

ECONOMIC PULSE

OF EGYPT



September

2024



SYNTHESIS

The Ministry of Planning and Economic Development recently announced new data on Egypt's macroeconomic performance for the fiscal year 2023-24, highlighting a mix of achievements and challenges. The country faced external pressures, including geopolitical tensions and supply chain disruptions, along with domestic contractionary policies aimed at stabilizing the economy. Despite these obstacles, key sectors such as tourism, foreign direct investment (FDI), and technology demonstrated resilience and growth, providing optimism for Egypt's future economic prospects.

One of the most positive developments during the year was the record-breaking rise in **Foreign Direct Investment (FDI)** of which, **US\$ 40.5 billion was achieved in H2 of FY 2023/2024**. Furthermore, Egypt's net foreign reserves also grew steadily, reaching USD 46.737 billion by the end of September 2024.. Meanwhile, Egypt maintained a net foreign asset surplus for the fourth consecutive month, standing at USD 9.7 billion in August, though down from USD 13.3 billion in July due to shifts in the commercial banking sector.

However, these positive developments were offset by several economic challenges. **GDP** growth slowed to 2.4% in FY2023-24, down from 3.8% the previous year, as external shocks and contractionary domestic policies constrained economic expansion. The current account deficit widened significantly to USD 20.8 billion, compared to USD 4.7 billion in 2022. This was largely due to a **24.3% decline in Suez Canal revenues**, which fell to USD 6.6 billion year-on-year.

Despite an overall annual contraction, the manufacturing sector recorded a **sectoral growth rate** of 4.7%, driven by increases in garments (54.2%), computing and electronics (14.9%), textiles (23.8%), and beverages (28.3%). Other sectors, including construction and communications, also showed notable growth, indicating a positive trend across Egypt's economy.



SYNTHESIS

Additionally, **oil exports** saw a sharp reduction, dropping **58.6%** to USD 5.7 billion, while natural gas exports plummeted from USD 6.6 billion to just USD 605.3 million. This significant decline reversed Egypt's oil trade balance, shifting from a USD 410 million surplus to a USD 7.6 billion deficit.

Inflationary pressures also weighed heavily on Egypt's non-oil private sector, which saw a return to contraction territory in September 2024, according to the S&P Global Egypt Purchasing Managers' Index (**PMI**). The PMI dropped to **48.4**, **down from 50.4** in August, driven by rising input costs that dampened demand.

These pressures were further exacerbated by the reduction in fuel subsidies, as reported by CAPMAS. Annual consumer prices in urban areas **rose to 26.2%** in August 2024, up from 25.7% in July, while monthly inflation surged to 2.1%, the highest since February. Core inflation, which excludes volatile items, also increased to 25.1%, with monthly core inflation reversing from -0.5% in July to 0.9% in August.

This surge in inflation broke a five-month trend of deceleration, disrupting expectations of an interest rate cut, which had been anticipated to support growth. Instead, **the Central Bank of Egypt may need to maintain a tight monetary stance to control inflation, despite pressures on the private sector and economic growth.**

