Influence Public Affairs

ECONOMIC PULSE
OF EGYPT

February 2024

SYNTHESIS

The near-term macro-economic outlook indicates positive momentum in the market and a brief window for currency adjustment. The Egyptian government has **secured** a much-needed influx of foreign currency through a planned **USD 35 billion investment** from an Abu Dhabi-backed group, specifically in a major real estate project on Egypt's North (Mediterranean) coast at **Ras El Hekma**. This investment is expected to provide ample liquidity to **cover Egypt's financing gap over the next four years.** Coupled with the government's imminent closure of **USD 12 billion** in financing from the **IMF** and other development **partners**, this coordinated effort is poised to significantly strengthen the foreign exchange liquidity positions at the Central Bank of Egypt.

Following the expected announcement of an IMF support program, some devaluation of the Central Bank of Egypt's official exchange rate is anticipated. This devaluation is likely to be below the current parallel rates of the Egyptian pound to the US dollar and is expected to positively transform domestic sentiment, facilitated by the resolution of a major supply/demand market for USD and imports.

Easing of foreign-exchange supply constraints and a better-functioning exchange market, including the absence of a parallel rate, would be a clear positive for the economy. Moreover, **increased** capital inflows, including the **FDI** deal, may limit the additional inflationary impact from a weaker official rate if they reduce the scale of the exchange-rate realignment needed to resolve external imbalances.

Amid these efforts, positive signals arise from the **government's announcement** of the 2023/2024 plan, which estimates the economic growth rate to be approximately **4.1%** during that period. The announcement emphasized that these projections align with those provided by international institutions, suggesting an anticipated growth rate for Egypt ranging **between 4% and 4.3%** for the year 2023/2024.

SYNTHESIS

However, the greater concern of the government remains focused on addressing the very high rate of inflation, which stood at **29.8% year-on-year** in January. The recent policies of the Egyptian government demonstrate significant efforts to swiftly reduce the persistently high inflation rate. These measures include a substantial **200 basis points** increase in key policy rates, a **50% raise** in the public sector minimum wage to **EGP 6,000**, a **15% increase** in pension payouts, the implementation of salary increases for employees in the education and healthcare sectors, and an adjustment of the personal income tax exemption threshold from **EGP 45,000** to EGP **60,000.**

Egypt is not yet out of trouble, as there persists a negative impact on shipping revenues through the Suez Canal due to ongoing attacks in the Red Sea, alongside some repercussions on the tourism sector. The true indication of Egypt's economic turnaround will be evident when signs emerge of increased private sector investments and hiring. These positive developments should be reflected in the **S&P PMI®** Survey, which **dropped to 48.1 in January, down from 48.5 in December.**

Therefore, ongoing reforms in trade policies, effective implementation of state ownership policies, encouragement of competition, strengthened governance, and improvements in the broader business environment are essential. These measures are crucial for unlocking the private sector's potential, fostering increased value addition, promoting growth, and facilitating export-oriented activities. Such initiatives are vital for creating employment opportunities and enhancing living standards, making continuous monitoring of improvements in the private sector's activities a pivotal aspect of assessing the overall economic recovery.

IPA delves into these developments, providing a comprehensive insight into the progress achieved in the economic landscape.

INVESTMENT WATCH

On **February 23rd**, Egypt and the UAE solidified a transformative **$35 billion** real estate deal, led by the Abu Dhabi Developmental Holding Company (ADQ), aimed at elevating **Ras Al Hekma** into a premier Mediterranean hub. The project, backed by the Egyptian government with a **35%** stake, envisions a dynamic destination integrating a vacation spot, financial center, and advanced free zone. Anticipated to attract **$150** billion in investments, the initiative is strategically designed to propel Egypt's economic growth, create jobs, and enhance liquidity.

Egyptian officials indicated their country will receive **USD15** billion in FDI within a week of the deal's announcement, some of which **has already been transferred**, with a further **USD20** billion to be received in **two months**. This would represent an aggregate fresh inflow of USD24 billion **(equivalent to around 6.3% of GDP in 2024)**, after discounting **USD11** billion of **UAE deposits** held at the Central Bank of Egypt that will be rolled into the investment.

Projected Implications

The FDI is set to swiftly stabilize the FX market, providing the Central Bank of Egypt (CBE) with ample resources. While a minor devaluation may occur, it is expected to be mitigated by increased FX reserves, minimizing speculative pressure.

