



# ECONOMIC PULSE

OF EGYPT

May

2024



# SYNTHESIS



Egypt is making significant strides in overcoming its economic challenges. The government's dedication to these reforms is evident in the ongoing review of Egypt's **USD 8 billion** loan program, which underscores the positive contributions of the Ras El Hekma sale proceeds and state ownership policies. This review is anticipated to conclude by June 15, paving the way for the release of the third tranche of USD 820 million.

## MONETARY POLICY



Despite inflation slowing to **32.5%** for two consecutive months, partly due to a 40% devaluation of the Egyptian pound, the IMF stresses strict monetary policies. The Central Bank of Egypt (CBE) **delays interest rate cuts** until after June's IMF review. The CBE's Monetary Policy Committee (MPC) keeps rates steady, citing exchange rate dynamics tightening monetary conditions, anchoring inflation expectations, and dampening inflation outlook.

## SPENDING & DEPT



The IMF delegation is scrutinizing how the government is using proceeds from the Ras El Hekma sale to meet new fiscal targets, including reducing public debt, capping government investments, and narrowing the budget deficit. Over the past decade, **Egypt's external debt** has quadrupled, reaching USD 165.4 billion at the end of the third quarter of 2023, and **USD 168 billion** in the first half of the current fiscal year. Some USD 11 billion of this debt is expected to be written off using funds from the Ras El Hekma agreement.

## CREDIT RATING & RESERVES



The Ras El Hekma agreement's foreign capital influx positively affected Egypt's credit outlook, leading Fitch Ratings to upgrade its long-term foreign currency debt outlook from **stable to positive**. This resulted in increased net foreign reserves, reaching **USD 41.1 billion** in April, the highest in over four years. Fitch Ratings projects reserves to reach USD 49.7 billion this fiscal year and USD 53.3 billion next year.



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# SYNTHESIS

## REFORMS



To meet IMF conditions, the Egyptian government is implementing significant subsidy reductions and price adjustments. **The government plans to cut spending on bread subsidies**, raising the price of subsidized bread from **EGP 0.05 to EGP 0.20** starting in June, marking the first adjustment in 30 years.



Additionally, **fuel prices will gradually increase** to match production costs by 2025, though diesel prices will remain unchanged. **Over the next four years**, the government **will eliminate electricity subsidies**, except for households with light consumption, which will continue to receive substantial subsidies funded through other means.



The IMF will review **Egypt's state ownership progress**, evaluating offers received and advancements in privatizing state assets. This review will also consider foreign direct investment growth and measures to improve the investment environment. Concurrently, **the House of Representatives preliminarily approved** a bill enabling the private sector to manage public hospitals and healthcare facilities in Egypt.

## BUSINESS PULSE



Despite these reforms, Egypt's non-oil private sector continues to contract. The S&P Global Purchasing Managers' Index (**PMI**) for April fell to **47.4** from 47.6 in March, marking the 41st consecutive month below the 50.0 threshold that separates growth from contraction.

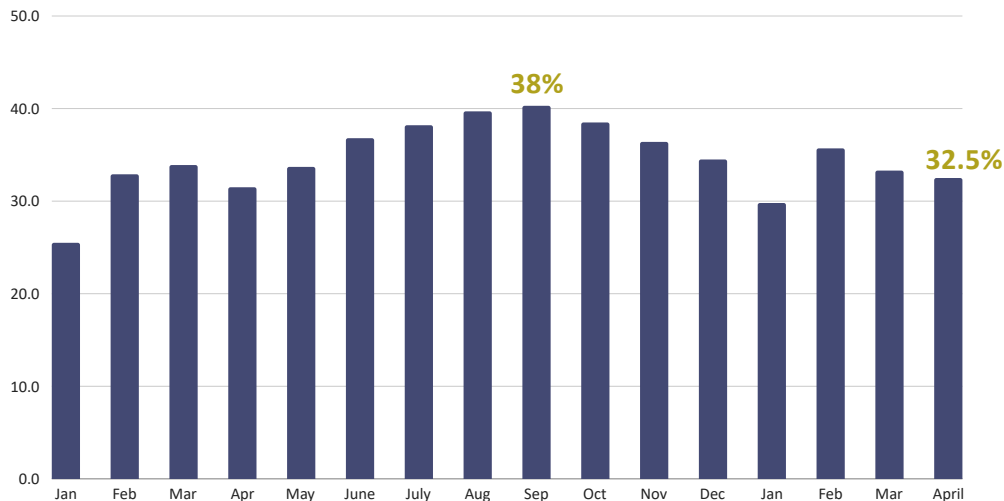


On a positive note, Egypt's Suez Canal Economic Zone (**SCZONE**) attracted **USD 3.226 billion** in investments between July 2023 and April 2024, leading to 144 projects within the industrial zones and ports and creating over 25,000 direct and indirect job opportunities. This investment boost has contributed to a decline in **unemployment**, which fell to **6.7%** in the first quarter of this year

