IPA
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ECONOMIC PULSE
OF EGYPT

July- H1

2024

SYNTHESIS

Egypt is recalibrating its economy after securing a global bailout of approximately $57 billion, led by the IMF and United Arab Emirates, providing a pathway out of its worst economic crisis in decades. The IMF Executive Board recently **completed the third review of Egypt's USD 8 billion loan program,** enabling the government to draw the USD 820 million third tranche. This agreement, reached last month, faced a delay as the board reviewed the new government's approach to fuel subsidies, which were subsequently raised.

Egypt has seen notable developments in **inflation and interest rates.** According to CAPMAS, urban inflation decreased to **27.5%** in June from 28.1% in May, despite a modest increase in food inflation. Reflecting a cautious approach to ongoing inflationary pressures, the Central Bank of Egypt (CBE) has **maintained interest rates at their current levels.**

As part of its economic reforms, the government **raised prices for a wide range of fuel products by up to 15%,** the latest trimming of state subsidies following the new pact with the International Monetary Fund. Despite four consecutive months of inflation decline, interest rates are expected to remain above the CBE's target range of 7-9% until the end of 2025, with an anticipated annual rate of 26% by year-end.

As of May 2024, **the debt has decreased to $153.86 billion**, down from $168.03 billion in December 2023, marking a reduction of approximately $14.17 billion or 8.43%, the largest in Egypt's history.

SYNTHESIS

Regarding the Private sector performance, The S&P Global Egypt Purchasing Managers' Index™ (PMI) rose from 49.6 in May to 49.9 in June, approaching the neutral 50.0 mark and reflecting broadly stable conditions. This is the highest PMI reading in three years. June saw a notable increase in new business for non-oil firms for the first time since August 2021, with improved demand reported by a greater proportion of firms.

I**n the first half of 2024**, Egypt's non-oil trade deficit narrowed by **16%** year-on-year to **USD 15.9 billion**, down from **USD 18.9 billion**. This was due to a 9.8% increase in non-oil exports to **USD 19.6 billion**, driven by the EGP float boosting competitiveness, and a **3.3%** decrease in non-oil imports to EGP 35.6 billion. With currency stabilization, a reduced non-oil trade deficit, and better overall economic conditions, Egypt is projected to see a **2.7%** GDP increase for FY23-24 and a **4.1%** growth for FY24-25, according to IMF forecasts.

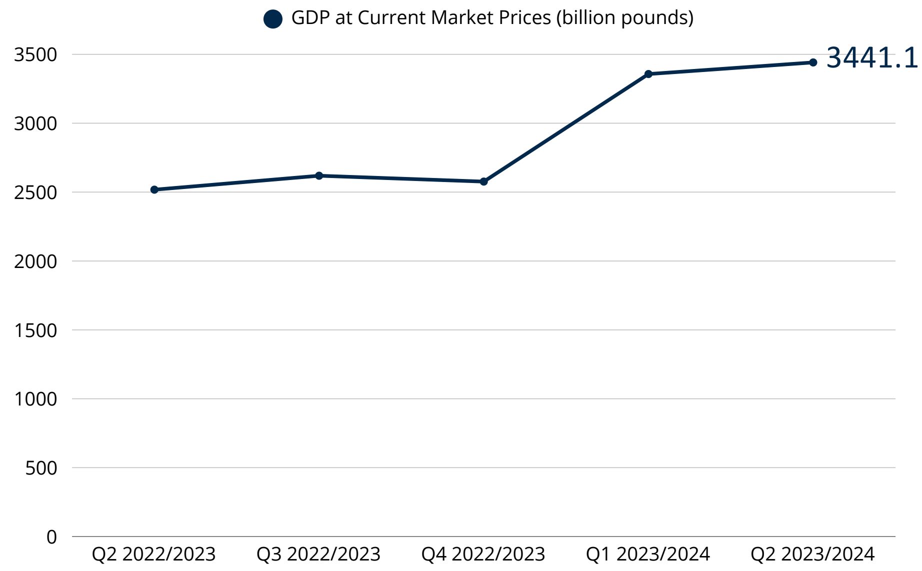
Egypt's Suez Canal reported a 23% decrease in annual revenue for the fiscal year 2023-2024, primarily due to attacks by Yemen's Houthis on ships in the Red Sea. According to the Suez Canal Authority, total revenue for the 12-month period ending June 30 was $7.2 billion, down from $9.4 billion the previous year.

