IPA
Influence Public Affairs

# ECONOMIC PULSE
## OF EGYPT

March 2024

# SYNTHESIS

President Sisi's new term as President of Egypt has begun with a strong emphasis on implementing strategies to fortify the economy, enhance private sector participation, and achieve sustainable growth. Central to these efforts is the prioritization of key sectors such as agriculture, industry, information technology, and tourism. The government's ambitious goal is to achieve annual growth rates ranging between 6-8% by the end of President Sisi's third term.

A significant milestone in Egypt's economic trajectory is the successful securing of a USD 35 billion investment from an Abu Dhabi-backed group for a major real estate project at Ras El Hekma. This landmark investment is poised to address the country's financing gap over the next four years, providing a substantial boost to the economy and signaling confidence in Egypt's economic potential.

The influx of foreign exchange has been pivotal in bolstering Egypt's economic resilience. The Ras El Hekma agreement, which saw a tranche of USD 15 billion entering the country's coffers, coupled with a strategic decision by the central bank to float the Egyptian pound and raise interest rates by 600 basis points, has facilitated the return of liquidity to the official banking system. These measures have contributed to increased foreign reserves and enabled the central bank to settle outstanding dues, including clearing port backlogs and reducing arrears owed to international oil companies.

Moreover, Egypt is on the brink of finalizing a USD 12 billion financing deal from the IMF and other development partners. These funds are expected to bolster foreign exchange liquidity positions at the Central Bank of Egypt, further supporting the country's economic stability and growth prospects. The IMF's recent approval of a USD 5 billion extension for Egypt's EFF program, along with the immediate disbursement of USD 820 million, underscores the international community's confidence in Egypt's economic trajectory and commitment to supporting its development efforts.

# SYNTHESIS

In addition to international support, the European Union has demonstrated its commitment to Egypt's development through a substantial **EUR 7.4 billion** funding package. Complemented by support from the World Bank totaling **USD 6 billion**, these investments are poised to drive economic reforms and foster private sector growth, signaling a positive trajectory for Egypt's economic future.

While recent measures undertaken by Egyptian authorities, such as floating the Egyptian pound and implementing significant interest rate hikes, have been critical steps forward in addressing economic challenges, concerns about persisting inflationary pressures persist. Inflation surged unexpectedly in February, reaching 35.7% annually, driven by subsidy cuts and recent currency floatation measures. The recent fuel price increase further exacerbates inflationary concerns, impacting transportation costs and potentially leading to higher prices of goods and services.

Despite these challenges, there are positive indicators for Egypt's economic outlook. S&P Global Ratings' upgrade of Egypt's outlook to positive and Moody's upgrade of deposit ratings for Egyptian banks reflect growing investor confidence and improved access to foreign funding, further bolstering Egypt's economic resilience.

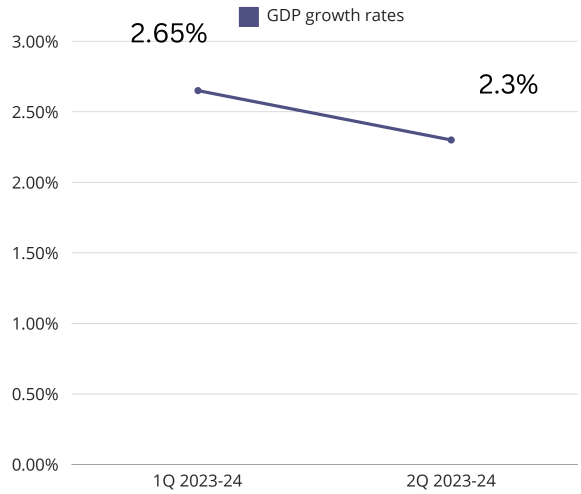
In March, Egypt's non-oil sector showed a slight improvement, as reflected by the Purchasing Managers' Index (PMI) figure rising to 47.6 from 47.1 in February, according to S&P Global's Egypt PMI report. This uptick suggests a softer decline in business activity despite persistent currency challenges and disruption in the Red Sea, offering a glimmer of hope amidst economic headwinds.

