



ECONOMIC PULSE
OF EGYPT 

December



SUMMARY

In 2023, Egypt confronted formidable economic challenges exacerbated by the repercussions of the Ukrainian war, leading to a substantial capital flight exceeding US\$20 billion in portfolio investments. In the wake of this event resulted in a prolonged deficit in the capital account, posing a serious threat to the Egyptian economy amid increasing external debt obligations.

To address this economic instability, the Egyptian government entered negotiations with the International Monetary Fund (IMF), culminating in a new **US\$5 billion** financing agreement under the Extended Fund Facility. In return, the government committed to implementing a series of economic reforms, including the adoption of a flexible exchange rate system and reducing state intervention in the local economy.

Despite the acquisition expectations from **(GCC)** states for state-owned assets, the anticipated investments have not materialized. The central bank, however, is exploring debt management tools, with the **United Arab Emirates** extending a deposit of **one billion US dollars due in July 2026**, and **Kuwait** renewing a **\$2 billion deposit due in April 2024**. Additionally, the government aims to secure **foreign direct investments** of **\$12 billion**, including **\$5 billion from privatization**, and seeking **\$3 billion through international bonds**.

Projected **tourism revenues** of **USD 14 billion in 2023**, with a 25% increase planned for 2024, are expected to contribute to foreign exchange inflows. Government initiatives, such as expatriate incentives, real estate purchases in foreign currencies, and financing industrial projects, further aim to boost foreign exchange reserves. However, Egypt's low GDP growth rate intensifies economic pressures, with rising global and local interest rates anticipated to increase borrowing costs. **This poses a risk to fiscal consolidation efforts, limiting the government's ability to allocate resources to essential sectors. The private sector grapples with a shortage of foreign currency, hindering the import of crucial production inputs and equipment.**

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SUMMARY

These economic challenges have had significant social repercussions, with approximately **29.7% of the population falling below the national poverty line**, according to statistics from the Central Agency for Public Mobilization and Statistics (**CAPMAS**). The annual inflation rate surged by more than 133%, due to imported inflation associated with the war in Ukraine.

Despite the ongoing rise in inflation, monthly rates have shown a slowing trend, declining to 34.5% by December 2023 from a peak of 40.3% in September. In response to these concurrent challenges, the Egyptian authorities implemented policy adjustments, including raising key interest rates, allowing significant exchange rate depreciation since March 2022, and introducing social mitigation measures such as pension increases, expanded food subsidies, and enhanced transportation programs for vulnerable populations. **The Central Bank of Egypt adjusted interest rates through eight meetings, ultimately fixing rates at 19.25% for deposits and 20.25% for borrowing.** The Extended Fund Facility is expected to contribute to restoring macroeconomic stability and supporting structural reforms.

Looking ahead to the 2023/2024 fiscal year, Egypt's macroeconomic environment is anticipated to face challenges before showing signs of improvement in the medium term. The focus on creating financial space remains crucial for advancing human capital, necessitating ongoing reforms in trade policies, effective state ownership policy implementation, encouragement of competition, strengthened governance, rule of law, and improvements in the broader business environment to unlock the private sector's potential for increased value addition, growth, and export-oriented activities, crucial for creating employment opportunities and improving living standards.

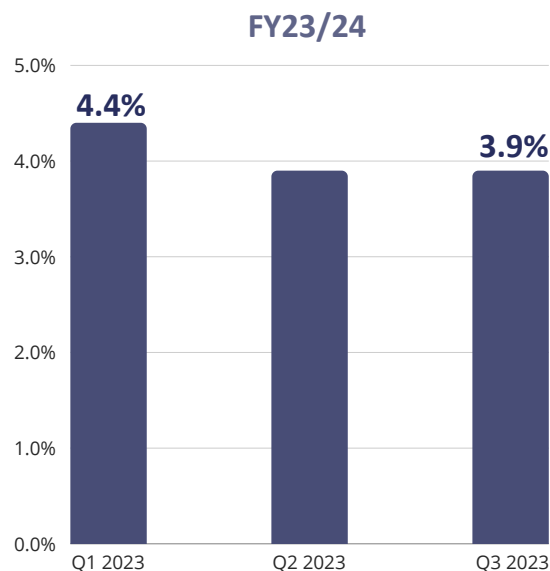
IPA delves into these developments, offering an in-depth insight into the the progress made in terms of the structural reforms. It also explores how these steps are expected to shape the business environment in Egypt, and how the investors and the international community are receiving them.

