ECONOMIC PULSE
OF EGYPT

April 2024

SYNTHESIS

The Egyptian economy experienced a notable shift in its Balance of Payments (BOP), registering a deficit of **US$ 409.6 million**, contrasting sharply with the previous fiscal year's surplus of **US$ 599.1 million**. This change was primarily driven by a significant increase in the current account deficit, which reached **US$ 9.6 billion**, up from **US$ 1.8 billion** previously. Factors contributing to this surge included a rise in the trade deficit, declining remittances from Egyptians working abroad, and widening investment income deficit.

Amidst these challenges, several mitigating factors provided relief. The non-oil trade balance deficit improved, Suez Canal transit receipts surged, and tourism revenues increased. Additionally, the capital and financial account recorded a net inflow of **US$ 8.4 billion**, driven by significant foreign direct investment (FDI) inflows.

The draft budgets for the upcoming fiscal year unveiled significant projections and allocations across key economic indicators. Economic growth is anticipated to accelerate to **4.2%**, while a decrease in headline **inflation to 17.9% is expected**. Revenue projections indicate an increase, primarily from taxes, while substantial allocations are directed towards interest payments, social support, and investments.

However, (**IMF**) has maintained its growth forecast for Egypt for the current fiscal year at **3.0%** in its latest World Economic Outlook, signaling a level of stability after successive downgrades in previous reports. This forecast contrasts with the recent revision by the **World Bank**, which lowered its growth outlook to **2.8%**, citing challenges such as sluggish industrial sector performance, high inflation, and regional conflicts affecting key revenue streams like Suez Canal revenues and tourism receipts.

SYNTHESIS

Inflation remains a pressing concern, with the IMF revising its forecast for consumer price increases to **33.3%** year-on-year on average for the current fiscal year. This represents a slight upward revision from the Fund's previous prediction of 33.3% and a notable increase from the **24.4%** recorded in the previous fiscal year.

Egypt's inflation trajectory has proven challenging to forecast, with recent fluctuations defying analyst expectations. Despite a cooling of the annual urban inflation rate to **33.3% year-on-year in March**, forecasts have been off the mark, with unexpected increases in inflation observed in previous months. This unpredictability underscores the complexities facing Egypt's economic landscape and the need for adaptive policy responses to mitigate inflationary pressures.

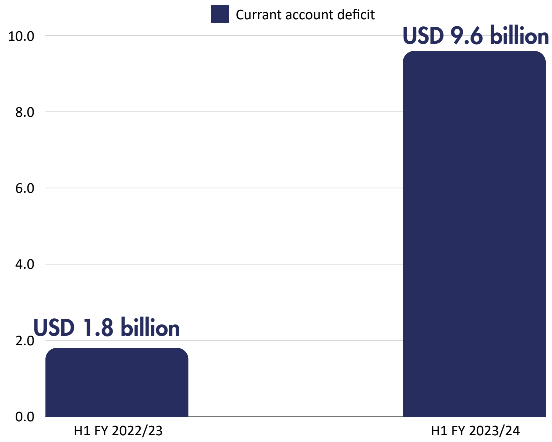
On the other hand, **Fitch** expected Egypt's exchange rate flexibility to be more durable, supported by measures to contain off-budget spending and enhance public debt sustainability. Egypt's overall debt, which reached 98 percent of GDP in FY2022/2023, is projected to decline to 92 percent in FY2023/2024 and further below 80 percent by the end of the IMF program in 2026.

Regarding business pulse, Egypt's Purchasing Managers' Index (PMI) for the non-oil business sector showed a slight improvement, indicating a "softer but still-solid deterioration." Recent monetary policy adjustments, including interest rate hikes and currency floating, are expected to alleviate price pressures, with signs of progress evident in slowing inflation rates.

UPDATES IN FIGURES

Currant account deficit

The current account deficit widened significantly to **USD 9.6 billion,** compared to **USD 1.8 billion** in the previous FY23. This expansion is primarily driven by increase in the trade deficit, coupled with declines in net unrequited current transfers and services balance surplus.



Factors behind the increase in the current account deficit:

Oil Trade Balance

The deficit grew to **$3.1 billion** because oil exports decreased more than oil imports. Export of natural gas and oil products decreased, while crude oil exports increased slightly. Oil imports decreased due to lower quantities of crude oil, but imports of oil products and natural gas increased.

