



Egypt's Macroeconomic Overview

Q1 FY 22/23

(including latest updates until May 2023)

May 2023

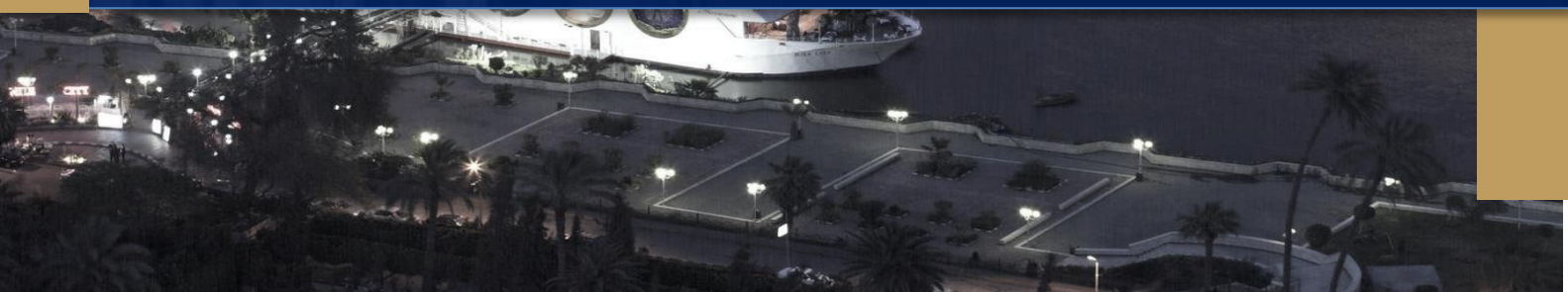


Table of Contents

3	Background
3	Latest Highlights
4	Real Sector
6	Monetary Sector
8	Fiscal Sector
10	External Sector
12	Foreign Investment
14	International Trade
18	Industrial Production
19	Credit Ratings
20	Updates and Projections

Background

The Egyptian market continues to face several economic and fiscal challenges that have a negative impact on the overall business environment. In the wake of the war in Ukraine, Egypt was severely hit by a massive capital flight of over USD 20 billions of portfolio investments between March and April 2022, leaving the capital account in a chronic significant deficit and threatening to deplete the country's foreign reserves due to mounting external debt obligations. As a result, the Government of Egypt (GoE) negotiated with the International Monetary Fund (IMF) a new financing agreement under the fund's Extended Fund Facility (EFF). This resulted in a financing deal worth USD 3 billion, for which the GoE committed to implementing a series of economic reform to enhance private investments. These commitments include adopting a flexible exchange rate regime and reducing the state's footprint in the local economy. Anticipated funding and investments from the Gulf Cooperation Countries (GCC) to purchase state owned assets have yet to materialize.

The decline of Egypt's GDP growth rate is adding further pressures on the economy. Rising global and local interest rates will continue to increase the costs of borrowing in the public budget, threaten fiscal consolidation efforts, and reduce the fiscal space for the government to spend on priority sectors including health, education and required annual public investments. On the other hand, the private sector continues to suffer from shortages in much needed foreign currency to import essential production inputs and equipment.