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MACROECONOMIC HIGHLIGHTS

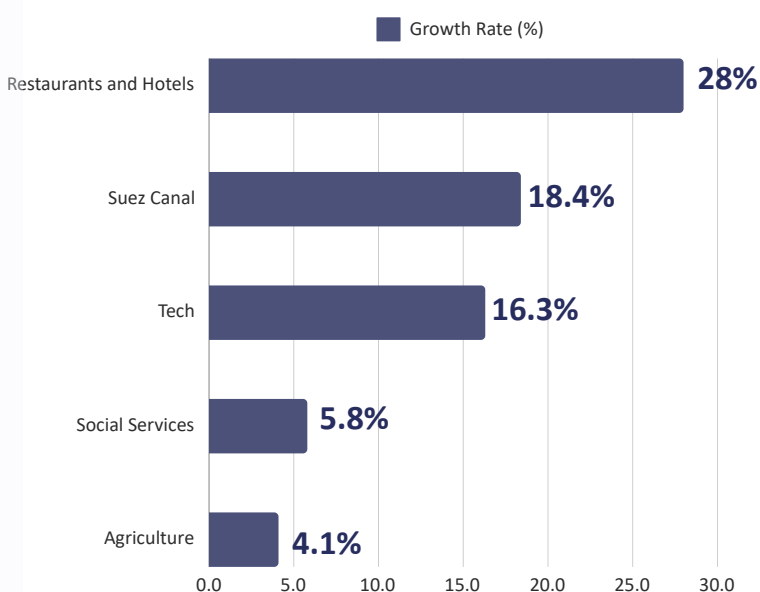
Egypt's economic landscape experienced a notable deceleration in real **GDP growth**, reflecting a shift from **3.9%** in the first quarter to **2.9%** in the second quarter. This downward trajectory continued throughout the fiscal year 2022/2023, culminating in an annual **real GDP growth rate of 3.8%**, a significant decline from the robust 6.7% recorded in the previous fiscal year, 2021/2022. The key drivers behind this slowdown were primarily attributed to a contraction in total domestic investments, while positive contributions were observed from both consumption and net exports.



Source: MPED

In the fiscal year 2023/22, several key **economic sectors exhibited noteworthy growth rates**, underscoring their significance in driving the overall economic landscape. The most prominent performers include:

Restaurants and Hotels surged with a remarkable **28%** growth. The Suez Canal, a linchpin for global trade, saw a substantial **18.4% growth**. The Communications and Information Technology sector reflected its growing importance with a robust **16.3%** growth. Social Services, covering health and education, contributed significantly with a **5.8%** growth, enhancing societal well-being. Agriculture, vital for food security, demonstrated resilience with a **4.1%** growth, collectively highlighting the diverse strengths of Egypt's economic activities.



Source: MPED

MACROECONOMIC HIGHLIGHTS

Unemployment Trends

In the fiscal year 2022/2023, Egypt observed a significant decline in the overall unemployment rate, decreasing by **2.7%** to reach **7.2%**, the lowest level since 2004.

