, citing the 'bold' economic reforms and 'decisive policy actions' undertaken, and the positive effect these have had on restoring market confidence and growth momentum.** This chimes with the data that has come out of Egypt in recent quarters, where there has been a marked improvement in the Emirates NBD PMI index, a sharp rise in reserves and foreign portfolio investment, and a narrowing of the twin deficits.

Egypt Emirates NBD Purchasing Managers' Index



Source: IHS Markit, Emirates NBD Research

The focus of the IMF's assessment of the Egyptian economy has now turned to the next chapter in its development, namely 'unlocking higher and more inclusive growth.' To this end, it cites the disparity between Egypt and other emerging market peers in terms of private sector activity, and underscores the need to bolster this if sufficient jobs to cater for Egypt's youth bulge are to be created.

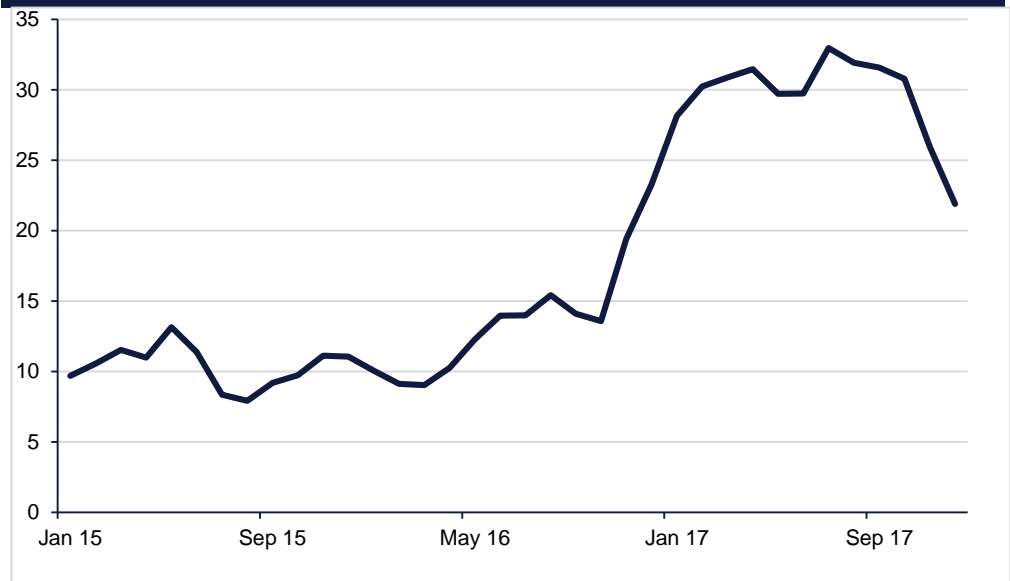
While the removal of the pound's peg and reduction of subsidies were difficult, these were in some senses the low-hanging fruit in terms of reforms, despite the hardship they have inflicted on many ordinary Egyptians. Bolstering private sector activity and competitiveness will come up against vested interests in the public sector and a few politically connected private sector entities, which have traditionally been protected. Making the environment more competitive would encourage greater efficiencies and innovation, bolstering the long-term growth outlook and employment, but progress here will likely be slower than that seen to date.

Nevertheless, there has been some progress with regards to legislation aimed at encouraging private sector activity; a new investment law was passed in 2017, and on January 28, the Egyptian parliament passed the country's first bankruptcy law. This abolishes imprisonment for bankruptcy, and minimises the need to recourse to the courts to settle such cases, and will likely support greater private sector investment.

MPC likely to cut rates in February

Inflation in Egypt took another leg lower in December, falling to 21.9% y/y – the lowest level since November 2016, before the full effect of the currency depreciation had fed through. While tariff hikes enacted subsequent to that will keep price growth in double digits over the coming months, we expect further significant falls.

