



ECONOMIC PULSE

OF EGYPT

June

2024



SYNTHESIS

Egypt has made substantial progress in addressing its economic challenges, underlined by strategic steps in fiscal consolidation and commitments to economic enhancement. This is evident from the substantial developments across the political and economic landscape. Notably, the country has made significant strides in debt management, **paying \$25 billion since March 2024, which represents 7% of its GDP.**

This substantial reduction in debt underscores Egypt's dedication to fiscal discipline. Moreover, **by the end of the first quarter of 2024, Egypt's external debt was further reduced by \$7.427 billion, a 4.4% decrease, to a total of \$160.607 billion.**

In addition to these fiscal improvements, **PM Madbouli secured \$320 million** in grants through **four agreements with the European Union.** These agreements are aimed at bolstering various sectors within Egypt and enhancing regional economic cooperation. On the monetary front, these measures have been accompanied by a significant **increase in foreign reserves, which reached a new high of \$46.1 billion.**

Concurrently, the IMF **released a \$820 million** tranche from its extensive **\$8 billion loan program**, which focuses on public debt reduction, privatization, and improving the investment environment.

In alignment with IMF conditions, Egypt has embarked on significant policy adjustments, including substantial **subsidy reductions** and price adjustments. This includes phasing out **electricity subsidies over the next four years** for all but low-consumption households and gradually increasing **fuel prices** to align with production costs by 2025.



SYNTHESIS

Amid these developments, the urban **annual inflation rate in Egypt has decreased to 28.1% as of May**, the lowest **since January 2023**, driven largely by a significant slowdown in food prices.

The House of Representatives has approved the **FY 2024-2025 state budget** and socioeconomic development plan. The government projects economic **growth of 4.2% for the upcoming fiscal year**, an increase from the estimated **2.9% in FY 2023-2024**.

Additionally, headline inflation is anticipated to decrease to an **average of 17.9%** next fiscal year, down from a **projected 35.7%** this fiscal year. However, the budget deficit is expected to widen slightly to **7.3% of the country's GDP**, up from **7.2%** this year.

In response to these financial conditions, The Central Bank of Egypt's Monetary Policy Committee (**MPC**) has decided to maintain the overnight **deposit rate at 27.25%**, the overnight **lending rate at 28.25%**, and the main operation and **discount rates at 27.75%**.

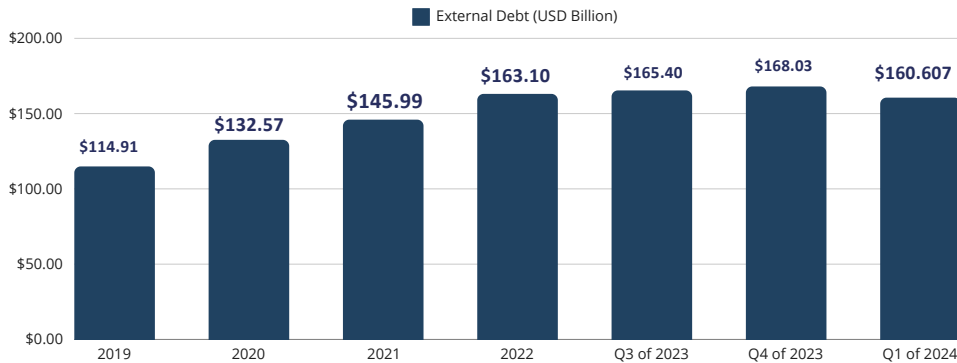
On an international level, The World Bank's growth forecast for **Egypt remains at 2.8% for 2023-2024**, with an anticipated **increase to 4.2% for 2024-2025**, supported by factors such as UAE investment, recovering remittances, and a competitive exchange rate.

Regarding the business pulse, the Egypt Purchasing Managers' Index™ (**PMI®**) has risen to **49.6**, signaling easing inflationary pressures and improved business conditions, particularly in the services and construction sectors. Despite some declines in manufacturing and retail, the overall business activity and employment trends are positive, fueled by growing economic confidence.