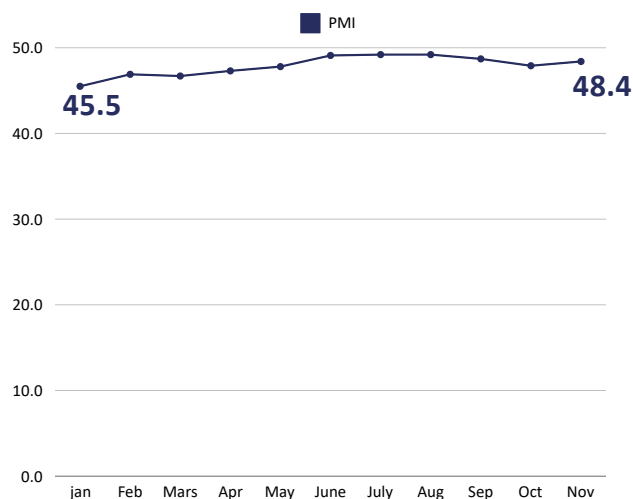
The total labor force expanded by 2.3%, totaling **30.3** million individuals compared to 29.6 million a year earlier.

Out of the 30.3 million, **92.7%** (28.1 million) are employed, and **7%** (2,185 individuals) are unemployed.



Challenges in Egypt's Non-Oil Private Sector

The PMI business survey data from S&P Global paints a challenging picture for Egypt's non-oil private sector, grappling with the lowest confidence levels in over a decade. Elevated inflation rates, continuous declines in output and new orders, and rising purchase prices contribute to the economic woes.



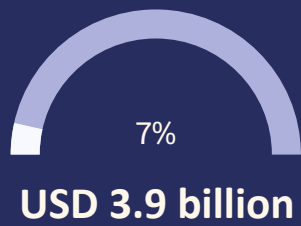
Source: S&P

The headline PMI, staying **below the 50.0 mark**, indicates ongoing challenges. Despite rising to **48.4** from **47.9** in October, the reading suggests ongoing challenges in the sector. Key factors include a **pessimistic 12-month outlook**, inflationary pressures impacting sales and employment, and import problems affecting various sectors. As costs rise, the sector faces significant headwinds, emphasizing the need for strategic interventions to stimulate recovery and navigate uncertainties.

Trade Balance



Egypt's trade deficit



The trade deficit narrowed by 7% Y-o-Y, reaching USD 3.9 billion in August 2023, down from USD 4.2 billion on the same period last year.

Exports



decreased by 9.8%
compared to the previous fiscal year

Imports



decreased by 18.9%
compared to the previous fiscal year

\$ 40 Billion

Egyptian exports to the world
in the fiscal year 2022/2023

\$ 70.8 Billion

Egyptian imports from the
world in the fiscal year
2022/2023



Jan 2023

Dec 2023

GOLD

1GM, 21KARAT

1675 EGP

3170 EGP

+90%

DEPRECIATION

AVERAGE EXCHANGE
RATE OF THE DOLLAR

24.6 EGP

31.9 EGP

-20%

INTEREST RATES

DEPOSIT

16.25%

19.25%

BORROWING

17.25%

20.25%

+3%

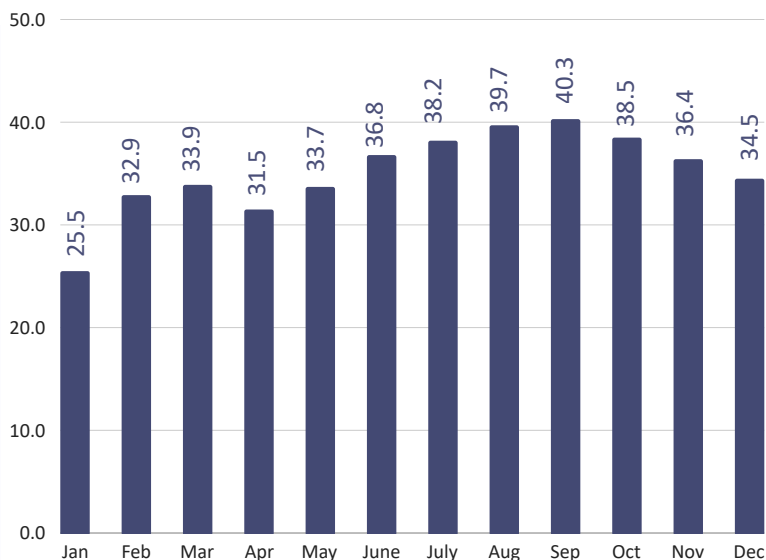
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MONETARY POLICIES