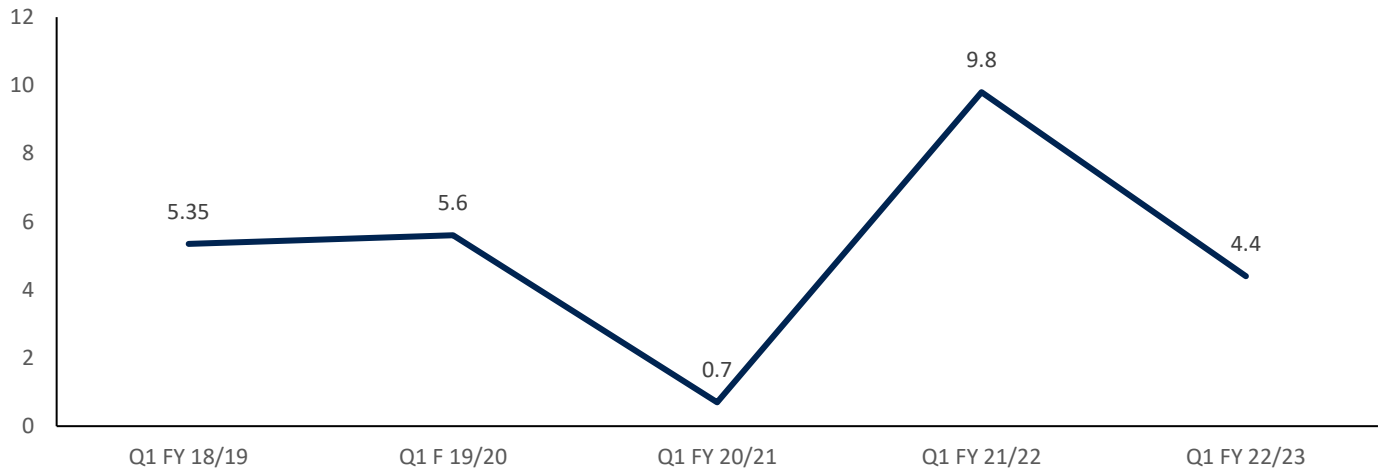
These challenging economic circumstances have placed pressures on the citizens. The latest figures from the Central Authority for Public Mobilization and Statistics (CAPMAS) reveal that the population under the national poverty line have recorded 29.7%. This is increasingly diminishing gains from the economic development programs conducted by the GoE to support vulnerable groups.

The May 2023 edition of the Macroeconomic Overview (Q1 FY22/23) report monitors the main economic indicators issued by the Central Bank of Egypt (CBE) as well as the Ministries of Finance and Planning/Economic development. The report also highlights the latest Egyptian credit ratings as announced by the international credit agencies.

Latest Highlights

- Egypt's real GDP growth rate reached 4.4% in Q1 FY 22/23, compared to 9.8% in Q1 FY 21/22, declining by over 55%. Nevertheless, the Ministry of Planning and Economic Development expects that Egypt's real GDP growth rate would reach 4.2% by the end of the current fiscal year, exceeding IMF expectations.
- Accordingly, the growth rate among sectors remained uneven, with some sectors signaling a negative growth rate. In terms of its contribution to the GDP growth during Q1 FY 22/23, the communication sector ranked first, registering a growth rate of 16.4%, marking a slight increase of 0.6% compared to the same quarter a fiscal year earlier.
- The total unemployment rate recorded 7.2%, compared to 7.4% a year earlier. Although male unemployment rate fell by 9.6% reaching 4.7% in Q4 2022, from 5.2% in Q4 2021, the female unemployment rate increased by 8.4%, reaching 19.3% instead of 17.8%.
- The annual headline inflation rate has been drastically increasing since the breakout of the war in Ukraine. The headline inflation rate increased by over 133%, reaching 30.59% in April 2023, compared to 13.11% in April 2022 (due to the increase in prices among various sectors such as food and beverages, restaurants as well as the education and health sectors.)
- As for the fiscal sector, the budget deficit recorded 4.68% of the GDP, taking an upward trend due to the severity of the international challenges. Thus, the Ministry of Finance announced that the budget deficit is likely to reach 6.4% by the end of the fiscal year, yet it is lower than the Ministry's previous projection of 6.8%.
- Tourism receipts and Suez Canal revenues have increased by 43% and 19.4%, respectively, while remittances of Egyptian expatriates into the local banking system fell by 21% in Q1 FY 22/23.
- The production index for manufacturing and extractive industries (excluding crude oil and petroleum products) declined by 6.6%, reaching 105.08 in January 2023, compared to 112.46 in January 2022.
- Major international credit agencies such as S&P and Fitch have recently downgraded Egypt's credit rating due to the economic instability and the country's heavy debt burden.
- The IMF has revised downwards Egypt's expected real GDP growth for the second consecutive time since October 2022, projecting Egypt's real GDP growth rate to reach 3.7% in 2023, down from 4.4% compared to the Fund's October 2022 projections.