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

# UPDATES IN FIGURES

## GDP growth rates

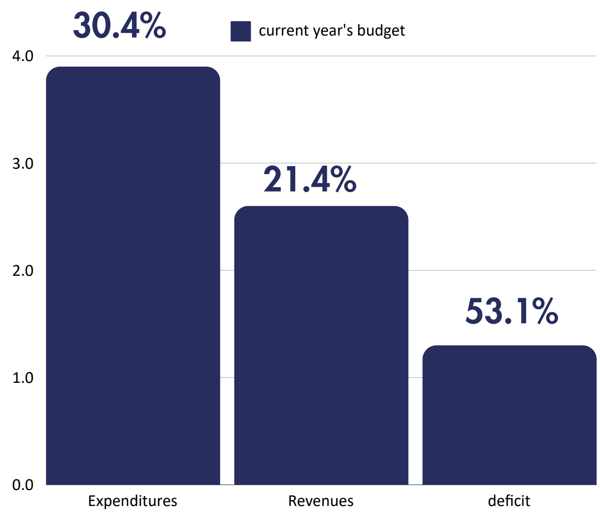
The recent GDP growth data for Egypt reflects a slowdown, with the growth rate declining to **2.3%** in the second quarter of the fiscal year 2023-24 from **2.65%** in the ***previous quarter and 3.9% during the same period last year.*** This trend suggests a challenge in meeting the government's projected growth target of 3.5% for the fiscal year.




Source: MPED

## Egypt's Budget Deficit

Egypt is expected to have a budget deficit of **1.3 trillion EGP** in the upcoming fiscal year 2024/25, representing a **53%** increase from current year's budget. Expenditures are planned to rise by **30%** to reach **3.9 trillion**, while revenues are expected to increase to **2.6 trillion**, a **21% increase** compared to the current fiscal year budget.



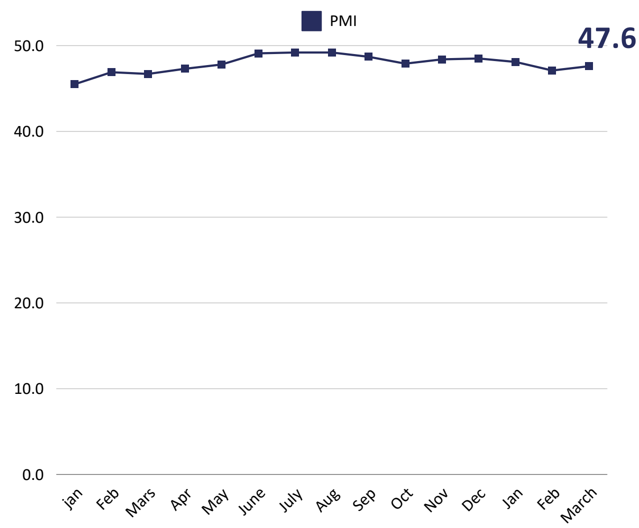

## Moody's Rating

**Moody's** revised Egypt's sovereign credit rating outlook to **positive** from negative, maintaining its long-term foreign and local currency rating at **Caa1**.

# BUSINESS PULSE

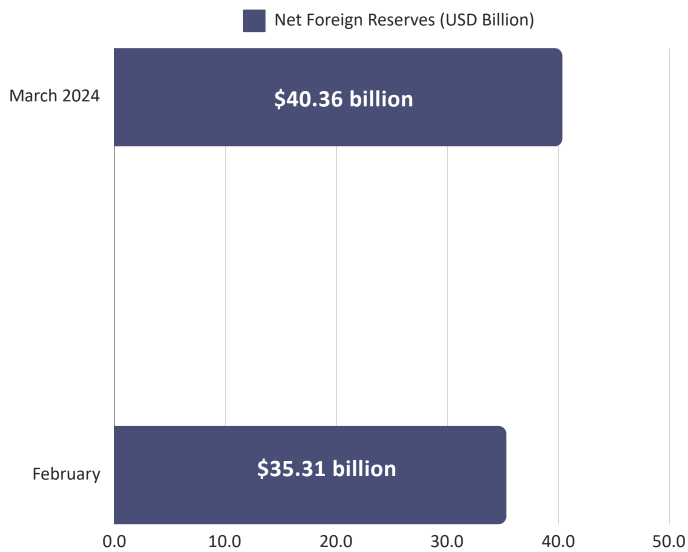
## Private Sector's Path to Recovery

In March, Egypt's non-oil sector showed a slight improvement, as reflected by the Purchasing Managers' Index (PMI) figure rising to **47.6** from **47.1** in February, according to S&P Global's Egypt PMI report. Despite persistent currency challenges and disruption in the Red Sea, the increase suggests a softer decline in business activity.