Continuing its reform efforts, **Key policy updates** include the establishment of the Egypt **Digital Industrial Platform** to streamline investor processes and enhance transparency, the renewal of the **Tax Dispute Resolution Law** to reduce tax disputes and stabilize financial positions, and **the creation of new investment zones** by GAFI to attract investment and boost growth. These initiatives, along with reductions in the non-oil trade deficit and positive GDP growth projections, underscore Egypt's commitment to economic reform and stability.

The upcoming figures will provide a clear and detailed perspective on July - H1 2024.

UPDATES IN FIGURES

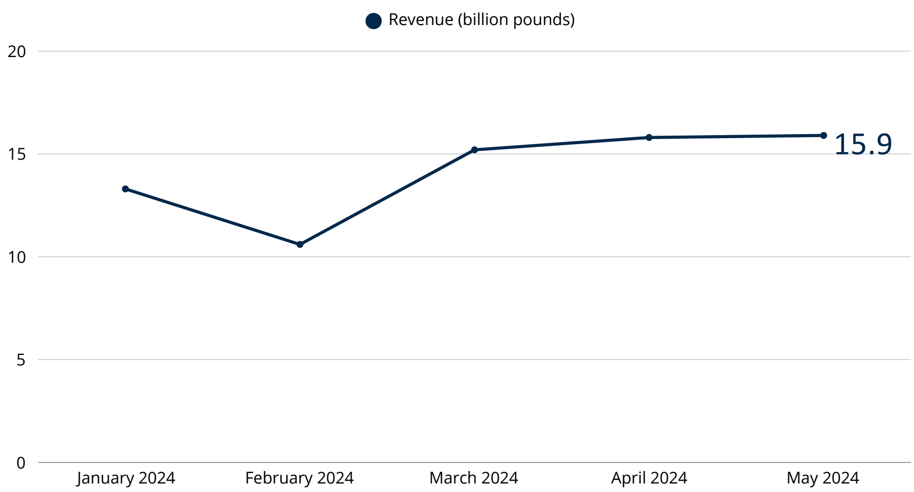
GPD Growth H1 2024



Source: CAPMAS

In H1 2024, GDP at current market prices showed a significant rise from 2576.3 billion pounds in Q4 2022/2023 to 3441.1 billion pounds in Q2 2023/2024.

Suez Canal Revenues H1 2024

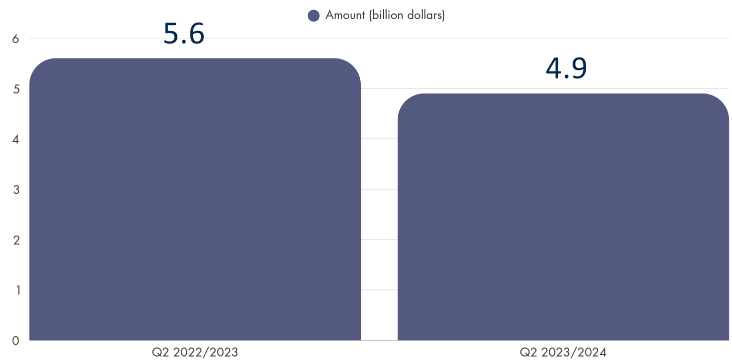


Source: CAPMAS

In H1 2024, Suez Canal revenues began at **13.3 billion pounds** in January, declined to 10.6 billion pounds in February, and then showed a r**ecovery trend, reaching 15.9 billion pounds by May.** The initial drop in revenues early in the year was followed by a steady increase, indicating efforts to revitalize and stabilize the canal's revenue streams were taking effect as the year progressed.