Real GDP Growth Rate (%)



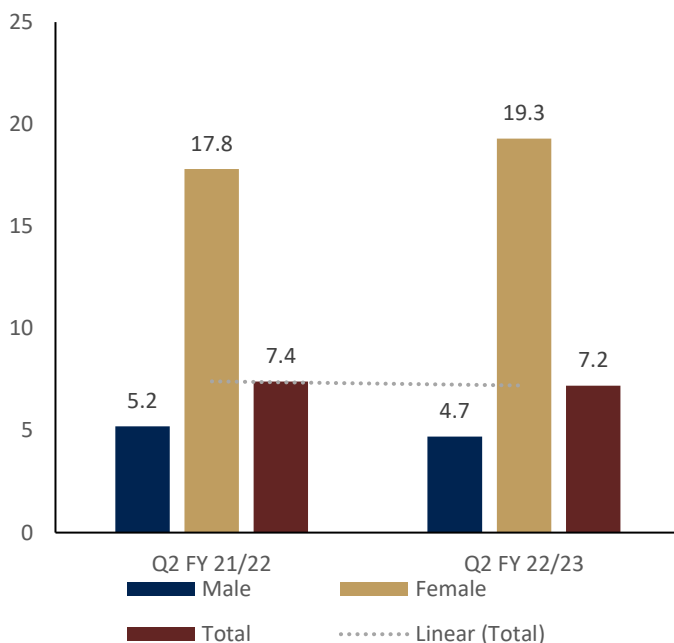
Source: The Ministry of Planning and Economic Development, 2023

Egypt's real GDP growth rate declined by almost 55.1%, reaching 4.4% in Q1 FY 22/23, compared to 9.8% in Q1 FY 21/22. During the first half of the fiscal year, Egypt's real GDP growth rate reached 4.2%, driven mainly by the growth in the telecommunications, agriculture, real estate, wholesale, and retail sectors. The decline in Egypt's economic activity could also be attributed to import backlogs and imported inflation which has also led to a decline in the GDP growth rate.

Nevertheless, Ministry of Planning and Economic Development expects that Egypt's real GDP growth rate will reach 4.2% by the end of the current fiscal year. This exceeds the expectations of several international financial institutions including IMF, which lowered its projection for the GDP growth rate from 4% to 3.7% due to international instability.

The breakdown of the GDP by expenditure reveals that the private consumption holds the highest share, followed by the imports of goods and services.

Unemployment Rate (%)



During Q2 of FY 22/23 (October-December 2022), the total unemployment rate fell by 2.7%, reaching 7.2%, compared to 7.4% a year earlier. This is the lowest level since 2004.