Investment Income

The deficit widened to **$9.6 billion** due to higher payments on external debt, despite a small increase in income from residents' deposits abroad.

Remittances

Money sent home by Egyptians working abroad decreased by 21.2% to **$9.4 billion period FY23**

UPDATES IN FIGURES

Factors contributed to reducing the current account deficit

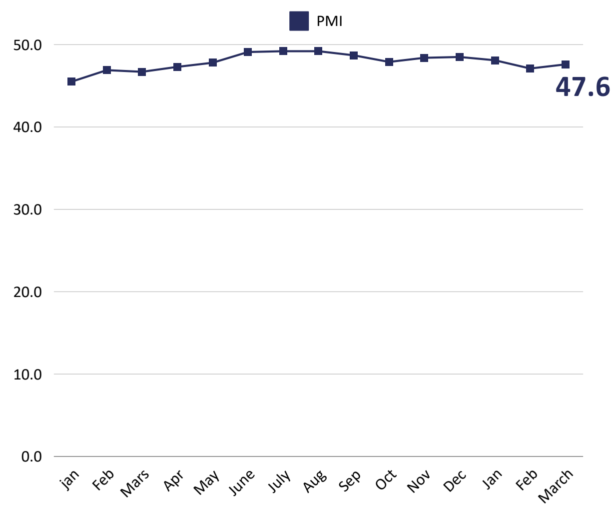
Suez Canal Receipts: Revenue from the Suez Canal increased by **20.7%** due to more ships passing through.

Tourism Revenues: Income from tourism increased by **6.1%** due of more tourist nights and arrivals.

Non-Oil Trade Balance: The deficit decreased by **$1.8 billion** due to lower imports of certain goods and a slight increase in exports.

Private Sector's Path to Recovery

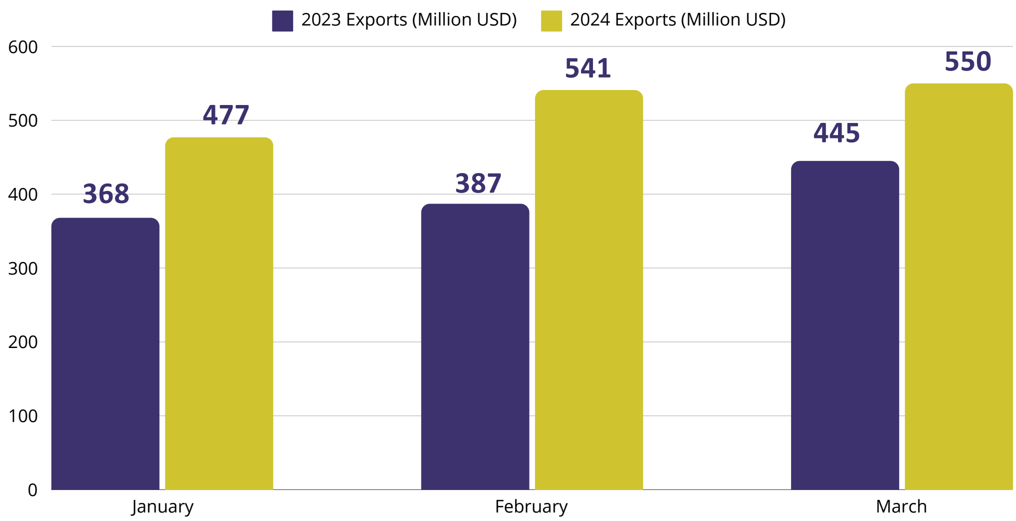
The Purchasing Managers' Index (PMI) for Egypt's non-oil sector exhibited a marginal improvement in March, rising to **47.6** from **47.1** in February. Despite this uptick, the PMI still indicates a contraction in the sector, albeit at a slower pace. This slowdown in the rate of decline suggests a "softer but still-solid deterioration" in non-oil sector activity.