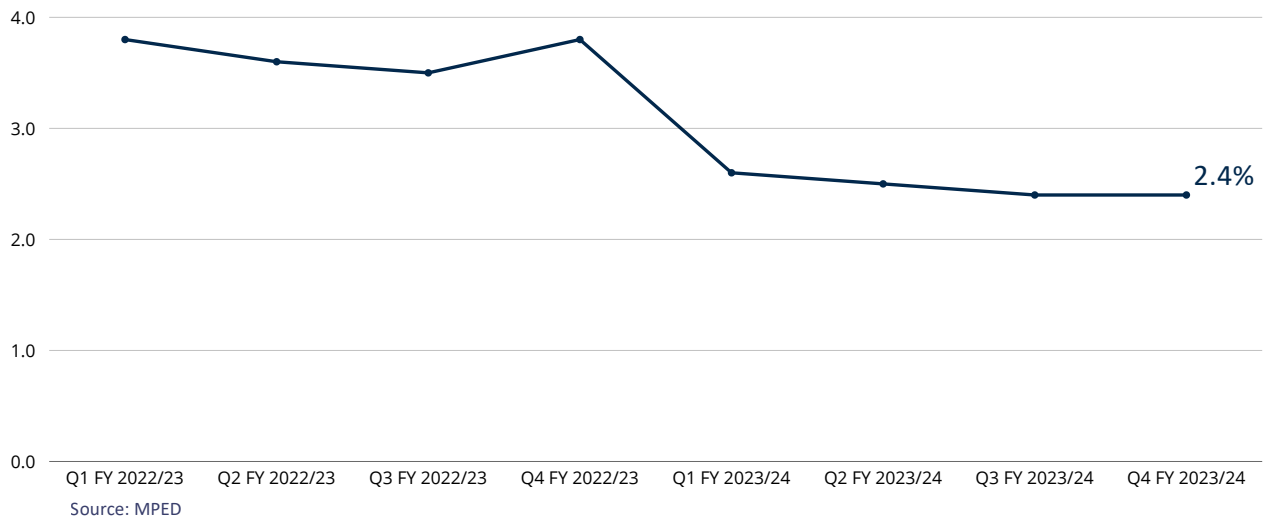
In response to economic challenges, the Egyptian government introduced reforms to support businesses and ensure fiscal stability, including new tax measures such as a central clearing system, capped late payment penalties, and the ability to amend tax returns from 2021-2023 without penalties. The exemption threshold for transfer pricing studies was raised, and a pre-inquiry service was established for investors.

To reduce fuel subsidies, butane gas cylinder prices increased by 50% for households and 33.3% for commercial use, saving EGP 27 billion annually. Additionally, the government secured a six-month supply of essential commodities and purchased oil hedging contracts to mitigate global price risks.