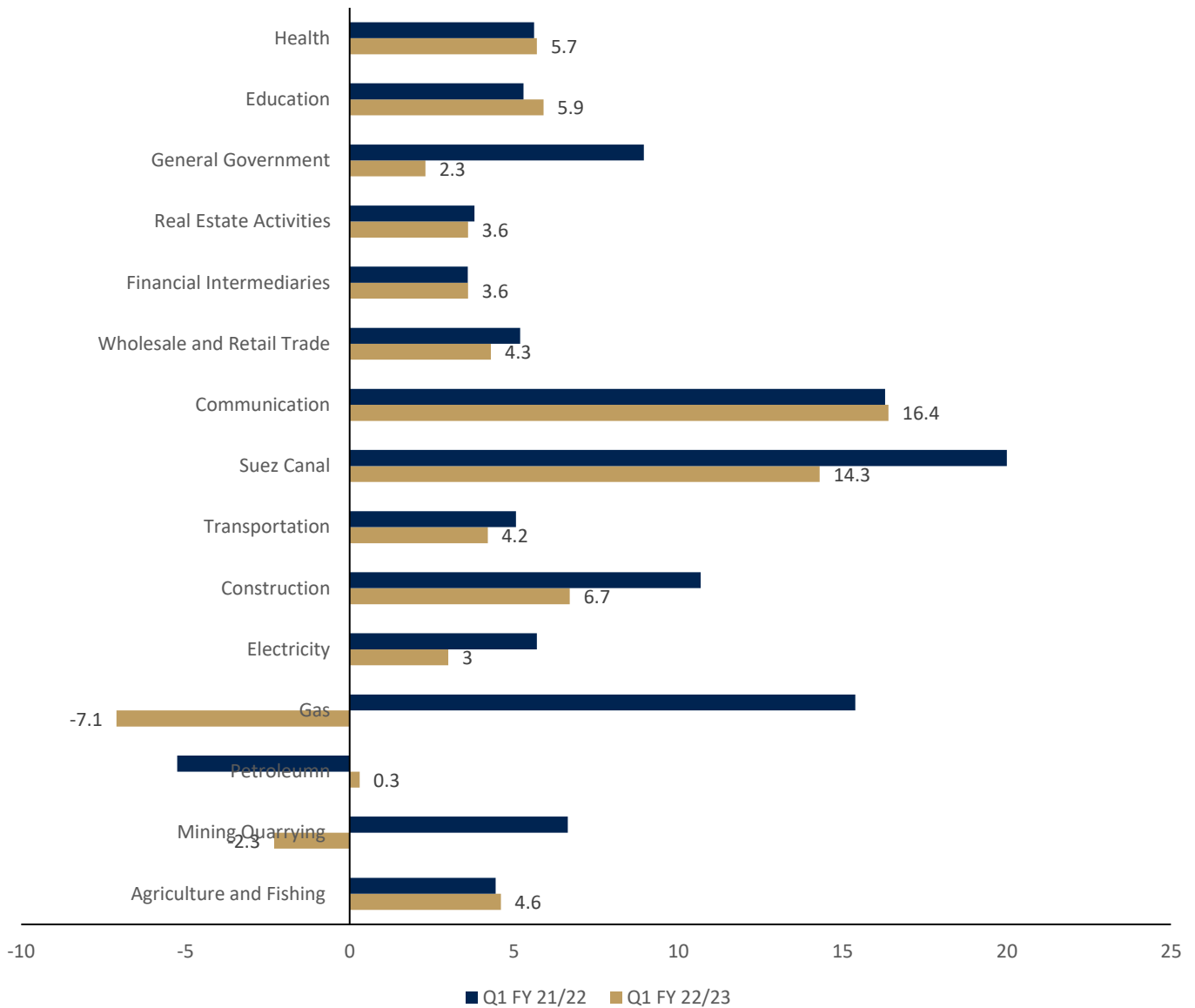
Although male unemployment rate fell by 9.6%, reaching 4.7% in Q4 2022, from 5.2% in Q4 2021, the female unemployment rate increased by 8.4%, reaching 19.3% instead of 17.8%.

The total labor force slightly increased by 2.3%, reaching 30.3 million individuals, compared to 29.6 million individuals. Out of the 30.3 million, 28.1 million persons are employed (92.7%), while 2,185 are unemployed (7%).

85.3% of the employed individuals are males, while only 14.7% are females. Despite the figure, Egypt has shown determination to eliminate gender discrimination on various fronts.

Source: CAPMAS, February 2023

Sectoral Growth (%)



Source: The Ministry of Planning and Economic Development, 2023

Given the fact that Egypt's real GDP growth rate has significantly declined during Q1 FY 22/23, the growth rate among sectors remained uneven, with some sectors signaling a negative growth rate.

