Influence Public Affairs

ECONOMIC PULSE
OF EGYPT

ECONOMY & PUBLIC POLICY
MONTHLY INSIGHTS

October

2023

SUMMARY

October has been an extraordinary month filled with major events and critical policy developments, both in Egypt and across the region. These developments reflect a diverse spectrum of challenges and opportunities, collectively shaping the economic landscape.

Amid these developments, there is a ray of positive light. **The fiscal year 2022-2023 concluded with Egypt's current account deficit displaying remarkable improvement.** The deficit reached only **US$ 4.7 billion**, equivalent to **1.2% of GDP**, a stark improvement compared to the previous fiscal year's much higher US$ 16.6 billion, constituting 3.5% of GDP. This substantial reduction can be attributed to a sharp decline in goods imports and a simultaneous increase in revenue from tourism and the Suez Canal, painting a brighter fiscal picture.

The Egyptian government is setting ambitious targets. They aspire to attract an annual foreign direct investment (FDI) of **USD 25 billion** within the next five years, a substantial increase from the USD 10 billion achieved in the previous fiscal year. These aspirations underscore the government's unwavering commitment to stimulating economic growth and enhancing investor confidence.

However, the economic landscape remains marked by several challenges and persistent concerns. Notably, **the International Monetary Fund (IMF)** has **projected** a significant widening of Egypt's budget deficit in FY 2023-24, with expectations that it may **reach 10.7% of GDP.** This projection raises legitimate concerns about fiscal sustainability and the need for prudent financial management.

Adding to these concerns, **growth expectations for Egypt's current fiscal year** have been adjusted downward by both the **IMF** and the **World Bank**. The IMF now anticipates growth of 3.6%, down from the earlier forecast of 4.1%, while the World Bank has revised its projection to 3.7%. These downgrades can be attributed to delayed structural reforms, rising inflation, and increased borrowing costs, all of which are affecting overall economic activity.

SUMMARY

Furthermore, Egypt's credit ratings have faced downgrades by prominent rating agencies, including **Moody's and S&P Global Ratings**. These actions underscore the growing concerns regarding Egypt's long-term debt sustainability and its ability to meet external debt service payments, adding a layer of economic complexity.

In addition to these financial challenges, **inflation** has become an increasingly pressing concern. In September, urban inflation surged to a concerning **38.0%**, marking another all-time high. This uptick disrupted the recent trend of slowing inflation, with rising costs affecting consumer purchasing power. Simultaneously, **the contraction of Egypt's non-oil private sector deepened in September, primarily due to price and supply challenges, marking the 34th consecutive month of business activity decline.**

Amid this economic backdrop, **the ongoing conflict in Gaza emerges as a regional concern**. Its potential economic consequences are being closely monitored, with the **IMF** chief issuing warnings about the potential economic toll on Egypt should the conflict persist. **The war's impact on oil prices and market uncertainties adds another layer of complexity, with potential indirect economic consequences.**

Furthermore, **Egypt continues to grapple with an FX shortage,** further compounded by uncertainty about the currency. The parallel currency market has placed additional pressure on FX liquidity within the banking system, affecting businesses and investors.

To complicate matters further, **Egypt's imports of Israeli gas** have experienced a notable decline of nearly 20% following Israel's decision to suspend production at the Tamar field. This move has had repercussions on Egypt's gas imports and energy security.

In this publication, IPA delves into the intricate landscape of these unfolding developments. We provide comprehensive insights into the profound economic implications they carry for Egypt, while also shedding light on the strategic policy measures that Egypt has adeptly implemented to navigate this complex situation.

October

ECONOMIC PERFORMANCE

The FY 2022 - 2023 has officially concluded with Egypt's **current account deficit recording an improvement** to reach only **US$ 4.7bn (1.2% of GDP)**. This came as a main result of the following:

- The sharp fall in goods and -to a lesser extent- services imports, due to the lack of foreign currency.
- The high level of tourism and Suez Canal-related revenues, which also supported a strong performance by service sector exports.