UPDATES IN FIGURES

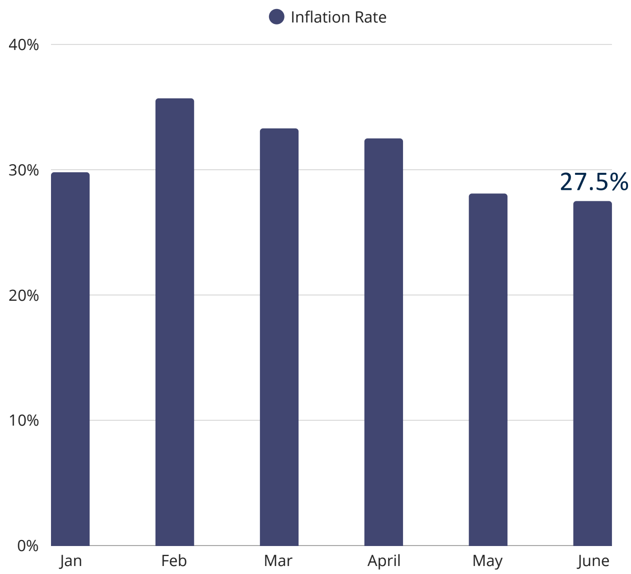
Foreign Remittances



Source: CBE

In Q2 2023/2024, remittances from Egyptians abroad decreased to 4.9 billion dollars from 5.6 billion dollars in Q2 2022/2023. This 0.7 billion dollar reduction indicates a decline in financial inflows from Egyptians working overseas, possibly reflecting economic or employment changes in host countries.

Inflation Trends

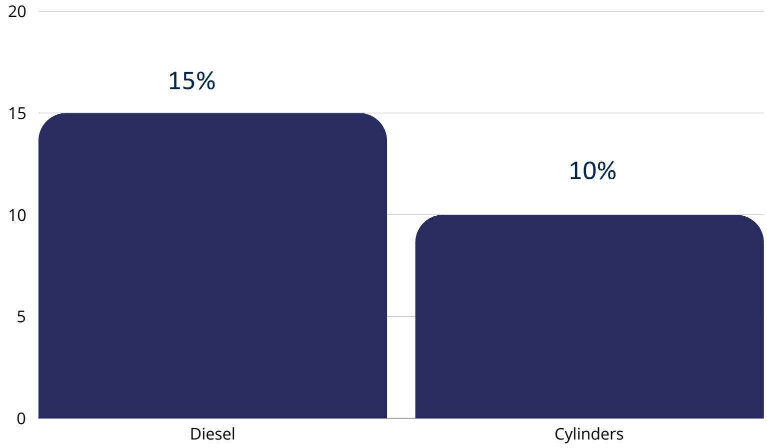


Source: CAPMAS

The inflation rate peaked at 35.7% in February 2024, following a sharp rise from 29.8% in January. After reaching this peak, the inflation rate began a gradual decline, falling to 33.3% in March and further to **27.5% by June.** This reduction indicates a stabilization of prices and suggests that measures to control inflation have been effective during the first half of 2024.