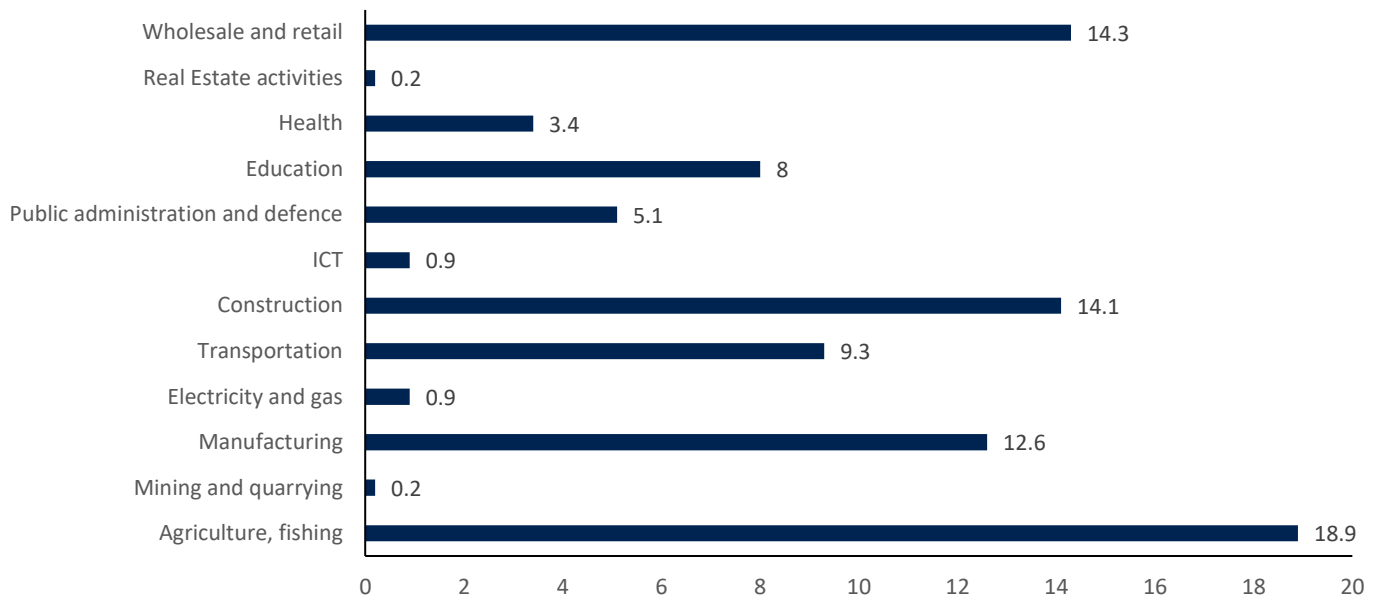
In terms of its contribution to the GDP growth during Q1 FY 22/23, the telecommunications sector ranked first, with a growth rate of 16.4%, marking a slight increase (0.6%) compared to the same quarter a fiscal year earlier. Suez Canal ranked second in terms of contribution to the GDP growth during Q1 FY 22/23 after registering a growth rate of 14.3%. In addition, the construction sector managed to record a growth rate despite the increase in steel prices. In this regard, Fitch Ratings predicts that Egypt's construction industry will grow by an average growth rate of 7.4% between 2024 and 2027. The Agency expected that Saudi and Emirati investors will be strategic investors in this sector.

Meanwhile, several sectors witnessed a sharp decline in their contribution to the GDP growth, among which are the petroleum and gas sectors, which fell by 105% and 146%, respectively.

Noteworthy that the Ministry of Planning and Economic Development expects, in the GoE budget plan for FY 23/24, that five major sectors will contribute positively to the GDP growth namely, telecommunications (16.8%), tourism (12%), Suez Canal (11.9%), construction (6%) and health services (5.2%).

Real Sector

Share of Employment by Sector (%)