## Egypt's Foreign Reserves

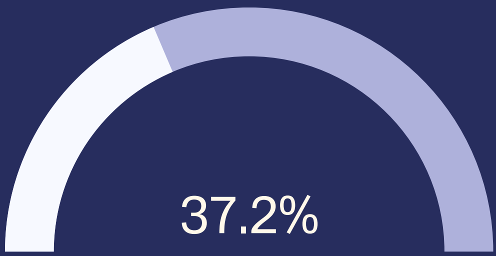
The Central Bank of Egypt (CBE) reported that Egypt's net foreign reserves surged to a two-year peak in foreign currency reserves, reaching **$40.36 billion by March 2024,** up from **$35.31 billion in February.**



# Trade Balance

Jan 2024

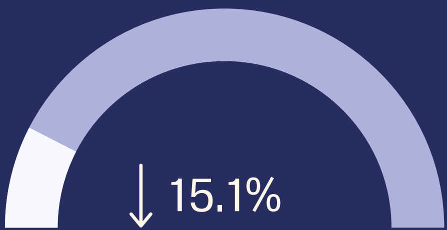
## Deficit Decreased by




**Recorded**

**$2.08 billion**

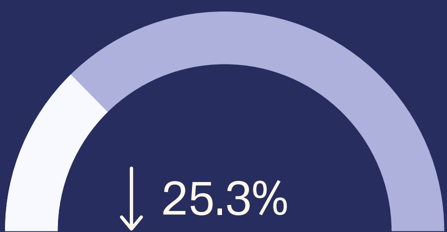
## Commodity Exports




**Recorded**

**$3.46 billion**

## Commodity Imports




**Recorded**

**$5.54 billion**

# $100 Billion

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

# $145 Billion

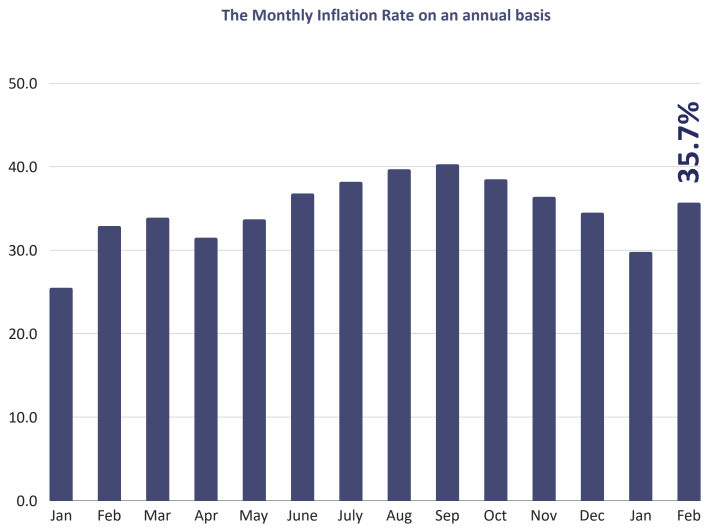
**The government aims to realise an annual growth of exports of no less than 20 per cent, reaching LE145 billion by 2030.**

# MONTARY POLICY

## Inflation Rate

Inflation unexpectedly surged in February, rising by **5.9 percentage** points to **35.7%** annually, with monthly inflation climbing to **11.4%,** the highest monthly increase in over a decade

Contributing factors include pressures from the parallel market exchange rate and the imminent subsidy cuts by the government.



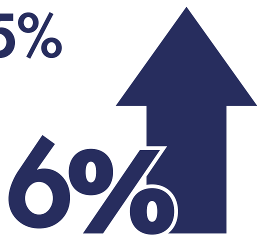

Source: CAPMAS

## Interest Rate

The Central Bank of Egypt (CBE) recently implemented a substantial interest rate **hike of 600 basis points (bps)**. These actions were taken to address economic challenges such as foreign exchange backlogs, inflationary pressures, and the need to attract foreign investment