UPDATES IN FIGURES

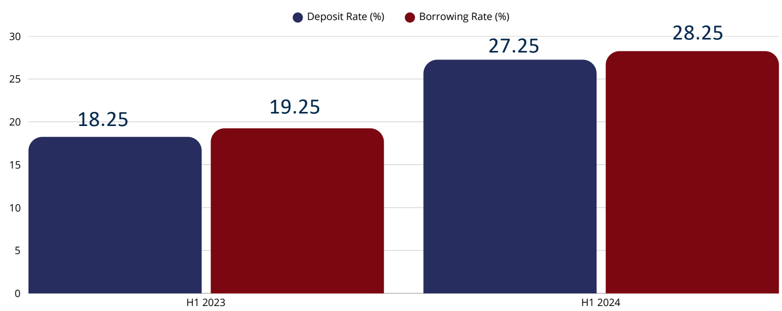
Fuel Price Increases



Source: Ministry of Electricity and Energy

The Egyptian government has announced its second fuel price hike since the IMF increased its loan by $5 billion in March. **Recent hikes include a 15% increase for diesel and a 10% increase for cylinders, aimed at addressing rising subsidy costs and budget deficits.** The IMF estimates Egypt will spend EGP 331 billion ($6.85 billion) on fuel subsidies in FY 2024/25 and EGP 245 billion ($5.07 billion) in FY 2025/26, with a goal to break even by December 2025.

Interest rates

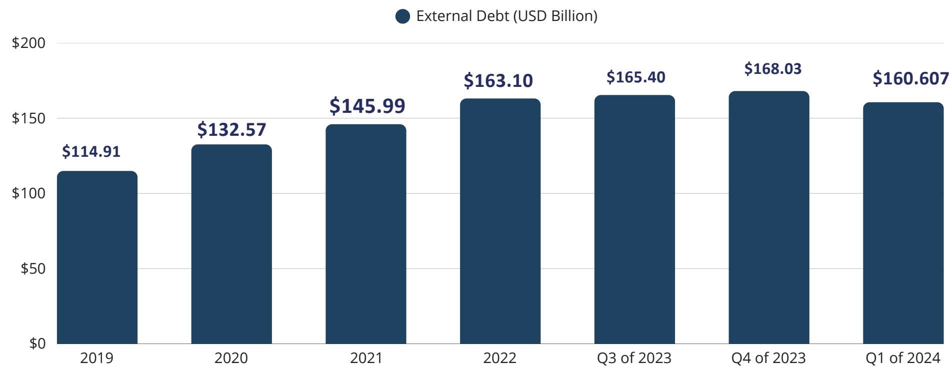


Source: CBE

From H1 2023 to H1 2024, deposit and borrowing rates significantly increased, with deposit rates rising from 18.25% to 27.25% and borrowing rates from 19.25% to 28.25%, reflecting a monetary policy shift to combat inflation. While this boosts savings returns, it raises borrowing costs, affecting consumer spending and investment. Inflation is expected to decline to 16% y/y by June 2025. The Central Bank of Egypt plans to maintain the 27.25% interest rate until the end of 2024, with expected rate cuts in early 2025, normalizing real interest rates in the latter half of the year.

UPDATES IN FIGURES

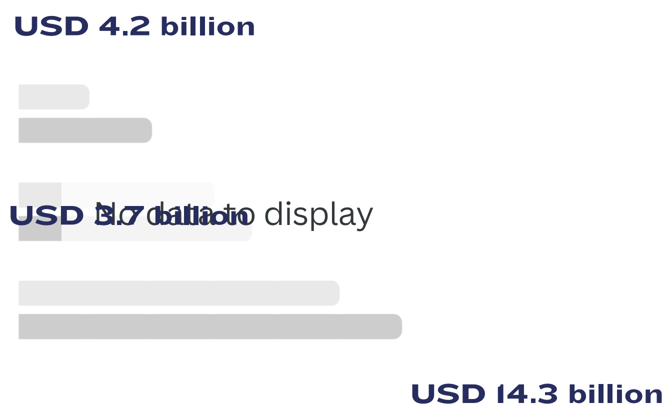
Debt Managament



Source: CBE

By the end of Q1 2024, Egypt's external debt decreased by $7.427 billion (4.4%) to $160.607 billion from $168.034 billion in December. This also marks a 2.87% reduction from $165.361 billion in Q1 2023. Egypt repaid $25 billion as part of its debt repayment.