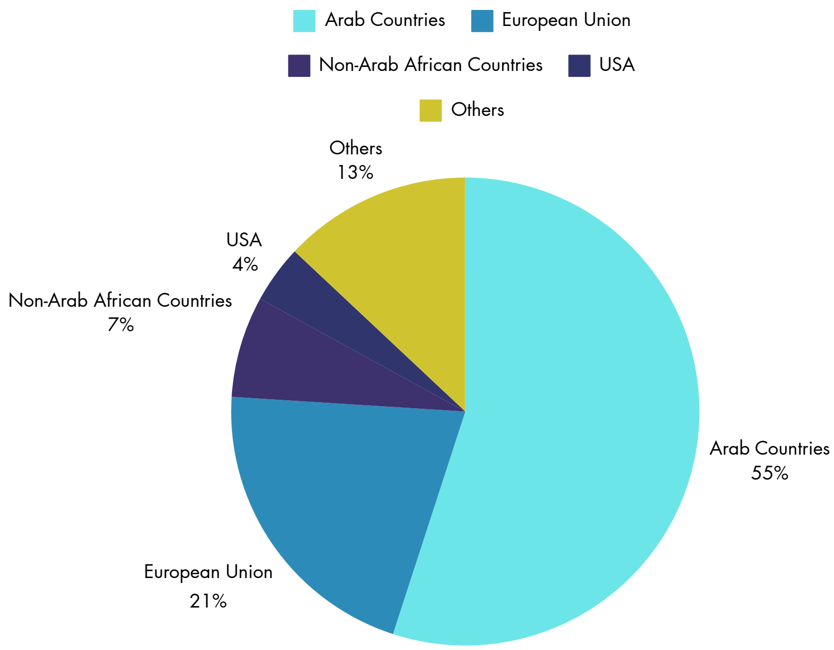
EXPORT WATCH

Egyptian Food Industry Exports in Q1 2024

In the first quarter of 2024, Egyptian food industry exports showed significant growth compared to the same period in 2023. Exports increased from **$1.2 billion** in Q1 2023 to **$1.6 billion in Q1 2024**, marking a notable growth rate of 31%. This growth trend is consistent across all three months, with January, February, and March experiencing growth rates of 30%, 40%, and 24% respectively.

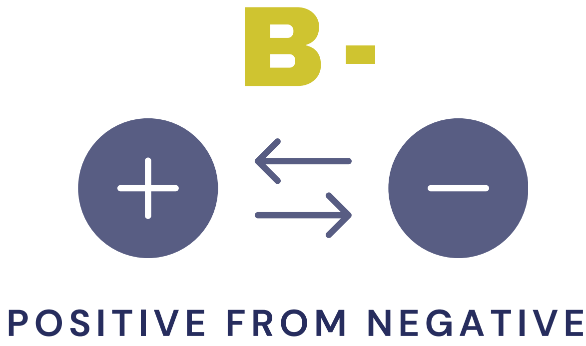


Top Importing International Groups in Food Industry



INTERNATIONAL FORECASTS

Fitch's upgrade of Egypt's sovereign credit rating outlook to positive, along with the affirmation of a B-rating, aligns with expectations of a 50% increase in net profits for Egyptian banks in 2024 and further forecasted growth in FX reserves to 53.3 billion by FY2024/2025, reflecting improving financial stability and growth potential.



The **IMF** maintained Egypt's growth forecast at 3.0% for the current fiscal year, contrasting with the **World Bank's** downward revision to 2.8% due to sluggish industrial performance and regional conflicts.

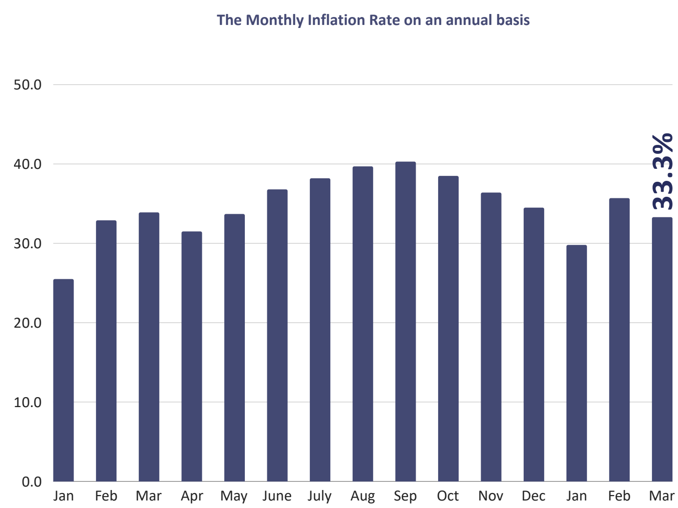
However, **the government** predicts a 3.5% growth rate. However, the IMF lowered its growth expectation for FY 2024-25 to 4.4% from 4.7%, while inflation is projected to rise to 32.5% y-o-y, reflecting an increase from the previous fiscal year.