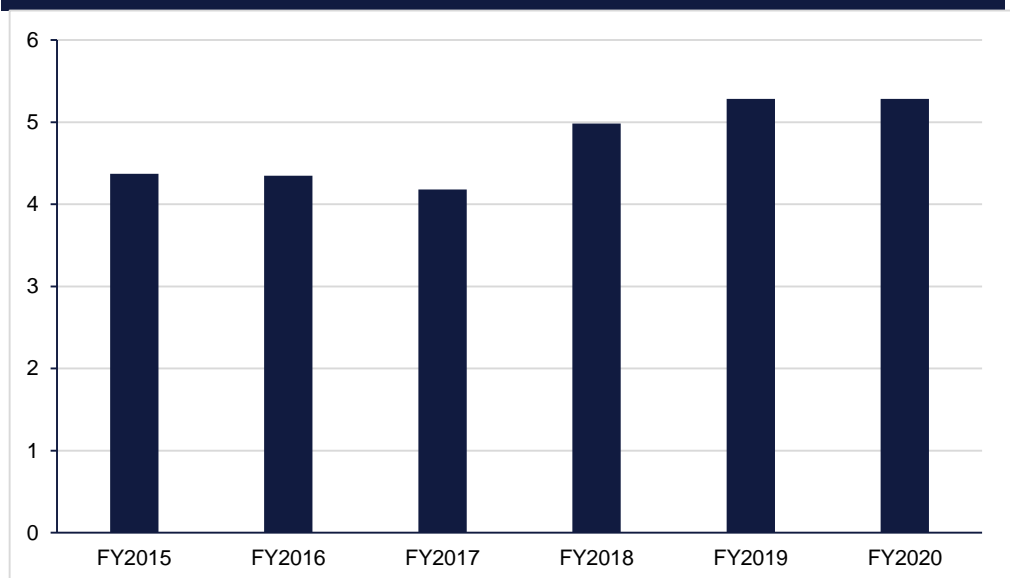
CPI inflation, % y/y



Source: Haver Analytics, Emirates NBD Research

Rapidly falling inflation will enable the Central Bank of Egypt (CBE) to begin loosening monetary policy in 2018, and we expect that it will cut rates by 200 basis points (bps) at its next MPC meeting, scheduled for February 15. This would take the overnight lending rate from 19.75% to 17.75%. As inflation soared from November 2016, the bank enacted a cumulative 700bps of hikes in order to curb inflation expectations, and has remained extremely cautious to date. The bank hiked rates by 200bps in July, contrary to consensus expectations of a hold, and held in December when the initial drop in inflation led many observers to expect the cutting cycle to begin.