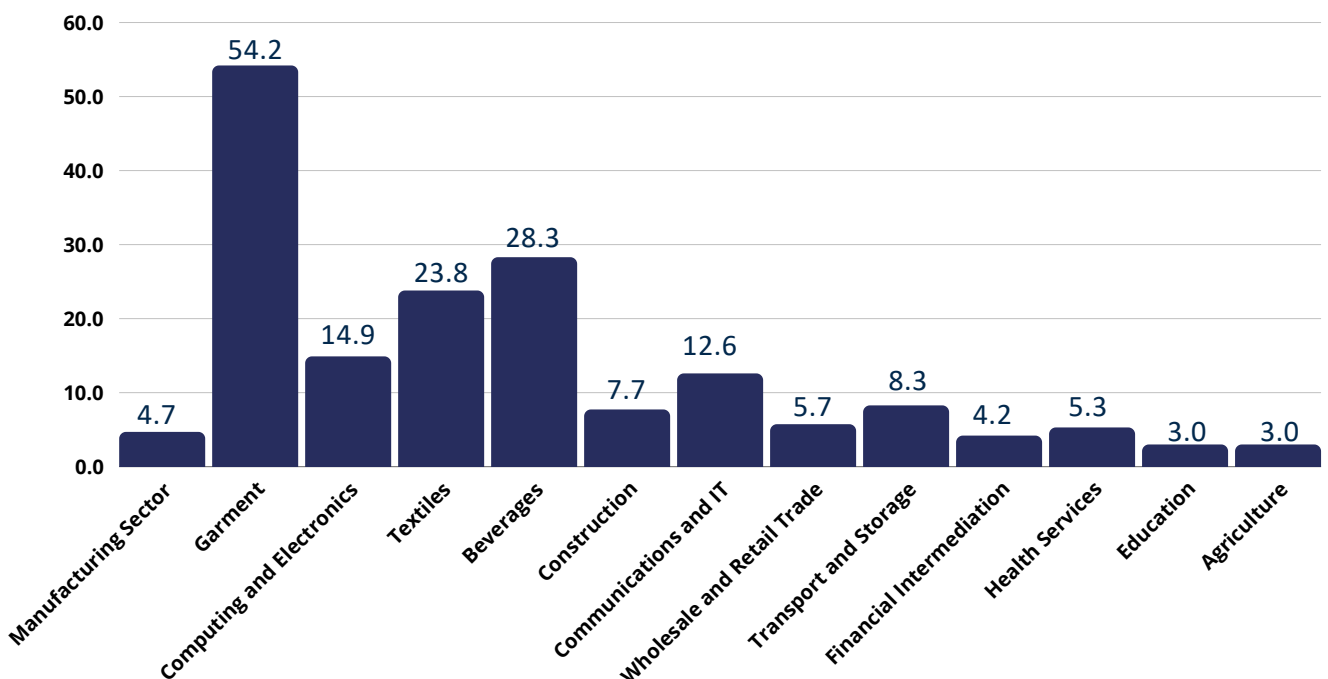
UPDATES IN FIGURES

► GDP Growth Rate (FY 2023-24)



The graph above illustrates Egypt's annual GDP growth rate from Q1 FY 2022/23 to Q4 FY 2023/24. It shows a clear decline in growth, with GDP slowing from 3.8% in Q4 2022/23 to 2.4% by the end of FY 2023/24.

► Sectoral Growth Rates in Egypt (FY 2023-24)

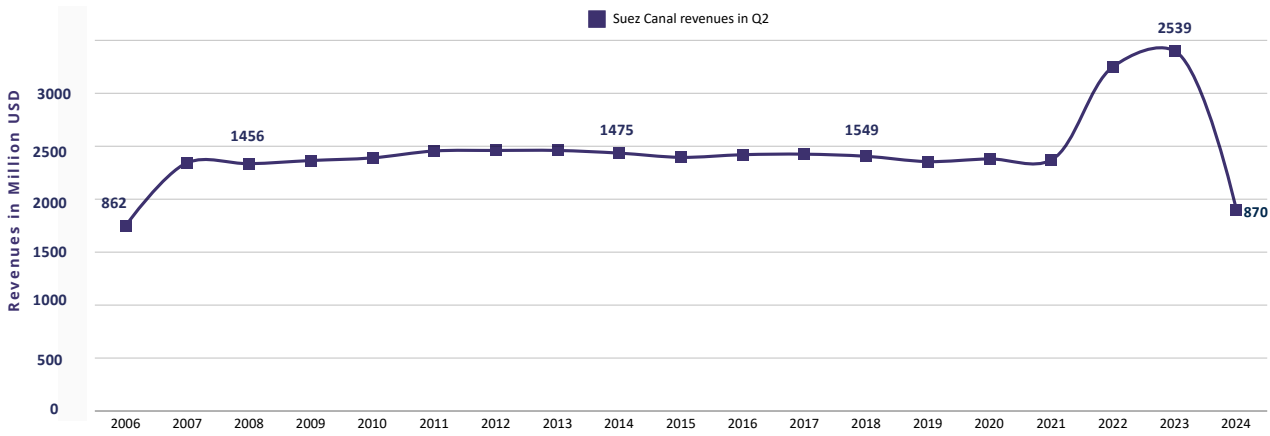


Source: MPED



UPDATES IN FIGURES

► Suez Canal revenues



Source: Central Bank of Egypt

Suez Canal revenues recorded their lowest quarterly level in 19 years during the second quarter of this year, according to balance of payments data from the Central Bank of Egypt, The canal's revenues amounted to around \$870 million in the second quarter, a decline of about 65% compared to revenues of the same period in 2023, which exceeded \$2.5 billion.