MONETARY POLICY

Inflation Rate

Inflation saw a notable moderation in March, with annual headline inflation easing to **33.3%** in urban areas from 35.7% in February, driven by a slower increase in food prices. On a monthly basis, inflation retreated to 1.0% after a significant jump in February.

According to The CBE, the general urban consumer price index for April 2023 showed a monthly inflation rate of **1.7%**, down from **3.3%** in the same period last year and **2.7%** in March 2023.

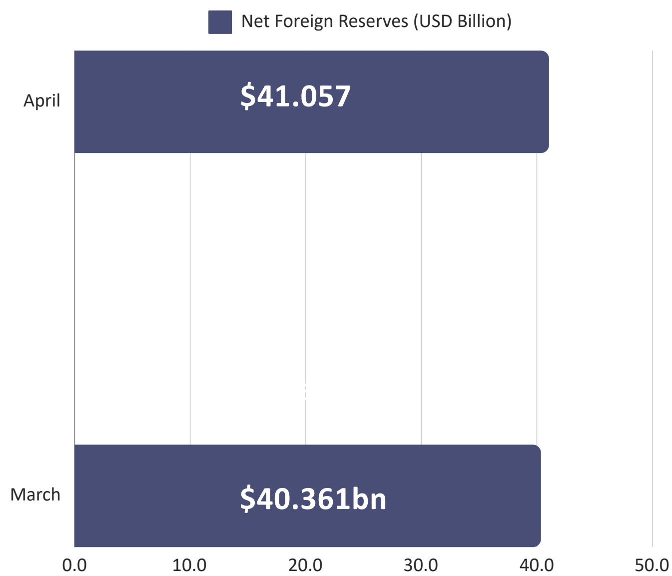


Source: CAPMAS

Net International Reserves

Egypt's international reserves experienced a significant increase, reaching **$41.057bn** in April 2024. This marks a substantial rise from the **$40.361bn** recorded in March 2024, reflecting an overall growth of $696m.

The surge in reserves is partly due to an increase in **gold reserves**, **foreign currency reserves**, and **special drawing rights.**

