

The outlook for Egypt has been affected by the combination of Covid-19 (officially, around 55,000 cases and 2,193 dead but almost certainly an understatement) and a fall in oil prices affecting tourism, remittances and Suez Canal revenues.

Economic growth over the past 5 years (up to 6% p.a.) which was largely driven by public sector investment, support from the International Monetary Fund (IMF), the Zohr gas field development, and also benefitting from adherence to an IMF-backed program of economic reform, is unlikely to be sustainable. Latest growth projections fall from 5.8% to 5% pa. Growth may fall to around 2% p.a., with heightened pressure on external financing. Egypt has already secured an emergency loan of USD\$2.8bn to address the pandemic. It is seeking a further USD\$9bn financial support (including USD\$5bn from the IMF).

Quarantine restrictions and shuttering of foreign budget carriers will have ongoing impacts on tourism.

4.5 million Egyptians employed in the Gulf, including 3m in Saudi Arabia, pose an uncertain future for remittances (totalling USD\$25bn in 2019). Some displacement seems inevitable, adding to Egyptian unemployment, which is expected to reach 10-11% by 2021.

Economic ties between Egypt and Saudi have been traditionally deep, with Egypt heavily reliant on Saudi to prop up its economy, partly by the provision of free oil. However, the current outlook on Saudi investment in Egypt is unclear. Prestige Vision 2030 projects in Saudi are being pared back – placing a dim view of Saudi investors putting money back into Egypt in the near-term. Nonetheless as oil prices recover, the Saudis will look again to Egypt as a destination for investment and tourism.

Where the upper level consumer market is concerned, growth will be linked mainly to economic performance generating surpluses in Gulf countries for investment and tourism. But the outlook for high-end retail and real estate development is uncertain.

The USD\$12bn 2016 Extended Fund Facility agreed between Egypt and the IMF addressed fiscal and balance of payments constraints following a currency float. It also contained provisions for improving logistics as well as addressing other structural constraints to growth.

However, reforms to energy pricing and currency aside, structural reform will be slow to achieve, if at all (it took 15 years to bring about recent positive changes to the Egyptian Mining Code).

The severity of the COVID outbreak in Egypt appears to have grown significantly in recent weeks, although uncertainty surrounds official figures. Egypt has basic public health structures in place, but cultural factors and the practicalities of daily life such as open air meat and vegetable markets limit social distancing. Even if the government fails to contain a major outbreak, however, provision has been made for treatment of members of the armed forces and security services.

Dragoman

Accordingly, political risk remains low. No systemic changes are in prospect, due to the authoritarian nature of President Sisi's leadership, an overwhelming security apparatus and a distinct reluctance in political circles both inside and outside the Egyptian system to challenge the status quo.

The absence of transparency and accountability in Egyptian government decision-making, the inflexibility of its bureaucracy, and its judiciary, remain key concerns facing potential investors.

As always with Egypt, the factors giving rise to stability in the overall system remain powerful. That produces opportunity costs, and frustration among the younger generation of Egyptians facing limited employment prospects, and widening gaps between aspirations and political and economic realities. But somehow, Egypt always struggles on. Never linear, balanced, but with "significant oscillation."



Bob Bowker

Ambassador Bob Bowker has over forty-five years of experience working in the Arab and Muslim world as a diplomat, UN official and academic. His considerable experience in the region underpins Bob's deep expertise in Middle East and Islamic issues. Bob served as a diplomat in Saudi Arabia from 1974 to 1976 and in Syria from 1979 to 1981. He was Australian ambassador to Jordan from 1989-92, ambassador to Egypt from 2005 to 2008 and has been a non-resident ambassador to Libya, Tunisia and Sudan. He was Director of External Relations at the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), based in Gaza and Jerusalem over 1997-98.

Bob retired at the end of 2019 from his position as Adjunct Professor at the Centre for Arab & Islamic Studies at the Australian National University in Canberra. The author of four books on Middle East issues, he writes regularly for the Lowy Institute and other think tanks. He is also a frequent commentator for the ABC on Egypt, Syria, political Islam and Middle East diplomacy.