UPDATES IN FIGURES

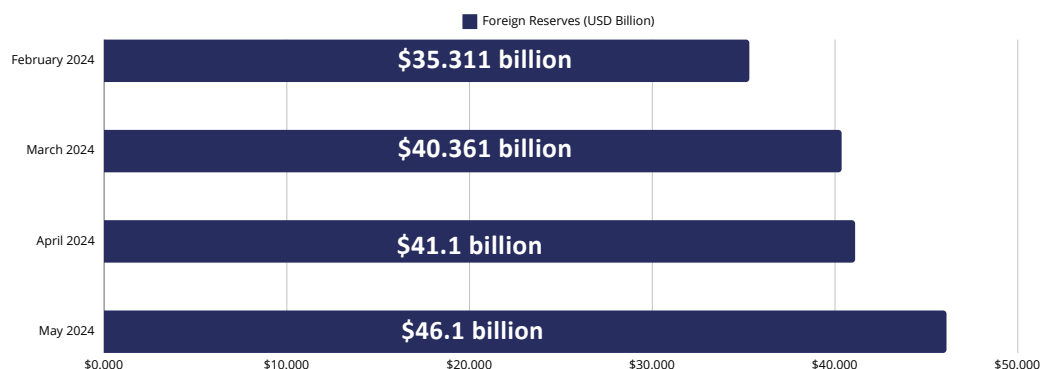
➤ Debt Management



Source: CBE

By the end of **the first quarter of 2024**, Egypt's external debt decreased by **\$7.427 billion**, or 4.4%, to **\$160.607 billion**, down from **\$168.034 billion** at the close of the previous quarter in December. This represents a **2.87% reduction** in external debt from \$165.361 billion recorded in the same quarter of 2023, along with the point that Egypt repaid **\$25 billion** as part of its debt repayment.

➤ Net International Reserves



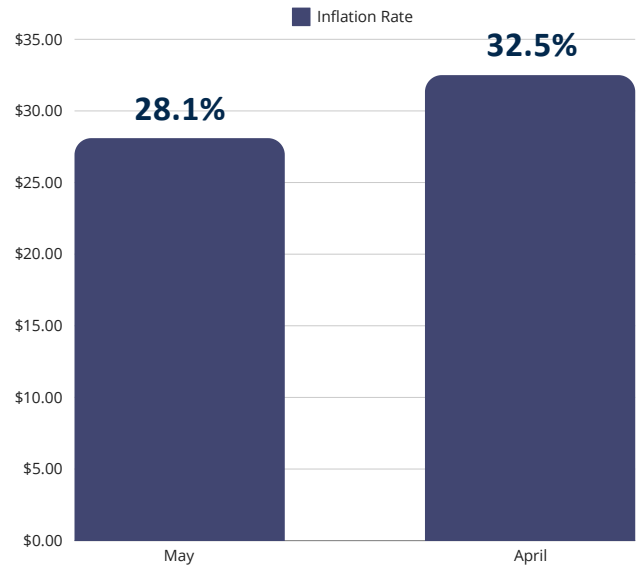
Source: CBE

According to the **CBE**, net foreign reserves rose by slightly **more than USD 5 billion in May**, reaching a record **USD 46.1 billion** from **USD 41.1 billion** in April. Surpasses the pre-Covid peak of USD 45.5 billion.