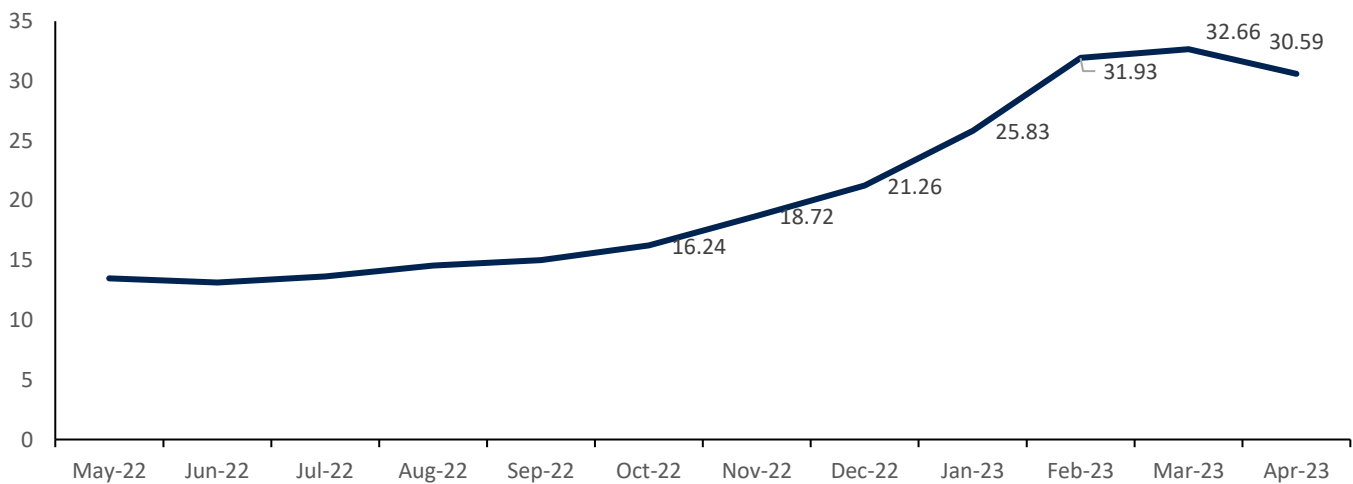


Source: CAPMAS, February 2023

18.9% of the total labor force in Egypt is working in the agriculture and fishing sector, while 14.3% work in wholesale and retail trade. 14.1% and 12.6% of the total employees work in the construction and manufacturing sectors.

Monetary Sector

Headline CPI (% change)