► Key Investment Trends



**Net Direct
Investment**



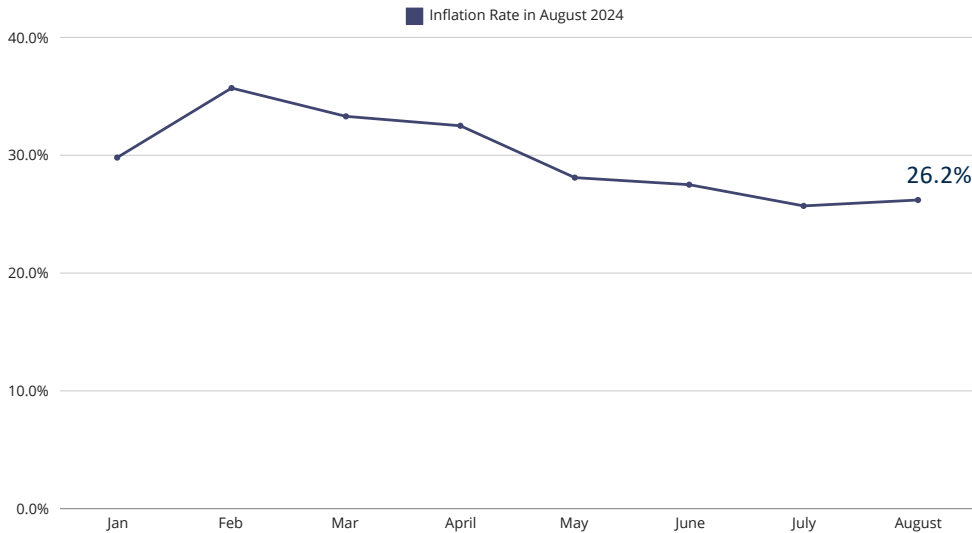
**Portfolio
Investment in
Egypt (net)**



UPDATES IN FIGURES

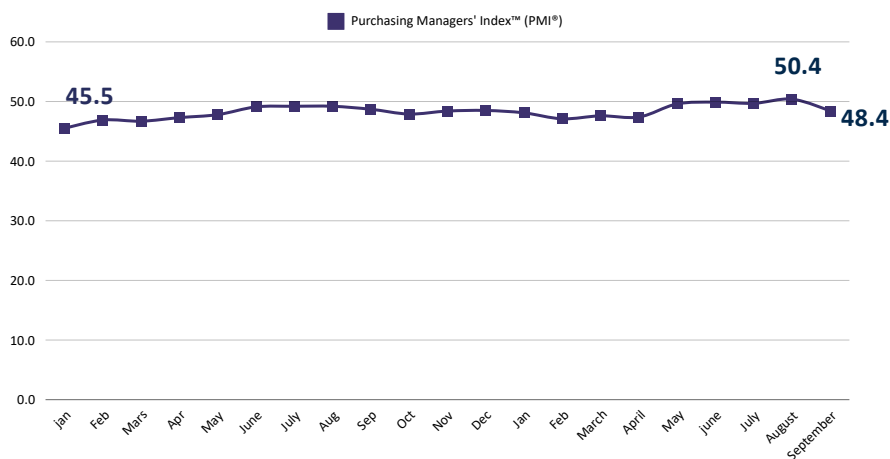
➤ Monthly Inflation Trends

Inflationary pressures intensified due to reduced fuel subsidies, with annual consumer prices in urban areas rising to 26.2% in August from 25.7% in July, driven by increases in food and beverage prices.



Source: CAPMAS

➤ Private Sector Performance



Source: S&P Global PMI.

Despite the S&P Global Egypt PMI rising to 50.4 in August, signaling growth, it dropped to 48.4 in September, indicating contraction. This decline was due to rising input costs that dampened demand, following an earlier improvement from 49.7 in July.

Trade Balance

The trade balance in Egypt has significantly shifted, resulting in a total trade deficit of USD 39.6 billion. This deficit comprises a USD 7.6 billion shortfall in oil trade and a USD 31.9 billion deficit in non-oil trade.



**Total Trade
Deficit**



**Oil Trade
Deficit**

Non-oil merchandise exports are valued at USD 26.8 billion, while imports have surged to USD 58.8 billion. The overall increase in the trade deficit by USD 8.4 billion from the previous fiscal year highlights the persistent challenges in balancing Egypt's trade dynamics.

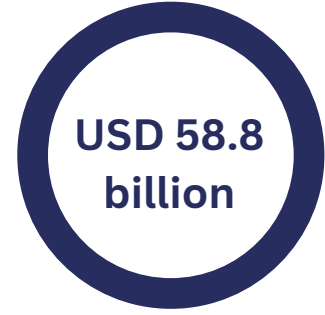
USD 31.9 billion

Non-Oil Trade Deficit

The deficit resulting from non-oil merchandise trade.