UPDATES IN FIGURES

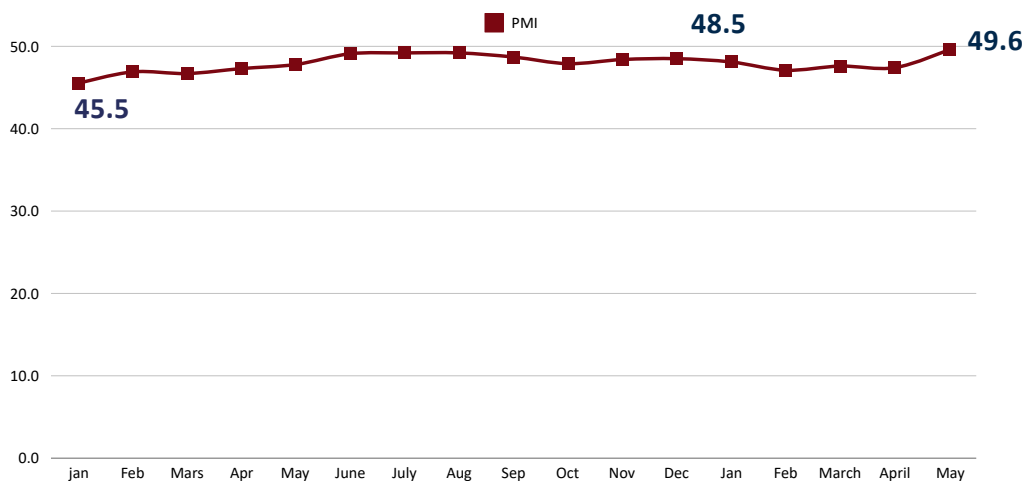
➤ Inflation Trends

Inflation cooled to **28.1%** in **May 2024**, down from **32.5%** in **April**. This decrease, **the lowest since January 2023**, is primarily due to a significant slowdown in food price increases as traders adjusted to reduced demand following currency flotation.



Source: CAPMAS

➤ Private Sector Performance



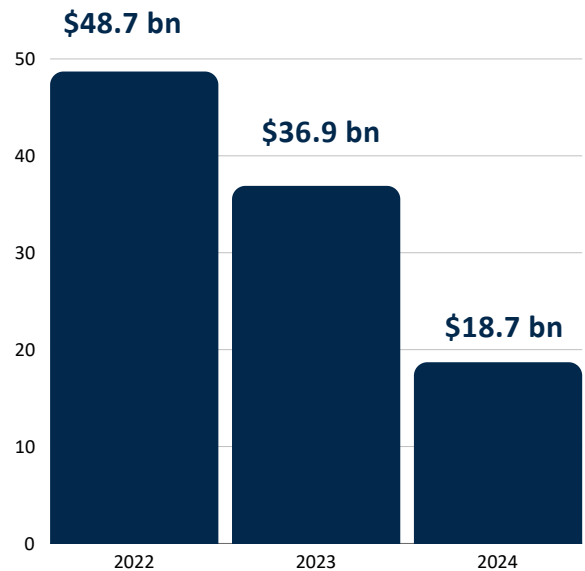
The S&P Global Purchasing Managers' Index (**PMI**) for Egypt's non-oil private sector **climbed to 49.6 in May** from **47.4 in April**, marking its highest level since August 2021. This improvement coincided with a substantial reduction in inflationary pressures at the start of 2024, which nearly stabilized demand conditions.



TRADE & INVESTMENT PERFORMANCE

➤ Trade Balance

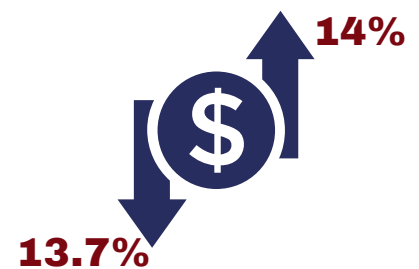
Egypt's trade imbalance, marked by a significant discrepancy between imports and exports, continues to be a longstanding problem. Although there has been some improvement, the deficit is still substantial. In 2022, the trade deficit reached **USD 48.7 billion**. By 2023, it had decreased to **USD 36.9 billion**, and in the first half of 2024, it further reduced to **USD 18.7 billion**.



Source: CAPMAS

➤ Foreign direct investment inflows

According to the **UNCTAD**, Foreign Direct Investment (FDI) inflows to Egypt **decreased by 13.7%** year-on-year, totaling \$9.8 billion. Conversely, FDI outflows from Egypt **rose by 14%** year-on-year, reaching \$390 million in 2023.