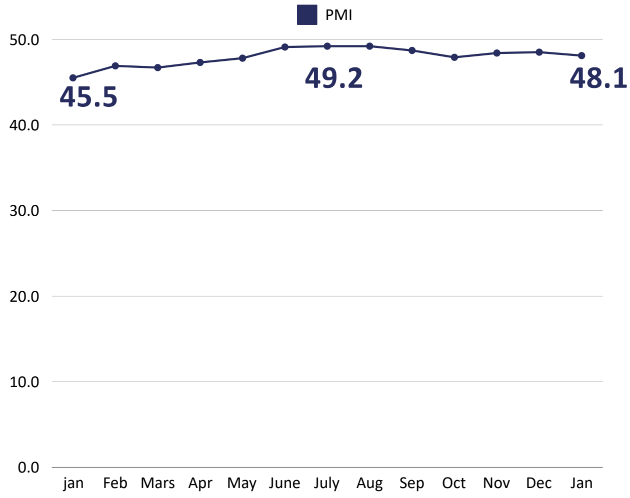
Post-announcement, **24K** gold prices dipped to EGP **3,297** per gram, reflecting heightened investor confidence and a departure from traditional gold investments during uncertain times.

Rumors of Ras El-Hekma triggered a **10% drop** in the EGX100 index, signaling a shift in investor sentiment. The optimism surrounding Ras El-Hekma may boost confidence in the **EGP**, leading to a potential redirection of capital from the EGX as the dynamic relationship between currency strength and equity investments in Egypt evolves.

BUSINESS PULSE

Private Sector's Path to Recovery

The **PMI** dropped to **48.1** in January, down from 48.5 in December. This reflects a three-month low and underscores the persistent contractionary trend for the 38th consecutive month, remaining below the critical 50 threshold that distinguishes growth from contraction.

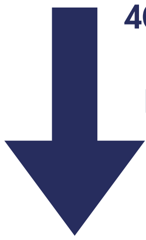


Source: S&P

A surge in employment and improved business expectations toward the end of 2023 hint at the sector's resilience. Amid ongoing challenges, the private sector shows glimpses of a **potential recovery**, emphasizing the importance of sustained efforts to overcome obstacles and foster positive momentum.

Suez Canal revenues

Suez Canal's dollar revenues dropped by **over 40%**, coupled with a **30%** decrease in ship traffic. Despite a record-breaking **$9.4** billion in revenues during the 2022-2023 fiscal year



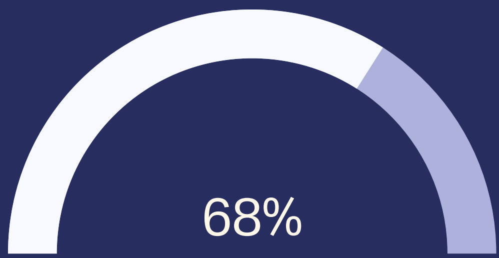
40% Decline in Dollar Revenues

While positive developments in the private sector, including employment and business expectations, indicate potential recovery, external challenges like the Suez Canal's economic decline pose threats. The capital inflows and FDI deal are critical in navigating these challenges, emphasizing the need for sustained efforts in implementing reforms to ensure long-term economic stability and growth in the private sector.

Trade Performance

January 2024

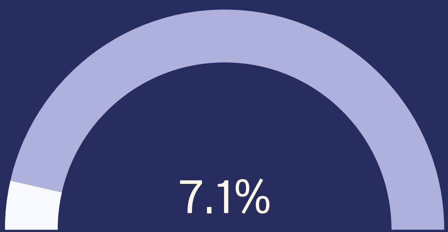
The trade deficit decreased by



Recorded

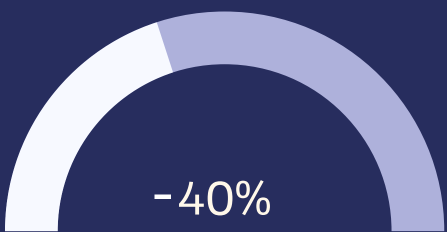
$1.464 billion

Commodity Exports



surpassing $3 billion

Commodity Imports



Recorded

$4.476 billion

$100 Billion

The government aims to achieve a growth in exports of no less than USD 100 billion by 2027.

$145 Billion

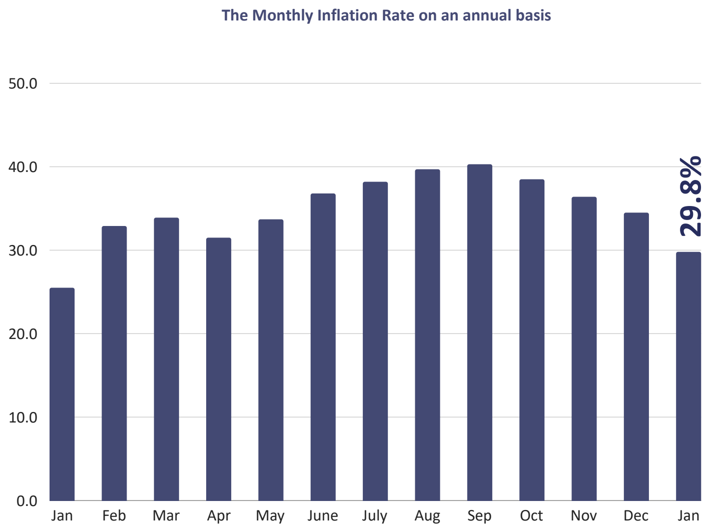
The government aims to realise an annual growth of exports of no less than 20 per cent, reaching LE145 billion by 2030.