**Non-Oil
Merchandise
Exports**



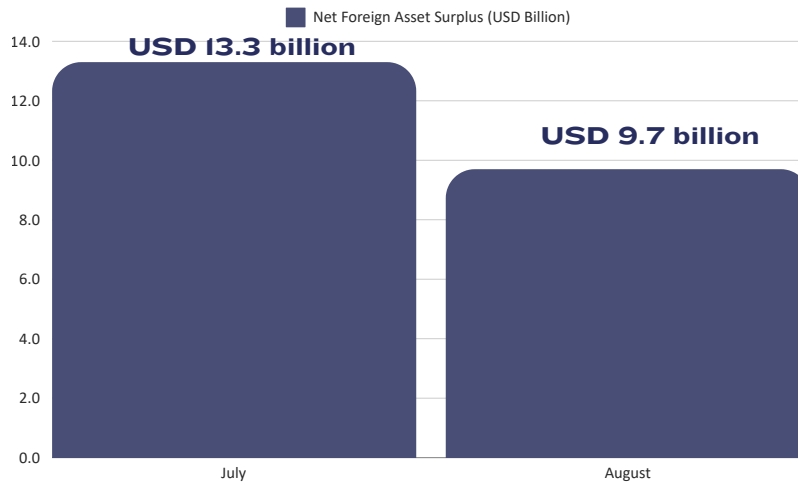
**Non-Oil
Merchandise
Imports**





UPDATES IN FIGURES

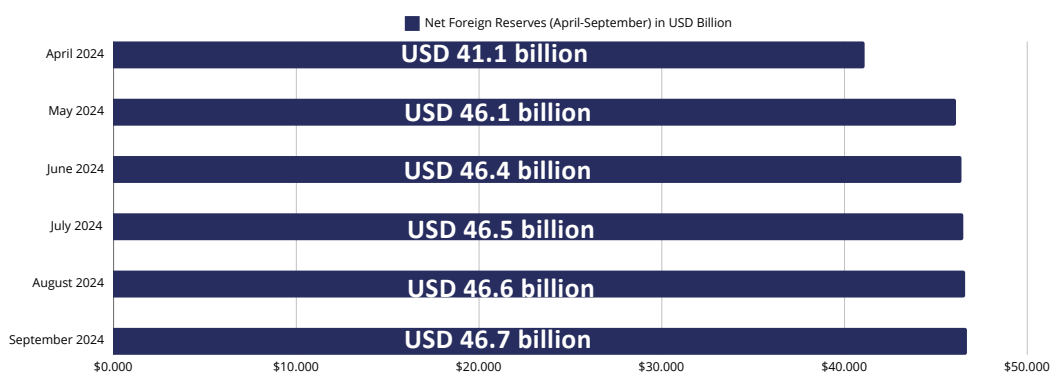
➤ Net Foreign Asset Surplus



Source: CBE

The graph shows shows the Net Foreign Asset Surplus declining from USD 13.3 billion in July to USD 9.7 billion in August, indicating a significant drop over the month.

➤ Net International Reserves



Source: CBE

Egypt's net foreign reserves continued to rise, increasing by USD 140 million to reach USD 46.737 billion by the end of September 2024, up from USD 46.597 billion in August. This steady improvement highlights the effectiveness of Egypt's efforts to attract foreign capital and maintain economic stability despite global challenges.



POLICY UPDATES

NEW TAX INCENTIVE PACKAGE



The government introduced new tax reforms to ease the burden on taxpayers and build trust. Key measures include a central clearing system for settling tax obligations, capping late payment penalties, and allowing taxpayers to amend returns from 2021-2023 without penalties.

TAX REGIME OVERHAUL FOR BUSINESSES



Key reforms include simplifying tax returns, standardizing procedures across tax offices, and establishing a pre-inquiry service for local and foreign investors to provide tax-related information. The exemption threshold for submitting transfer pricing studies for international companies has been raised to EGP 30 million, up from EGP 8 million.