Inflation

The annual urban headline inflation rates from **January to December** reveal a consistent upward trajectory from **25.5% to 40.3%** in September, indicating heightened inflationary pressures. Noteworthy fluctuations, such as a **minor decrease in July followed by a marginal increase in August**, suggest potential economic uncertainties. However, a promising year-end trend is observed with a **decline in inflation rates from October to December** (38.5%, 36.4%, and 34.5%, respectively), hinting at efforts to stabilize the economy or implement measures to curb inflation.

The Monthly Inflation Rate on an annual basis



Source: CAPMAS

Interest Rate

Decisions on interest rates were made **in Eight Central Bank meetings** throughout 2023,

Date	Decision	Deposit Rate	Borrowing Rate
Feb 2	Fixation	%16.25	%17.25
Mar 30	2% Increase	%18.25	%19.25
May 18	Fixation	%18.25	%19.25
June 22	Fixation	%18.25	%19.25
Aug 3	1% Increase	%19.25	%20.25
Sep 21	Fixation	%19.25	%20.25
Nov 2	Fixation	%19.25	%20.25
Dec 21	Fixation	%19.25	%20.25

December



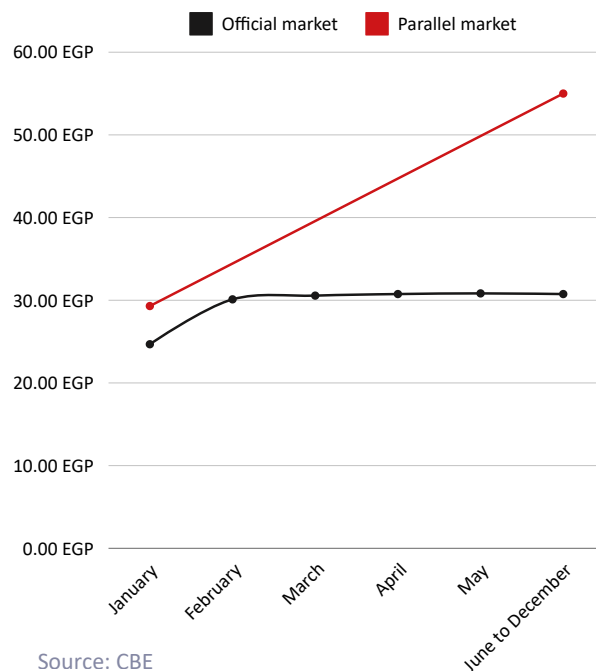
MONETARY POLICIES

Exchange Rate (USD/EGP)

The graph illustrates the dynamic fluctuations in the USD/EGP exchange rate throughout 2023. Starting the year at **24.68 EGP**, the exchange rate experienced a notable increase in February and March, reaching **30.11 EGP** and **30.56 EGP**, respectively.

While April saw a brief stabilization at **30.75 EGP**, May witnessed a slight uptick to **30.8318 EGP**. From June to December, the exchange rate maintained stability at **30.75 EGP**.