Net foreign assets

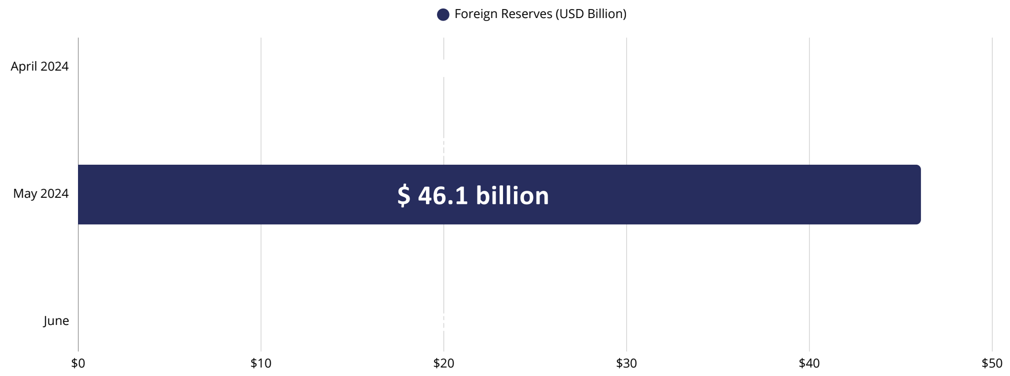


Source: CBE

Egypt's net foreign asset surplus reached n**early USD 14.3 billion**, a sharp recovery from a USD 3.7 billion deficit in April. This is the first positive net foreign asset figure since February 2022, following significant capital outflows due to the Ukraine war.

UPDATES IN FIGURES

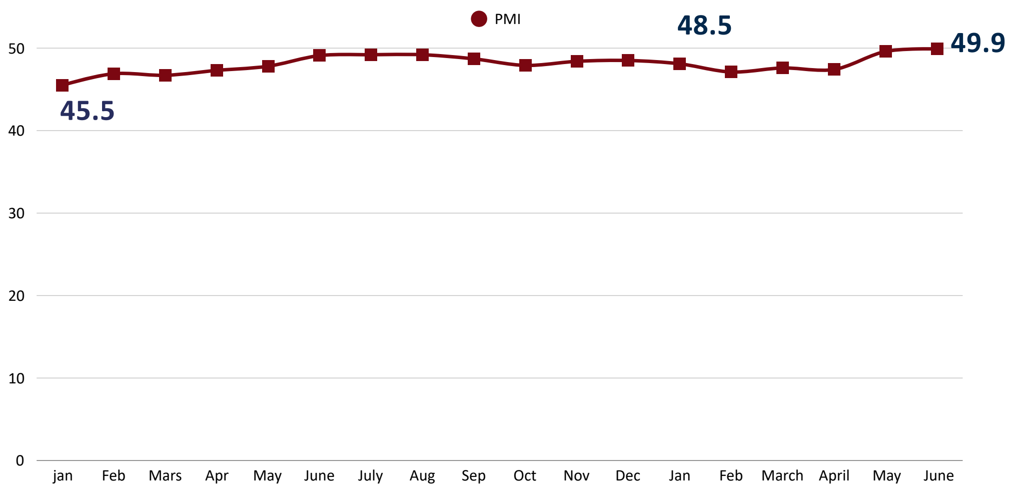
Net International Reserves



Source: CBE

The Central Bank of Egypt reported an increase of approximately **USD 260 million in June**, bringing total reserves to nearly **USD 46.4 billion,** surpassing last month's record of USD 46.1 billion.

Private Sector Performance



The S&P Global Egypt PMI increased from 49.6 in May to **49.9 in June**, its highest in three years, indicating stable conditions. June saw an uptick in new business intakes at non-oil firms for the first time since August 2021, with manufacturing and services experiencing increased new orders. Construction and wholesale & retail sectors showed mixed results.

Trade Balance

Egypt's trade deficit H1-2024

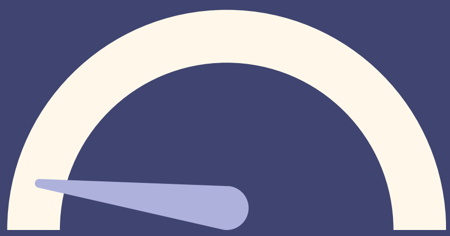
USD 15.9 billion

In the first half of 2024, Egypt's non-oil trade deficit narrowed by 16% year-on-year to USD 15.9 billion, down from USD 18.9 billion during the same period last year.