MONTARY POLICY

Inflation Rate

In **January**, Egypt experienced a notable downturn in inflation, marking the fourth consecutive month of decline and reaching its lowest level in a year. State statistics agency Capmas reported that annual inflation in urban areas eased to **29.8%** from **December's 33.7%**.

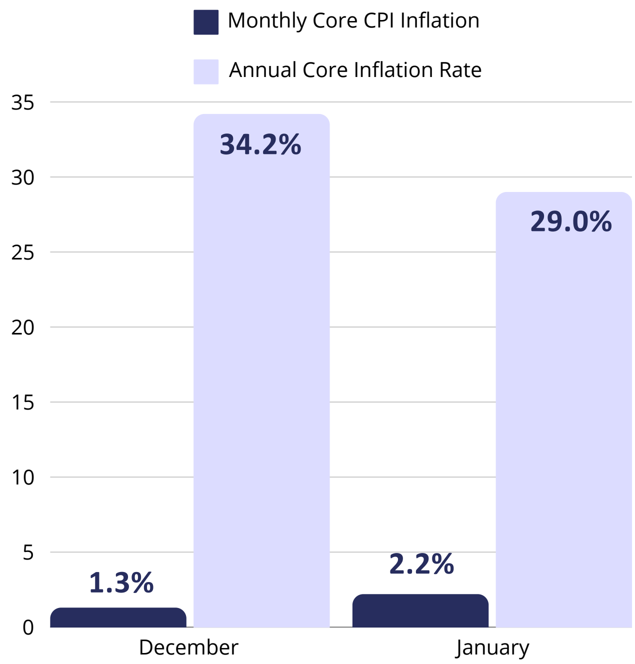
Despite this positive trend, **prices rose** by **1.6%**, compared to **1.4%** the preceding month.



Source: CAPMAS

Monthly **core CPI inflation**, computed by the **Central Bank of Egypt,** recorded **2.2** percent in January 2024 compared to 6.3 percent in the same month of the previous year and to **1.3** percent in December 2023.

The CBE said that monthly core inflation was affected by price changes of the core CPI items. **Core food** items added **1.42%** to monthly core inflation. **Services** added **0.50%** to monthly core inflation. **Retail** items added **0.30%** to monthly core inflation.