VAT REFUNDS AND INVESTOR-FRIENDLY ENVIRONMENT



The government plans to simplify VAT refund procedures for foreign visitors, supporting efforts to create an investor-friendly environment. In parallel, the ETA is investing in training its staff to ensure the successful implementation of these new measures. Independent evaluations will be conducted to monitor the effectiveness of the new reforms.

INCREASE IN GAS CYLINDER PRICES AND FUEL SUBSIDY REDUCTION



The Egyptian government has raised the prices of butane gas cylinders as part of its efforts to gradually reduce fuel subsidies. The price of household cylinders increased by 50% to EGP 150, while commercial cylinders saw a 33.3% rise to EGP 200. Bulk gas prices have also been raised to EGP 12k per ton.



ROAD AHEAD

From an economic standpoint, Egypt's future is being shaped by key developments in its interactions with the International Monetary Fund (IMF) and the Central Bank of Egypt (CBE). The fourth review of Egypt's USD 8 billion loan program from the IMF, initially scheduled for early September, has now been postponed to **early November**, marking its second delay. This review is crucial, as it will determine the release of a USD 1.3 billion payment to Egypt.

As the Central Bank of Egypt's Monetary Policy Committee (MPC) convenes on **October 17, 2024**, it faces the dual challenge of temporary price shocks and the risk of economic stagnation. While a policy adjustment might appear warranted, the CBE is expected to maintain interest rates unchanged for another month.

The decision is driven by expected Saudi investments of USD 5 billion to stabilize the Egyptian pound, along with the US Federal Reserve's anticipated 0.5% rate cut, which could reduce dollarization risks and allow for future rate cuts of 100-200 basis points.

On the legislative front, the Egyptian Parliament has commenced its fifth legislative term with a robust agenda focused on laws overseen by the Communication and Information Technology Committee. Notable among these are the Data Exchange and Classification Law, which regulates data sharing across state agencies, and the Real Estate ID Law, designed to assign unique identifiers to establishments and eliminate duplicate street names

Furthermore, updates provided to IPA regarding the long-delayed executive regulations of Egypt's Data Protection Law No. 151/2020 reveal that the issuance of these regulations is imminent. Additionally, the government is nearing the completion of the Data Protection Center, which will help streamline the process of issuing relevant licenses, such as processing control licenses, cross-border data transfer licenses, and e-marketing licenses.



CREDITS



WALID RAMADAN
Public Affairs Director

Walid is a seasoned Public Affairs strategist with expertise in trade, government relations, and investment affairs. With over 14 years of experience, he has successfully driven economic development through strategic policies, fostering international partnerships, and securing key trade agreements. Walid's focus on FDI and global market dynamics has been instrumental in advancing trade and cross-border investments.



MOHAMED EZZAT
Sr. Public policy specialist

Mohamed is a Senior Public Policy Specialist with expertise in regulatory affairs, lobbying, and government relations. He has a strong background in public affairs, consistently driving impactful initiatives and shaping policies that support sustainable development



NOUR KHALED
Public Policy Analyst

Nour is an experienced professional in public policy, a strong foundation in research writing backed by extensive experience and a demonstrated know-how in public policy, and investment affairs.

In 2015, IPA was established as the vital arm of Influence Communications Group, a renowned marketing communications consultancy in MEA since 2007. With a robust portfolio boasting over 90 local and regional clients, IPA is regarded as a premier public policy and public affairs firm.

Expertise is leveraged by our seasoned professionals to shape government policies and foster meaningful stakeholder communication. Beyond conventional roles, IPA serves a distinguished think think, delving deep into MEA's political landscape, regulatory frameworks, and socioeconomic dynamics to enact positive societal change.

Dedicated to the economic and public policy landscape of Egypt and MEA region, invaluable insights and strategic guidance are provided by IPA. Our expertise is seen as a beacon of knowledge, guiding through the evolving business environment, ensuring endeavors are rooted in wisdom and poised for success



www.ipa-mea.com



6 building-204st-Degla Square- Maadi



(+2) 25213210/1

ipa@influence-me.com