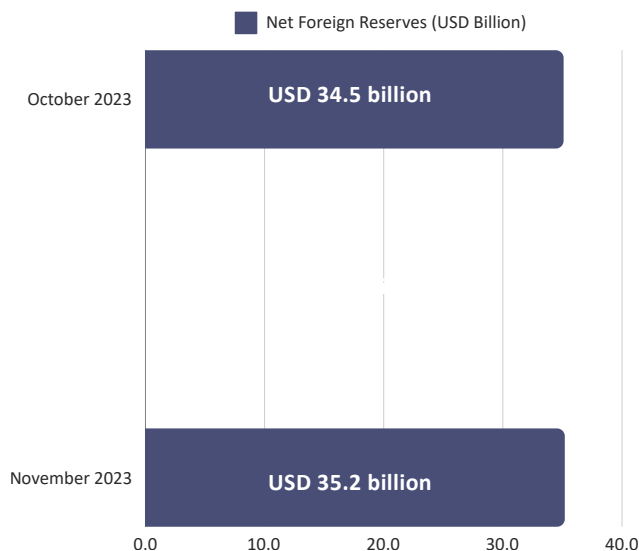
Despite these official market figures, it's noteworthy that, at the time of writing this report, the price of the dollar in the **parallel market** has surged to **55 Egyptian pounds**.



Source: CBE

Egypt's Resilient Foreign Reserves: A 15-Month Recovery Journey

International reserves experienced a noteworthy boost, surging by **USD 548 million** in April 2023 and reaching a total of **USD 34.5 billion**. This positive trajectory continued through November, marking the fifteenth consecutive monthly increase. At the close of November, net foreign reserves climbed to **USD 35.2 billion**, showcasing the Central Bank of Egypt's steadfast efforts in rebuilding financial stability.



Source: CBE

December



INVESTMENT WATCH

Egypt witnessed a substantial **12.3% increase in net foreign direct investment (FDI), amounting to USD 10.0 billion.**

The **non-oil sectors** were a significant contributor to this growth, attracting a net inflow of **USD 11.0 billion**, driven by increased greenfield investments, capital infusions into existing companies, and higher net retained earnings totaling USD 4.8 billion.

In the oil sector, FDI recorded a net outflow of **USD 1 billion**, with total inflows of **USD 5.6 billion** and outflows of **USD 6.6 billion**, reflecting cost recovery for exploration, development, and operations. Additionally, portfolio investments in Egypt saw a reduced net outflow of **USD 3.8 billion** compared to the previous figure of **USD 21.0 billion**, indicating a more favorable trend in this category.



**USD
10.0 BILLION**



Net FDI Outflows (Oil Sector)

AMOUNT: USD 1.0 BILLION

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ROAD AHEAD



As Egypt charts its course into the future, the fiscal year 2024/2025 is poised for significant economic improvement, as anticipated by key figures within the government. Projections hinge on the integral role of the private sector in propelling economic growth, underscored by concerted governmental efforts to foster a conducive environment for local and foreign investments.



Aligned with this vision, strategic measures have been undertaken to fortify private entrepreneurship, emphasizing equitable treatment across public and private sectors and enhancing the overall investment climate. Initiatives include securing substantial concessional financing for the private sector, approvals for public-private partnerships in key development projects, and an extensive Initial Public Offering (IPO) program.



As the nation aims to boost its exports and address foreign currency shortages following global events, Egypt pursues ambitious targets, envisioning a \$100 billion annual export value by 2030, contributing to the broader goal of generating \$191 billion in annual revenues by 2026, a substantial leap from the current \$70 billion.

December

In 2015, Influence Public Affairs (IPA) is a key subsidiary of Influence Communications Group, a prominent marketing communications consultancy in Egypt since 2007, with a diverse clientele of over 90 local and regional clients.

As a leading public policy and public affairs firm, IPA is committed to creating a positive societal impact. Our seasoned professionals bring extensive expertise, actively shaping government policies, and facilitating effective stakeholder communication. With a deep understanding of Egypt's political landscape, regulatory frameworks, and socioeconomic dynamics, we transcend the traditional role of a public affairs firm, assuming the mantle of a distinguished think tank and research institute.

Dedicated to the economic and public policy landscape of Egypt and the Middle East, IPA provides invaluable insights and strategic guidance. Our expertise serves as a beacon of knowledge, guiding you through the evolving business environment, ensuring your endeavors are rooted in wisdom and poised for success.



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