# UPDATES IN FIGURES

## ➤ Inflation Trends

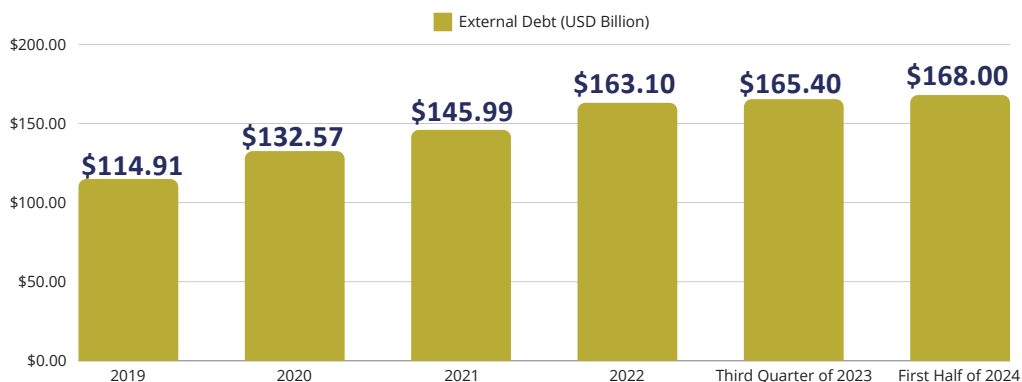
The Monthly Inflation Rate on an annual basis



Source: CAPMAS

Inflation surged to a record **38%** in September but has since eased to **32.5% in April**. This decline can be attributed to improved foreign exchange availability and joint efforts by the government and private sector to lower the costs of essential items like dairy products and cooking oil.

## ➤ External Debt Growth

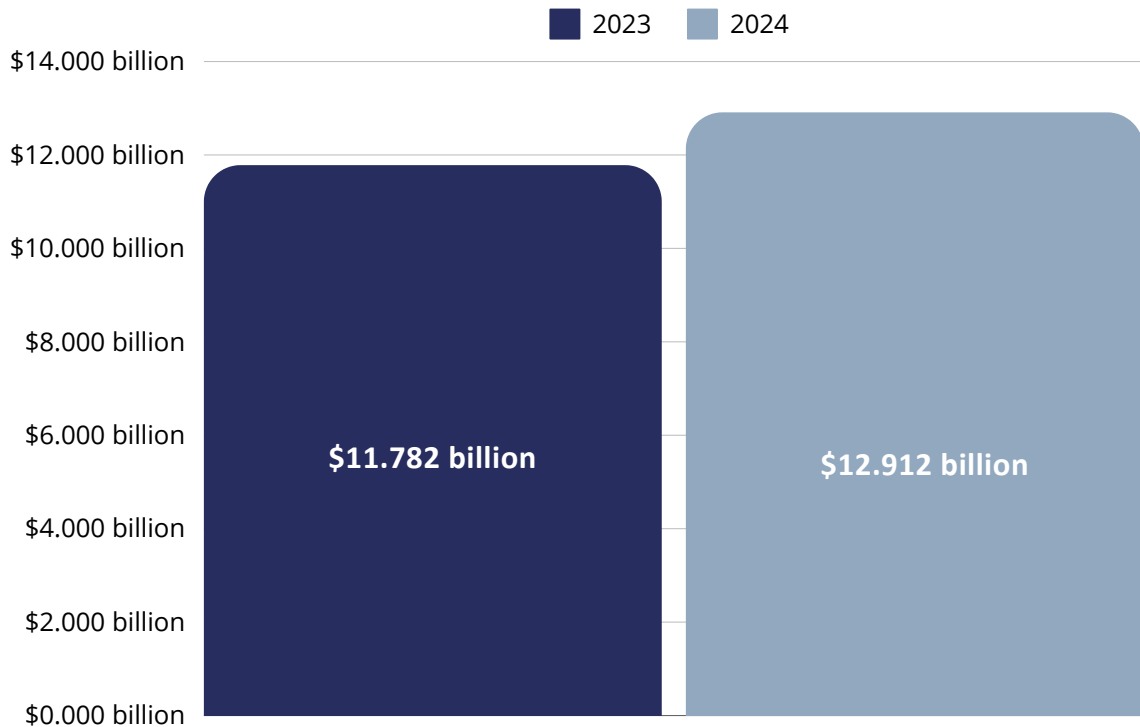


Egypt's external debt has surged dramatically, soaring to \$165.4 billion by the conclusion of the third quarter of 2023, and further rising to **\$168 billion** in the second half of the ongoing fiscal year. Notably, approximately \$11 billion of this debt is anticipated to be absolved through resources derived from the Ras El Hekma agreement.