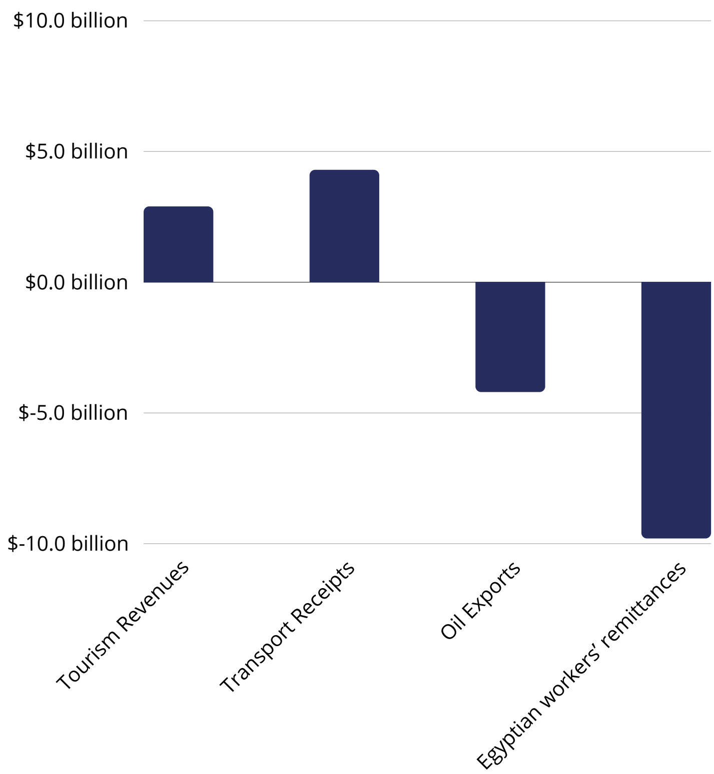
Tourism revenues surged by 26.8 % to record US$ 13.6 bn. While transport receipts increased by 43.8 %, as a main result of **the rise in Suez Canal transit receipts by 25.2%** to record US$ 8.8 bn.

On the other hand, **Egyptian workers' remittances** remained a main factor that curbed further improvement of the current account, as it **retreated by 30.8 %** to register only US$ 22.1 billion

On another level, **Egypt's non-oil private sector has contracted at a sharper pace in September**, on the back of "price and supply challenges" that curbed output levels.

Egypt's PMI fell to 48.7 in September marking the 34th consecutive month that business activity has been in decline. In a like manner, **oil exports went down by US$ 4.2 bn**.

Changes in Current Account figures



Source: CBE

October

MAIN INDICATORS

Inflation

Rose to **38.0**% in September, from 37.4% in August

CAPMASS,Oct,2023

FDI

Net inflow of FDI rose by **12.3%** to US$ 10.0 bn by the end of FY 2023\2024

CBE, Oct, 2023

Government debt

Grew by 12.3% and reached 9,405bn in Q1 of 2023

MOF, September 2023

PMI

Hit a four-month low of **48.7**, marking the 34th consecutive month of contraction

S&P Global Egypt PMI, Oct, 2023

Gross International Reserves

Increased by **0.1% to reached US$ 35.1 billion** at the end of October 2023

CBE,Oct,2023

GDP

Economic growth projected to slow to **3.5%** this fiscal year from an estimated 4.0% in FY 2022-23

IMF,Oct,2023

October

Trade Balance

Trade Deficit

FY 2022\2023

$31.2 bn

declined by 28.2% on the back of the retreat in the non-oil trade deficit by 34.0 %

Total Imports

FY 2022\2023

$70.78 bn

Dropped by 19% compared to the las FY's figures at 87.30 bn

Total Exports

FY 2022\2023

$39.62 bn

Dropped by 9.7% compared to the previous fisical year

$25.8 Billion

Non- Oil Exports
FY 2022\2023

CBE, Oct2023

Non-oil merchandise exports recorded a slightly decline by USD 121.7 mn. Mainly in household electrical appliances; and ready-made garments.

INVESTMENT WATCH

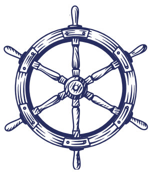
Agreements and achievements

- Several framework agreements were signed for new energy projects. With investments amounting to $14.75 billion, within the framework of the Belt & the Road Initiative.

- Egypt, is the first country in the Middle East and Africa to succeeded in issuing sustainable international panda bonds on the Chinese financial market, which are allocated to finance projects worth about 3.5 billion Chinese yuan, equivalent to USD500 million.

- The General Authority of the Suez Canal Economic Zone signed an investment agreement with China's Hengtong to produce optical cables with investments amounting to $18 million.