During the last Egypt - European Union Investment Conference, PM Egypt secured **\$320 million** in grants through **four** agreements with **the European Union**. These agreements are aimed at bolstering various sectors within Egypt and enhancing regional economic cooperation.





POLICY UPDATES

Egypt is poised to implement significant updates to its tax system from 2024, aiming to address economic challenges and support low- and middle-income earners. These changes are designed to mitigate inflation effects and promote social justice

➤ Key Tax Measures

Raising the Zero-Tax Bracket:

Ease the tax burden on low- and middle-income workers by regularly reviewing and increasing the zero-tax bracket to keep pace with Inflation.

New Income Tax Bill:

Provides relief for low- and middle-income earners without raising income tax rates.

Progressive Tax Structure

40,001 To 55,000 EGP	10%	200,001 To 400,000 EGP	22.5%
55,001 To 70,000 EGP	15%	400,001 To 1.2M EGP	25%
70,001 To 200,000 EGP	20%	Above 1.2M Million EGP	27.5%

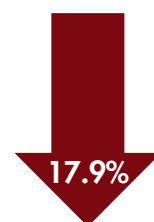
➤ State Budget

The House of Representatives has approved the **FY 2024-2025** state budget and socioeconomic development plan.

The government projects **economic growth of 4.2%** for the upcoming fiscal year, an increase from the estimated **2.9% in FY 2023-2024**.



Headline **inflation** is anticipated to **decrease** to an **average of 17.9%** next fiscal year, **down** from a projected **35.7% this fiscal year**.





POLICY UPDATES

➤ Health Sector Privatization

A new law has been ratified to reform **the management and operation of health facilities in Egypt**. This legislation introduces provisions for the privatization of public health facilities.

- The law permits the private sector to enter into partnerships with the government to **manage and operate public hospitals and establish new health facilities**.
- The Ministry of Health aims to leverage private sector expertise to **enhance service quality and efficiency in public hospitals**.
- Investors partnering with the government are obligated to **train hospital workers as part of the agreement**.

While the law aims to improve healthcare quality, there are concerns about its impact on low-income populations, with about 30% of Egyptians living below the poverty line. Ensuring affordable access remains a priority. The law also protects medical staff rights and incorporates foreign expertise to maintain workforce stability and enhance service standards, but effective implementation is crucial.



ROAD AHEAD

- Despite notable progress in reducing public debt, the path ahead demands continued fiscal stability. The government must maintain its commitment to subsidy reform initiatives, **particularly in the energy and utility sectors. These reforms are crucial for ensuring fiscal sustainability while carefully balancing the need to protect the less affluent segments of the population.**
- The slight uptick in the projected budget deficit to **7.3% of GDP** underscores the importance of a delicate balance between stimulating growth through strategic expenditures and maintaining fiscal prudence. Enhanced strategies for revenue collection, alongside judicious spending, are essential to mitigate the risks associated with a widening deficit.
- There is an expectation that **the Central Bank may reduce interest rates** on deposits and borrowing. Lowering these rates can stimulate economic activity by making borrowing more affordable for businesses and consumers, encouraging investment and spending. Efforts to increase foreign reserves will continue, providing a buffer against external economic shocks and enhancing investor confidence.
- Furthermore, the government's role in fostering an environment conducive to private sector growth cannot be overstated. Diversifying the economic base beyond traditional sectors will provide more stable revenue streams and reduce Egypt's vulnerability to global commodity price fluctuations.
- Egypt's imminent accession to the **African Export Development Fund** is a strategic move aimed at bolstering the country's export capabilities. This initiative aligns with Egypt's ambitious goal of reaching \$100 billion in exports. By joining the fund, Egypt will benefit from increased access to financing, trade facilitation, and regional market opportunities, enhancing its export strategy and competitiveness in international markets.

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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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