Real GDP growth, % y/y

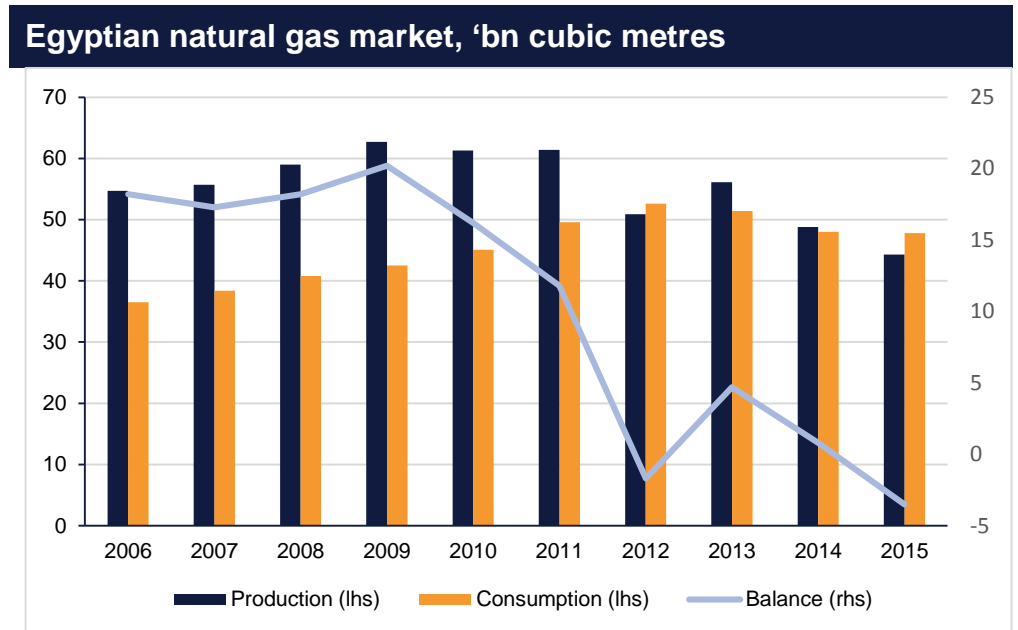


Source: Haver Analytics, Emirates NBD Research

With inflation falling we expect that the CBE will look to give a meaningful concession to consumers in February and help support the growth recovery in 2018. Higher rates have been a boon for portfolio investors, but have weighed on consumption and domestic credit growth has slowed. Nevertheless, the caution shown to date leads us to a forecast of only 400bps of cuts over the year, with a chance of a further 100bps if inflation slows more markedly than we expect. Such an outlook is likely to be supported by the IMF, which stated in the recent review that it urged the CBE to 'consider a gradual easing of policy interest rates only once the authorities are confident that demand pressures and inflation expectations remain contained.'

Zohr gas field will improve energy self-sufficiency

The launch of the giant Zohr offshore gas field at the close of 2017 will help Egypt narrow its current account deficit in the coming years, initially through reducing imports, and eventually boosting exports also. Egypt used to be a net exporter of natural gas, but tipped into deficit in 2015, according to data from the BP Statistical Review of World Energy. Initial production at Zohr will be 350mn cubic feet per day, rising to 1bn in June and 2.7bn by the end of next year. Once launched, two other new gas fields under development – North Alexandria and Nooros – will also help to make Egypt self-sufficient in terms of natural gas. Zohr’s launch implies initial monthly savings of USD60mn a month, rising to USD180mn a month once production reaches full capacity. We forecast a current account deficit equivalent to 3.9% of GDP in FY2017/18, compared to 8.1% last year.



Source: BP Statistical Review of World Energy 2017, Emirates NBD Research

Key Economic Forecasts: Egypt

National Income	2015	2016	2017e	2018f	2019f
Nominal GDP (EGP bn)	2443.9	2709.4	3399.6	4215.1	4990.6
Nominal GDP (USD bn)	332.6	332.4	189.9	235.8	281.2
GDP per capita (USD)	3635	3554	1987	2414	2817
Real GDP Growth (% y/y)	4.4	4.3	4.2	5.0	5.3
Monetary Indicators (% y/y)					
M2	16.4	18.6	39.3	20.0	17.3
CPI (average)	10.4	13.7	29.6	15.0	12.0
External Accounts (USD bn)					
Exports	-39.1	-38.7	-36.2	-37.9	-39.2
Imports	13.4	13.0	15.1	17.4	19.2
Trade Balance	-52.4	-51.7	-51.3	-55.3	-58.3
% of GDP	-15.8	-15.6	-27.0	-23.4	-20.8
Current Account Balance	-12.1	-19.8	-15.4	-9.2	-9.1
% of GDP	-3.7	-6.0	-8.0	-3.8	-3.2
Reserves	20.0	23.0	30.0	35.0	40.0
Public Finances					
Revenue (EGP bn)	-36626	-38029	-40035	-18643	-16554
Expenditure (EGP bn)	701514	733350	804704	852062	896903
Balance*	-255439	-279430	-326355	-316934	-297978
% of GDP	-12.98	-12.53	-13.95	-10.05	-8.98
Central Government Debt (EGP mn)	1538459	1871332	2285644	2621727	2922129
% of GDP	72.2	76.6	84.4	85.2	82.8

Source: Haver Analytics, Emirates NBD Research

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