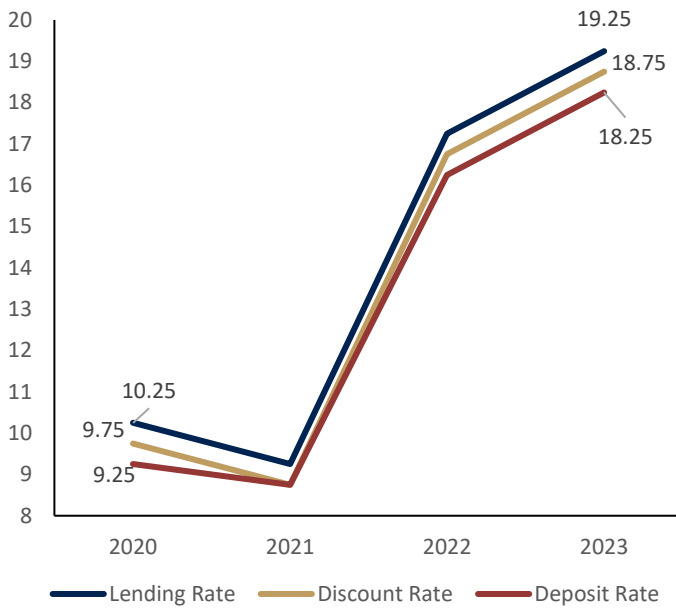


Source: The Central Bank of Egypt, 2023

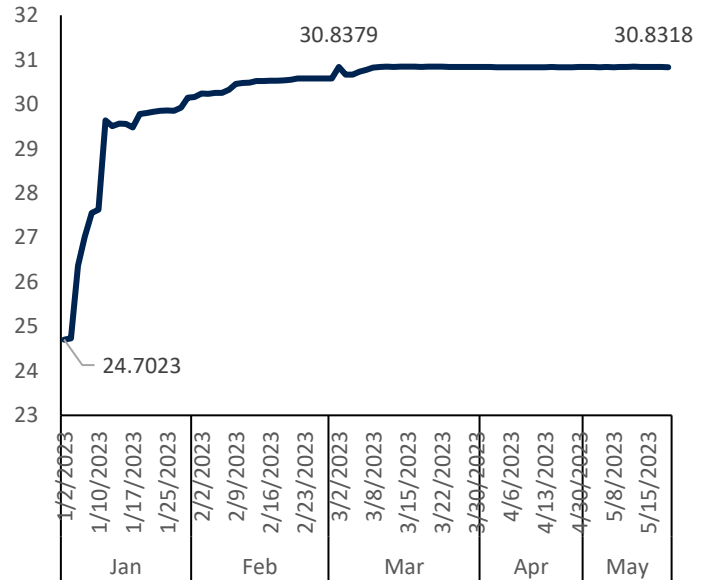
Egypt's annual headline inflation has been taking an upward trajectory since the eruption of the war in Ukraine and its consequences, which led to imported inflation. The headline inflation rate increased by more than 133% on annual basis, reaching 30.59% in April 2023, compared to 13.11% in April 2022. This is due to the increase in the price of the food and beverages, which increased by almost 53.8%, along with the increase in housing, water, fuel, and electricity prices (increased by 8.3%). Likewise, the prices in the restaurants segment have increased by 48%.

Although the inflation rates have been increasing throughout the past few months, monthly inflation rates have been increasing at a slower pace. Nevertheless, this is not likely to persist due to the increase in prices of diesel and subsidized commodities sold to ration card holders.

Key Interest Rates (%)



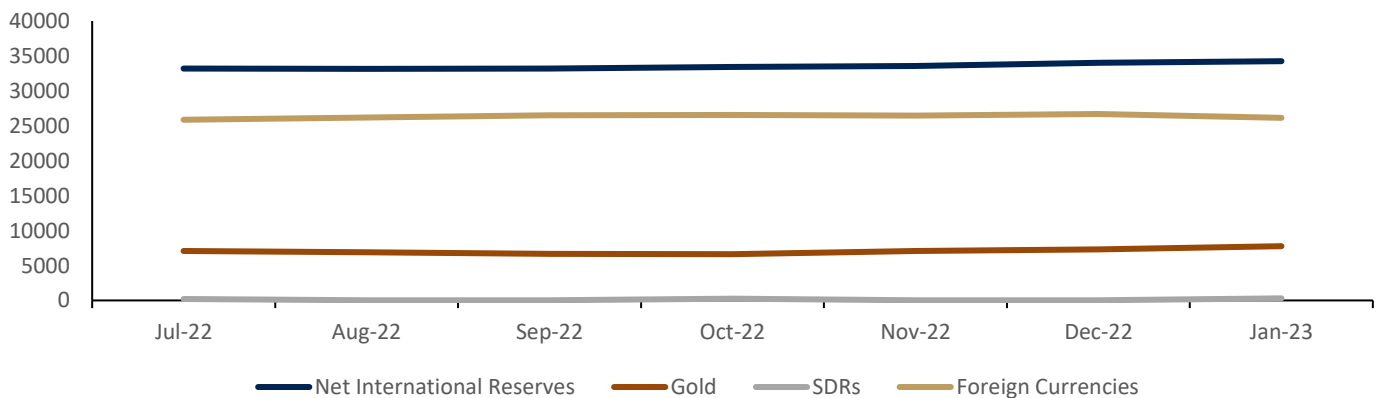
Exchange Rate (USD/EGP)



Source: The Central Bank of Egypt 2023

During the May 18, 2023, meeting of the Monetary Policy Committee (MPC,) the CBE kept interest rates unchanged after inflation eased slightly in April 2023. MPC left the deposit rate at 18.25%, the lending rate at 19.25% and the main operation rate as well as the discount rate at 18.75%. Over the past 15 months, the CBE has increased its key interest rates by 1,000 basis points (bps), the last of which was in March 2023 when the MPC decided to increase the interest rates by 2%. The rationale behind maintaining the key interest rates is linked to local and global circumstances. Domestically, the recent deceleration in Egypt's annual headline inflation rate has been a key factor. Global inflationary pressures have also eased due to the reduction in global supply bottlenecks and the impact of the tightening monetary policies adopted by major central banks around the world.