PORTS WATCH



The Suez Canal Authority increased ship passage fees between 5% and 15% as of mid-January 2024.

319,000 tons of corn and soybeans worth about $170mn were released from the Egyptian ports.

The total value of released goods has reached $53.7 billion during January - September 2023

POLICY UPDATES

In light of Egypt's ongoing economic challenges, the government has undertaken a dual-pronged approach to address the complex situation. **monetary policy** measures have been implemented, with a focus on **curbing inflation through stringent interest rate policies and efforts to safeguard foreign currency reserves.**

On the other hand, **public policy actions** include initiatives to **reduce the prices of staple food commodities, support small projects, develop national industry, and advance privatization efforts.** These combined efforts reflect the government's commitment to stabilizing the economy, improving living standards, and fostering economic growth amidst a challenging economic landscape.

MONETARY

CURBING INFLATION

The Central Bank of Egypt (CBE) has adopted a stringent approach to curb inflation, maintaining high interest rates, the Monetary Policy Committee has held interest rates steady at 19.25% for the deposit rate, 20.25% for lending.

EASING CREDIT CARD RESTRICTIONS

The CBE has recently eased restrictions on credit card use abroad, allowing users to travel without the need for prior submission of travel proof. Users must now provide evidence of card usage abroad, such as passport stamps.

PUBLIC POLICY ACTIONS

15-25%

- The government is implementing a reduction in the prices of fundamental commodities. This price cut ranges from 15% to 25% and covers items such as beans, dairy products, white cheese, mixed oil, pasta, sugar, lentils, poultry products, eggs, and rice.

$53.7 billion

- worth of imported goods, including strategic commodities worth $14.3 billion, and production inputs worth $24.8 billion, have been released in the first nine months of 2023.

114 Small plots

- Efforts are being made to support small projects, including the allocation of industrial zones in Giza and offering small plots under usufruct. the government allocated about 114 small plots under usufruct to small project

15 industrial complexes

- The state is expanding in the establishment of industrial complexes. The serves to provide investors with all the necessities, help them kick-start their projects, and offer new job opportunities.

+17% minimum wage

- The private-sector minimum wage will increase by 17% in January 2024, with private-sector employees now required to receive a gross monthly wage of at least EGP 3.5k.

PRIVATIZATION UPDATE

An updated state ownership policy document emerged in October, comprising a forward push to the country's privatization scheme. The scheme originally outlines how the government intends to upscale the private sector's role in the economy to 65% and attract USD 40 bn in private investment by 2026.

- The original list of 32 state-owned companies has been expanded to include Telecom Egypt (TE), the state-owned tobacco manufacturer Eastern Company, and Ezz Al-Dekheila, two wind energy plants, two military-owned companies, the combined-cycle power plant in Bani Suef, and a number of desalination plants.

- The time frame for delivering these targets was adjusted from Q1 2024 to Q2 2024). During this period it aims to draw USD 5 bn in investment through the privatization of state-owned companies and assets in the nine months between October 2023 and June 2024.

Noteworthy, the government fell short of fulfilling its previously set target of raising USD 2 bn in the fiscal year that ended last June 2023. However, This revised plan reflects the government's determination to enhance the private sector's role in the Egyptian economy and drive up foreign investment.

Influence Public Affairs

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EDITORIAL

BEARING THE BURDEN: HOW GAZA'S CONFLICT IS AFFECTING EGYPTIAN ECONOMY"

The ongoing conflict in Gaza has sent shockwaves throughout the Middle East, and its economic ripples are felt far and wide. While the human and political dimensions of the conflict are widely reported, it is essential to shed light on the significant economic consequences this regional turmoil is imposing on Egypt. The situation in Egypt, which was already facing a myriad of chronic economic hardships, slow growth, soaring interest rates, and the burden of servicing debt, has now taken a dire turn. The conflict in Gaza threatens to exacerbate Egypt's economic troubles, and the consequences could be severe.

In this editorial, we seek to predict the anticipated economic repercussions that Egypt is poised to face, examining various aspects **ranging from fuel prices and investment to tourism, trade agreements, energy security, and the nation's hard currency woes.**

EDITORIAL

FUEL PRICES SHOCKWAVES AND UNCERTAINTY

Surging crude Brent prices at $90.5 per barrel strain Egypt's budget, escalating government spending and worsening budget deficits. This burden coincides with slow growth and high inflation. Moreover, household budgets will further be squeezed with gasoline prices surging by around 14.3% for 80-octane, 12.2% for 92-octane, and approximately 8.7% for 95-octane.