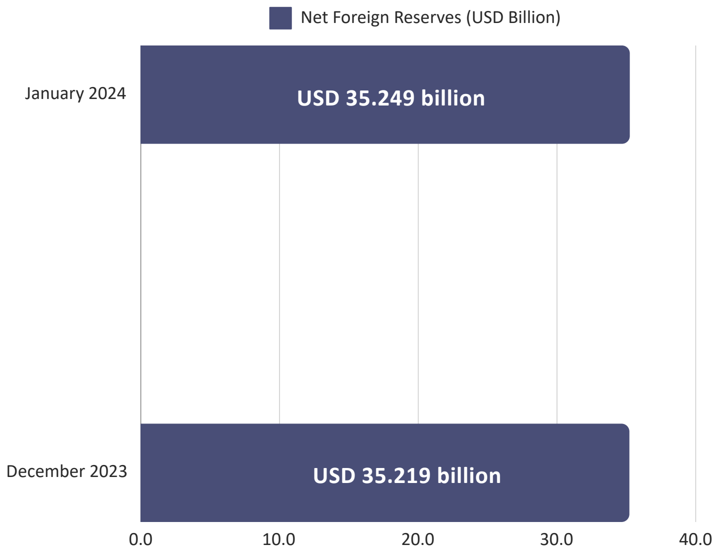


Source: CBE

MONTARY POLICY

Egypt's Foreign Reserves

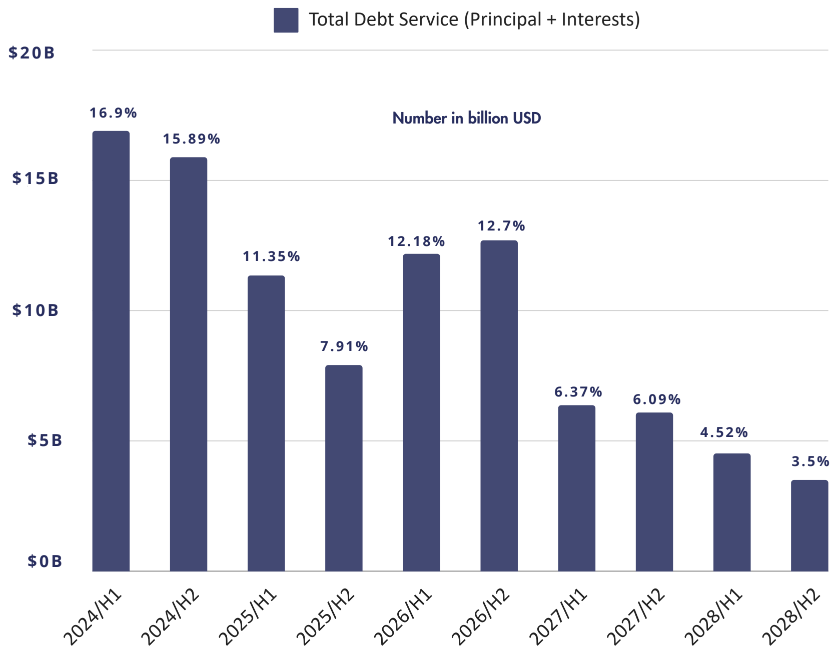
The **CBE** recorded a slight increase in foreign currency reserves, reaching about **$35.249** billion **by the end of January**. This modest rise from the previous month's **$35.219** billion signifies ongoing stability in Egypt's foreign currency holdings.



Egypt's Dept Service Payment (2024 - 2028)

As per recent data from the **CBE**, Egypt faces a debt service obligation of **$32.79** billion in 2024. Egypt's total debt, as of **June**, stands at **$164.73 billion.**

The Cabinet, however, has repeatedly affirmed the state is capable of meeting such commitments



INTERNATIONAL FORECASTS

Public debt is expected to **fall to 92% of GDP in FY 2023-24** and **decline further to 86.9% and 80.7%** in the next two fiscal years.

The current account deficit is expected to **narrow to 0.8% of GDP in FY 2023-24** and **FY 2024-25 and further to 0.7% in FY 2025-26.**

Budget deficit is expected to increase to **7.8% of GDP in FY 2023-24**, before **narrowing to 7% and 6.5%** in the subsequent fiscal years.

Annual headline inflation is expected to average **32%** in the current fiscal year, before plummeting to **15.9% in FY 2024-25 and 7.5% in FY 2025-26.**

Growth is expected to **fall to 3.2%** in the current fiscal year —**from 3.8%** in the last fiscal year — as inflation continues to drive down consumption. Growth is set to pick up to **hit 4.4% in FY 2024-25** and **5.1% in FY 2025-26** provided that inflation subsides.

ROAD AHEAD

The path forward for Egypt involves leveraging the recent influx of foreign capital to drive transformative development and counter inflation while enhancing economic stability. To achieve these goals, the government should focus on intensifying private sector engagement, implementing prudent spending cuts, and sustaining a restrictive monetary policy. A comprehensive strategy is imperative, encompassing the following key aspects:

flexible exchange-rate policies: Leveraging the current strengthening of the EGP in the parallel market to capitalize on the expected increase in FX liquidity, fostering economic stability, and consider a strategic devaluation within a specified range of 40 to 45 against the US dollar, aiming to not only enhance competitiveness but also to ensure the sustainable elimination of the parallel market

Continued Monetary Tightening: Bringing inflation under control stands out as a crucial short-term priority to stimulate consumption and fortify growth. Monetary policy needs to remain restrictive until inflation comes to the target is essential.

Strengthening Fiscal Consolidation: The recent government-initiated spending cuts need to be complemented by a thorough assessment of public investment projects. The state should rationalize infrastructure initiatives and postpone large-scale projects, redirecting funds to priority sectors such as healthcare and education. Additionally, phasing out untargeted energy subsidies is recommended for further fiscal consolidation.

Revitalizing Private Sector Activity: Leveling the playing field for businesses involves reducing regulatory hurdles and scaling back the influence of state-owned enterprises. The privatization program should prioritize transparency in asset selection and timelines for sale.

Boosting the Manufacturing Sector: Egypt needs to flesh out the specifics of enhancing its manufacturing base as part of its recently announced National Economic Strategy 2024-2030 by putting in place measures that are narrow and surgical enough to sequence and target the right types of new export-oriented manufacturing-sector investments yet are also incentivising enough to attract long-term investments into Egypt.

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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