USD 19.6 billion

Non-oil exports increased by 9.8% year-on-year to USD 19.6 billion in the first six months, bolstered by the recent float of the EGP, which boosted the competitiveness of Egyptian products in foreign markets.

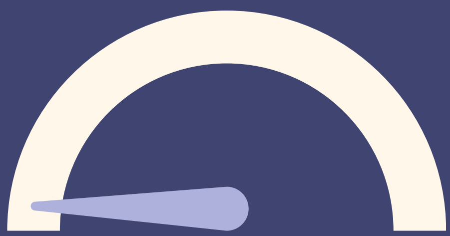
Total value of imports H1



Imports accounted for around $35.106bn

Non-oil imports dipped by 3.3% year-on-year to EGP 35.6 billion, due to a decrease in imports by about **USD 1.2 billion** during the first half of the year.

Total value of exports H1



Exports totaled $16.449bn

POLICY UPDATES

Establishment of Digital Industrial Platform

The Ministry of Industry is establishing the Egypt Digital Industrial Platform to streamline processes and procedures for investors by preparing an industrial map. This new platform focuses on **simplifying the steps investors need to take, emphasizing the cluster's role in establishing foundations, rules, legislative amendments, and a single mechanism** for dealing with investors on an equal footing. The initiative aims to enhance transparency for investors.

Tax Dispute Resolution Law

The Cabinet approved a draft decision to renew the Tax Dispute **Law No. 79 of 2016 until the end of January 2025**. This draft law aligns with the government's efforts to reduce tax disputes, expedite their settlement, alleviate the financial burdens on taxpayers, and stabilize their tax and financial positions amid the current global economic conditions.

Regulation on Marketing and Commercial Calls

The National Telecommunications Regulatory Authority of Egypt **(NTRA)** has introduced new regulations to enhance user privacy and address the increasing nuisance of spam calls. **These regulations specifically govern the use of mobile lines for marketing and commercial calls, aiming to protect telecom users from unsolicited disruptions** while ensuring transparency and compliance in marketing activities.

Establishment of New Investment Zones

GAFI has requested the New Urban Communities Authority (NUCA) to allocate plots of land for the establishment of three new investment zones. These zones will include both industrial and service facilities, aiming to attract more investment and boost economic growth.

ROAD AHEAD

As Egypt moves forward with its economic reforms and policy adjustments, various crucial factors will significantly influence the country's financial landscape in the upcoming years.

The Central Bank of Egypt (CBE) will maintain interest rates at 27.25% until the end of the year, with potential rate cuts beginning in February 2025. Despite a continued decline, inflation is expected to remain above the central bank's target range of 7-9% until late 2025. Inflation is anticipated to decrease gradually to 26% by year-end, with a more accelerated decline expected in mid-2025.

The IMF estimates Egypt will spend EGP 331 billion ($6.85 billion) on fuel subsidies in FY 2024/25 and EGP 245 billion ($5.07 billion) in FY 2025/26, with a goal to break even by December 2025. The IMF remains firm on fuel subsidy cuts, expecting energy prices to reach cost recovery levels by December 2025. This aligns with Prime Minister Madbouly's statements on fuel price adjustments.

The International Monetary Fund (IMF) is advocating for greater flexibility in the exchange rate of the Egyptian pound. An agreement with the IMF has clarified the Central Bank of Egypt's role, stating that its intervention will occur through tenders, without dictating specific prices to individual banks.

Looking ahead, the potential for a new adjustment in the exchange rate of the Egyptian pound against the dollar is influenced by rising inflation, which could lead to a further depreciation of the pound. This underscores the increasing likelihood of another devaluation in the near future.

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