**Deposit Rate** 27.25%

**Borrowing Rate** 28.25%

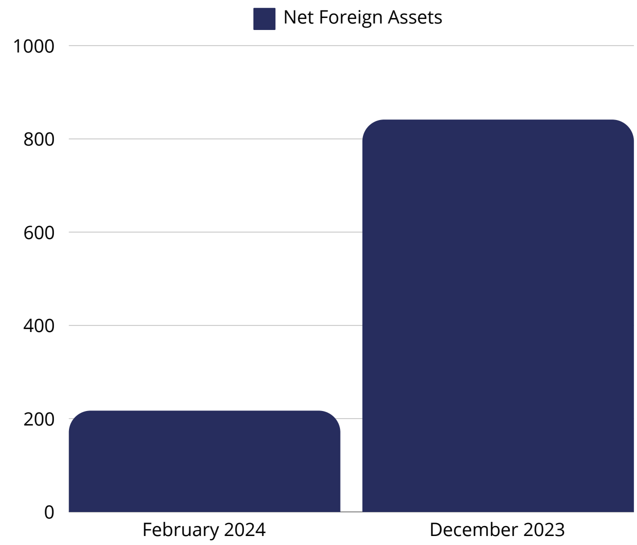



Source: CBE

# MONTARY POLICY

## Net Foreign Assets

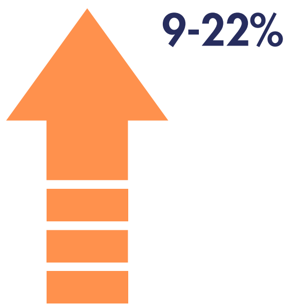
The Central Bank of Egypt (CBE) disclosed that reserves shrank by **LE 217.1 billion** ($7.04 billion) in February 2024, down from **LE 841.391 billion** in December 2023.




Source: CBE

## Fuel Prices Increase

Egypt increases fuel prices by **9-22%** to align with global market and currency reforms. This move comes amidst a backdrop of rising global oil prices fueled by factors like the ongoing conflict in Ukraine and the post-pandemic economic recovery.

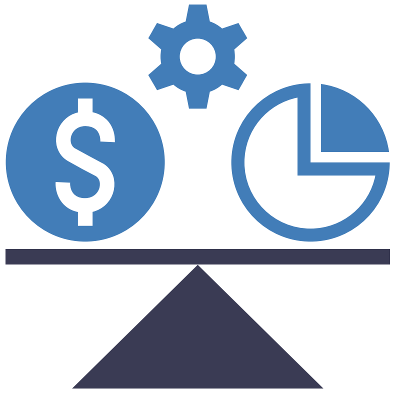



The price of 80-octane gasoline has increased from EGP 8.75 to EGP 10 per liter, the 92-octane gasoline has risen from EGP 10.25 to EGP 11.50 per liter, and the 95-octane gasoline now costs EGP 12.50, up from EGP 11.50 per liter.

# POLICY UPDATES

## State Budget

According to the minister of finance, the consolidated state budget of **FY2024/25** will integrate the budgets **of 40 out of 59** economic authorities whereas the remaining 19 authorities will be gradually consolidated over the coming 5 years.



The minister noted that public domestic investments will be capped at **EGP1 trillion** during **FY2024/25**. Public debt will be also subject to a quantitative cap and the cap can only be breached upon the approval of the president and the cabinet.

## Treasury Bills

Between **March 4th and 28th, 2024**, Egypt's 1-year T-bill after-tax weighted average yield **decreased by 320 basis** points, **from 23.9% to 20.7%**, due to significant carry trade inflows aiming for short-term double-digit returns. These inflows bet on capital and EGP appreciation.

With substantial long-term external financing expected in April, carry trade inflows are anticipated to remain strong.

# ROAD AHEAD

The influx of external funds is likely to spur appreciation of the Egyptian pound (EGP) against the USD, potentially reaching 45, which could accelerate the ongoing process of de-dollarization. However, it's important to note that sustained appreciation beyond this range may be constrained, as the CBE is expected to actively accumulate surpluses to replenish foreign asset reserves.

The recent **devaluation of the Egyptian pound (EGP**) and fiscal adjustments reflect a commitment to address currency crisis symptoms and achieve monetary policy independence. The approval of Egypt's program reviews by the **IMF**, along with an increase in the loan package, signals international confidence in Egypt's economic reform efforts.

The return to orthodox economic policies and **growing investor confidenc**e have led to substantial inflows into Egypt's sovereign debt instruments. This is evidenced by the decrease in credit default swap (CDS) spreads and significant appreciation of the EGP against the USD, resulting in attractive returns for investors.

The devaluation of the EGP may temporarily **increase inflationary pressures, particularly in essential goods.** However, over the long term, the transition to a more flexible exchange rate regime is expected to yield benefits as businesses and households adapt to the new economic environment.

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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