# TRADE PERFORMANCE

## ➤ Merchandise Exports Trends

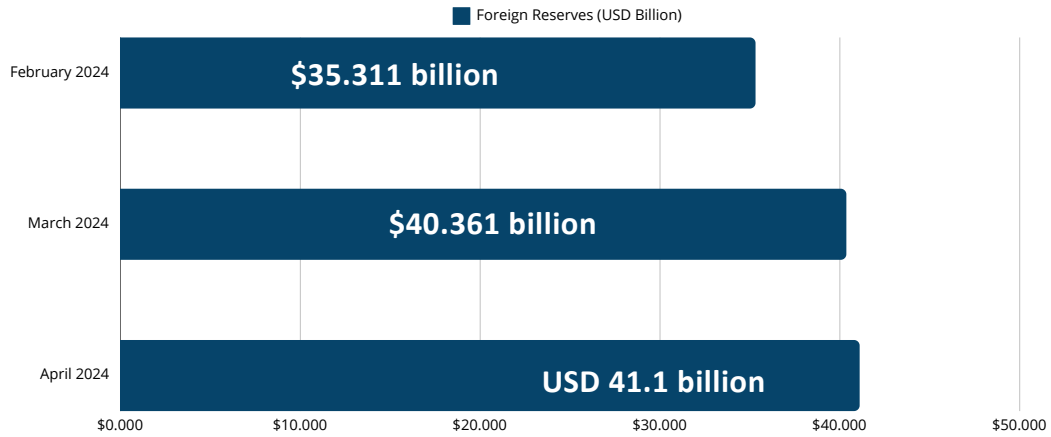


Egyptian merchandise exports have demonstrated a consistent upward trend, marking the fourth consecutive month of growth. Data reveals that during the initial four months of 2024, Egyptian merchandise exports reached approximately **\$12.912 billion**, showcasing a notable increase from the **\$11.782 billion** recorded during the corresponding period in 2023. This signifies a significant upsurge of **10%**.



# UPDATES IN FIGURES

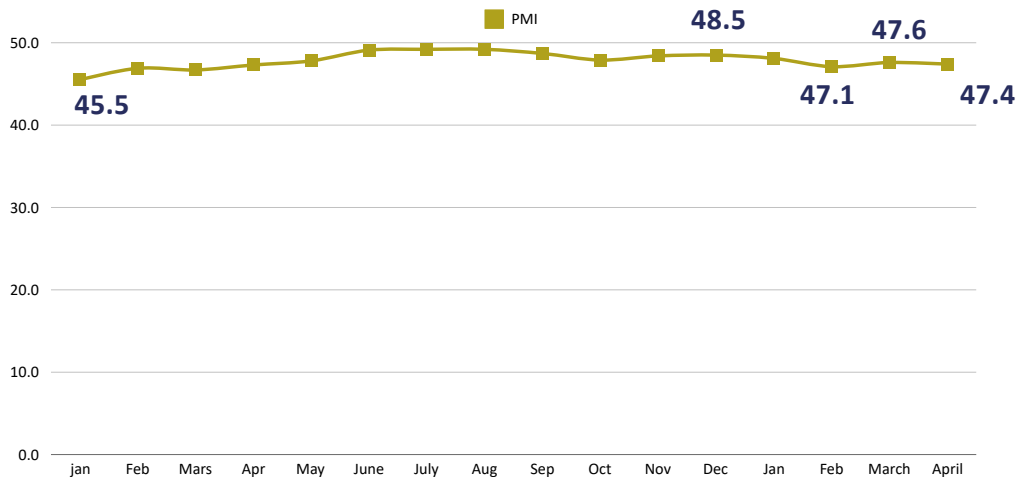
## ➤ Net International Reserves



Source: CBE

The Ras El Hekma agreement positively impacted Egypt’s credit outlook, prompting an upgrade by Fitch Ratings. This, along with expected funds, led to a significant increase in net foreign reserves, reaching their highest level in over four years.