DIMMING INVESTMENT PROSPECTS

The International Monetary Fund has warned that Egypt will be suffering economically due to the prolonged Gaza conflict. This conflict casts a shadow on investment prospects in Egypt, as investors may shy away from the region. This hesitancy among investors hinders Egypt's efforts to attract much-needed foreign capital for development.

TOURISM SUFFERS A BIG HIT

Egypt's tourism sector, once promising with a 40% YoY increase in arrivals, now faces a severe setback. Flight bookings and tickets to Egypt have dropped by 26%, impacting a previously hopeful industry. "Travco" experiences a 50% cancellation rate for year-end reservations. Losses from Israeli tourism alone amount to $723 million.

EDITORIAL

TRADE AGREEMENTS AT RISK

The QIZ trade agreement, enabling Egyptian products to enter the US market without restrictions, is endangered. Egypt's exports under this pact were about $1.4 billion last year, with textiles as a major beneficiary. The Gaza conflict's impact is anticipated to cause losses in this vital revenue source, affecting both trade and the livelihoods of Egyptian workers and businesses.

ENERGY EXPORTS UNDER PRESSURE

Egypt's gas exports are declining due to the conflict and reduced domestic production, adding pressure to the energy sector. The conflict also worsens Egypt's hard currency shortage, affecting imports and increasing inflation, compounding economic challenges.

HARD CURRENCY AND INFLATION WOES

The conflict's consequences extend to Egypt's dollar revenues, exacerbating the existing shortage of hard currency. The decline in dollar revenues will impact Egypt's ability to import essential goods and lead to a further increase in inflation. In a nation already grappling with rising prices and stagnant growth, this will only worsen the economic hardships faced by the population.

ROAD AHEAD

Gaza Conflict's Impact

In the midst of these economic challenges, the ongoing conflict in Gaza emerges as a pivotal factor in the region. The war on Gaza is poised to have a multifaceted impact, notably affecting the rate of the EGP against US dollar. Geopolitical tensions often lead to currency fluctuations, and this conflict is no exception, which in turn may affect Egypt's exchange rates and international trade.

Gas Exports

Adding complexity to the regional dynamics is the role of Israeli gas exports to Egypt. While these exports have been a significant economic development, recent interruptions due to geopolitical reasons could have implications for Egypt's energy supply and its relationship with Israel. It's crucial to emphasize that the volatility in gas supplies could have a significant impact on energy-intensive sectors like petrochemicals, fertilizers, and metal industries.

COP28

The COP28 is poised to shift tourism towards the United Arab Emirates (UAE) as it spotlights sustainability, drawing eco-conscious travelers. Additionally, the event's influence on both business and leisure travelers solidifies the UAE as an attractive, stable tourist destination.

DON'T FORGET TO MARK YOUR CALENDAR FOR

November 5-8, 2023

TRANSMEA's 5th round of the Mega transportation event in the Middle East - from .

November 6, 2023

Egypt Business Solutions Summit 2nd Edition “Fill the GAP”

30 Nov - 12 Dec, 2023

UN Climate Change Conference COP28 at UAE

November 9 to 15, 2023

Intra-African Trade Fair (IATF), serving as a pivotal platform for connecting African markets

In 2015, Influence Public Affairs (IPA) emerged as a significant subsidiary of Influence Communications Group—a leading marketing communications consultancy in Egypt since 2007, serving a diverse portfolio of over 90 local and regional clients.
As a premier public policy and public affairs firm, we are fully committed to creating a positive impact on society.

Leveraging our extensive expertise and unwavering dedication to excellence, we actively shape government policies and foster effective stakeholder communication. Our team of seasoned professionals possesses a profound understanding of Egypt's political landscape, regulatory frameworks, and socioeconomic dynamics.

IPA transcends the conventional role of a public affairs firm, assuming the mantle of a distinguished think tank and research institute. Our unwavering commitment to Egypt and the Middle East's economic and public policy landscape is a testament to our dedication to providing invaluable insights and strategic guidance, IPA's expertise shines as a beacon of knowledge, guiding you through the ever-evolving business environment, ensuring your endeavors are rooted in wisdom and poised for success.

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