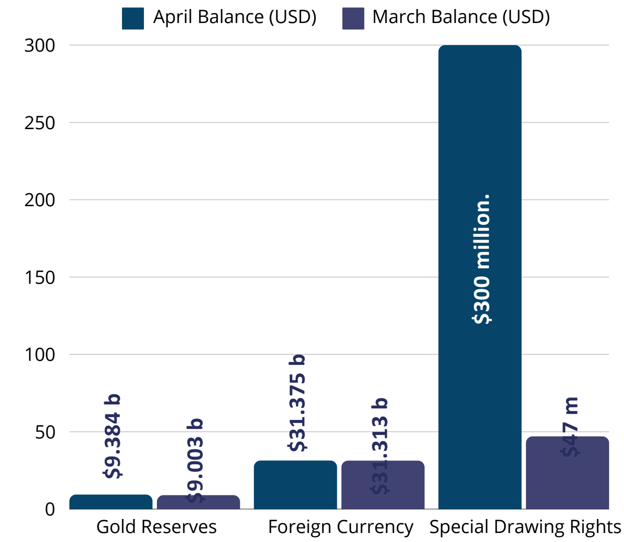


Source: CBE

MONETARY POLICY

Composition of Egypt's Foreign Reserves

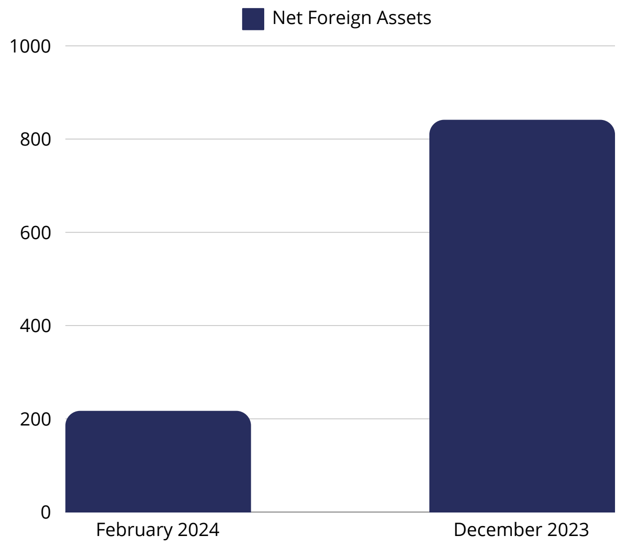
This chart demonstrates the composition of Egypt's foreign reserves in April 2024. The majority of reserves are held in foreign currencies, with **$31.375 billion** allocated. Gold reserves represent a substantial portion at **$9.384 billion**, while Special Drawing Rights (SDRs) contribute a smaller portion at **$300 million.**



Source: CBE

Egypt's Net Foreign Assets

The Central Bank of Egypt (CBE) disclosed that reserves shrank by LE 217.1 billion ($7.04 billion) in February 2024, down from LE 841.391 billion in December 2023. After receiving the initial payment from the United Arab Emirates (UAE) as part of its $24 billion deal for the Ras El Hekma peninsula, west of Alexandria.



Source: CBE

PUBLIC POLICY UPDATES

Tax Policy Document

The Prime Minister has initiated a community dialogue on the proposed tax policy document for Egypt. The Minister of Finance announced that officials from the National Dialogue, chambers of commerce, businessmen associations, and other stakeholders will be engaged.

Amendment to Unified Public Finance Law

A new law has been issued to amend certain provisions of the Unified Public Finance Law (Law No. 6 of 2022). **This amendment ensures that the state's public finance indicators are calculated based on the general government's revenues and expenditures, rather than solely on the state's general budget**. It includes the revenues and expenditures of public economic bodies, and also raises the general government debt ceiling to encompass economic bodies.

Combatting Informal Economy

Egypt is intensifying efforts to curb the informal economy **through tax measures**. One significant step is **the reduction of the minimum value of electronic invoices required to include the buyer's national ID information from 50 thousand pounds to 25 thousand pounds**. Financiers are granted a three-month period to reconcile their situations before implementation.

ROAD AHEAD

The Egyptian economy stands at a critical juncture, characterized by recent strides in economic stabilization alongside persistent challenges. This section outlines a strategic roadmap for navigating these challenges and leveraging emerging opportunities to foster sustainable growth and financial stability.

ECONOMIC STABILIZATION

Currency Crisis Resolution: The recent convergence of official and black market exchange rates signifies a significant milestone in addressing Egypt's currency crisis. However, vigilance is required to sustain this stability amidst inflationary pressures.

Debt Management: Prudent debt management strategies, including the suspension of debt installments, have provided temporary relief. However, long-term sustainability necessitates a comprehensive approach to debt repayment and fiscal discipline.

Rating Agency Recognition: Positive revisions by rating agencies reflect growing confidence in the economy's resilience and reform efforts, bolstering investor sentiment and access to international financing.

ADDRESSING INFLATION

Inflation Management: With inflation hovering 33%, proactive measures are imperative to mitigate its adverse effects on purchasing power and consumer welfare. Policy interventions should prioritize price stability while fostering inclusive growth.

ROAD AHEAD

STIMULATING ECONOMIC GROWTH

Fiscal Sustainability: The forthcoming fiscal year's budget aims to achieve a primary surplus and reduce public debt-to-GDP ratio, signaling commitment to fiscal prudence and debt sustainability. Strategic allocation of resources towards priority sectors will drive economic diversification and resilience.

Foreign exchange reserves: JPMorgan projects a positive outlook for Egypt’s foreign exchange reserves, anticipating an **increase of $16.2bn** in the forthcoming fiscal year 2024-2025. The bank’s report further suggests a potential increment of $2.6bn in the reserves for the fiscal year 2025-2026.

Foreign Investment Promotion: Attracting foreign direct investment (FDI) requires enhancing the investment climate through infrastructure development, regulatory reforms, and bureaucratic simplification. Strengthened investor confidence will catalyze job creation and sustainable economic growth.
The government's commitment to this goal is evident in its collaboration with the EU to organize an investment conference this spring. This conference, conducted in partnership with the Egyptian government, aims to inform European and foreign business leaders about the investment opportunities available in Egypt.

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

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