## ➤ Private Sector Performance

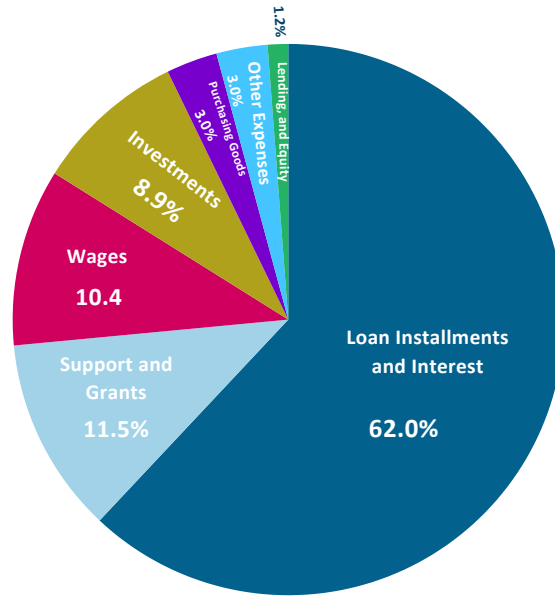


The S&P Global Purchasing Managers’ Index (**PMI**) for Egypt's non-oil private sector declined in April, falling to 47.4 from 47.6 in March. This marks the **41st consecutive month below the 50.0 threshold**, indicating a contraction in the sector despite ongoing reforms.



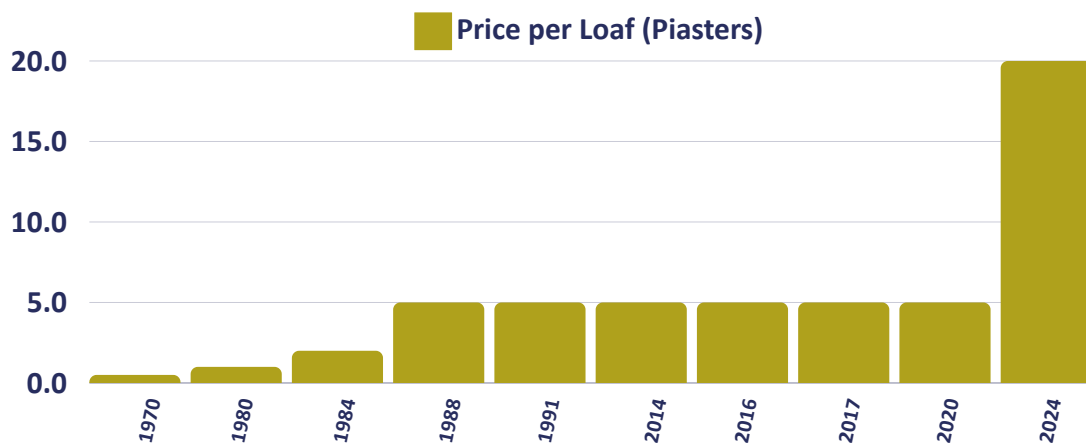
# PUBLIC POLICY UPDATES

## ➤ Budget Allocation Policy



In response to IMF recommendations to reduce public debt, Egypt has restructured **its budget allocation to prioritize debt servicing** and interest payments while addressing fiscal challenges and ensuring resource efficiency.

## ➤ Subsidized Bread Price Adjustments



To meet IMF conditions, the Egyptian government raised the price of subsidized bread from EGP **0.05 to EGP 0.20** in June 2024, marking the **first increase in 30 years** as part of broader subsidy reductions.





# ROAD AHEAD

Egypt's **\$8 billion IMF deal** prioritizes tight monetary policy. Interest rate cuts likely await the IMF's June review to avoid spooking investors. While inflation control is crucial, high rates can dampen growth. A future rate reduction remains possible to ease borrowing costs and stimulate investment.

The government aims for 19-25% inflation and a budget deficit of 7.3% of GDP. Balancing tight money with future rate adjustments is key. High rates curb inflation but hinder business activity. Lower rates could boost investment but require careful timing to maintain market stability.

Planned budget allocations prioritize social welfare and economic growth. Supporting food and social programs is vital for stability. Increased export support aims to enhance Egypt's competitiveness in global markets.

In the coming years, successfully navigating the trade-off between inflation control, investment, and fiscal stability will be crucial. The IMF review's outcome and subsequent policy decisions will likely shape Egypt's economic path.

A crucial event will be **the Central Bank of Egypt's Monetary Policy Committee meeting on July 18th**. This meeting could influence the country's monetary policy direction, balancing inflation control with fostering economic growth. Decisions made during this meeting will significantly impact borrowing costs, investment sentiment, and overall economic activity in Egypt. This period is critical for defining Egypt's economic direction and stability.

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