International Reserves (Mn USD)

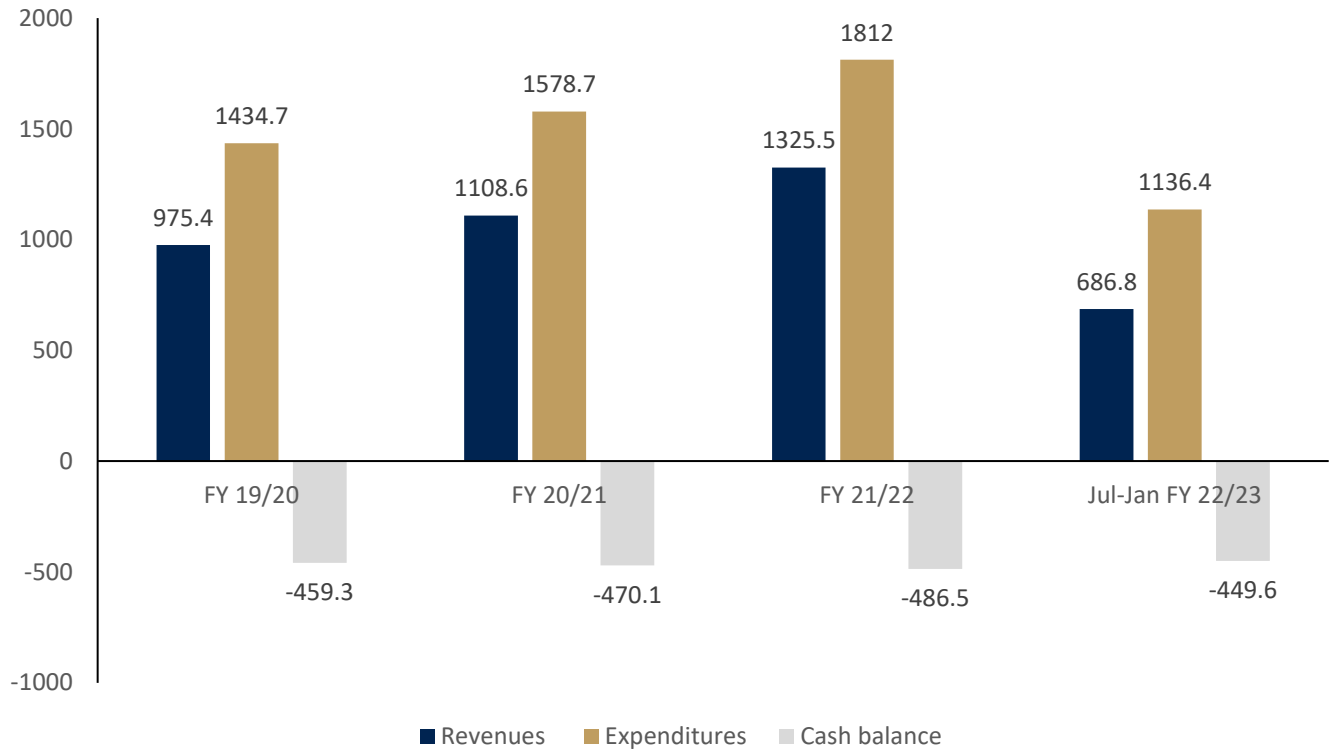


Source: The Central Bank of Egypt, February 2023

Egypt's international reserves increased by USD 548 million, reaching USD 34.5 billion in April 2023. The value of gold listed in reserves increased to USD 8 billion in April 2023, compared to USD 7.3 billion in December 2022, marking an increase of USD 705 million. Net international reserves in Egypt started to recover since August 2022 after being severely hit by the impact of the international challenges.

In addition, the special drawing rights (SDRs) increased by USD 336 million, reaching USD 349 million in April 2023, compared to USD 13 million in December 2022. On the other hand, the volume of foreign currencies declined by USD 496 million, reaching USD 26.1 billion, compared to USD 26.6 billion.

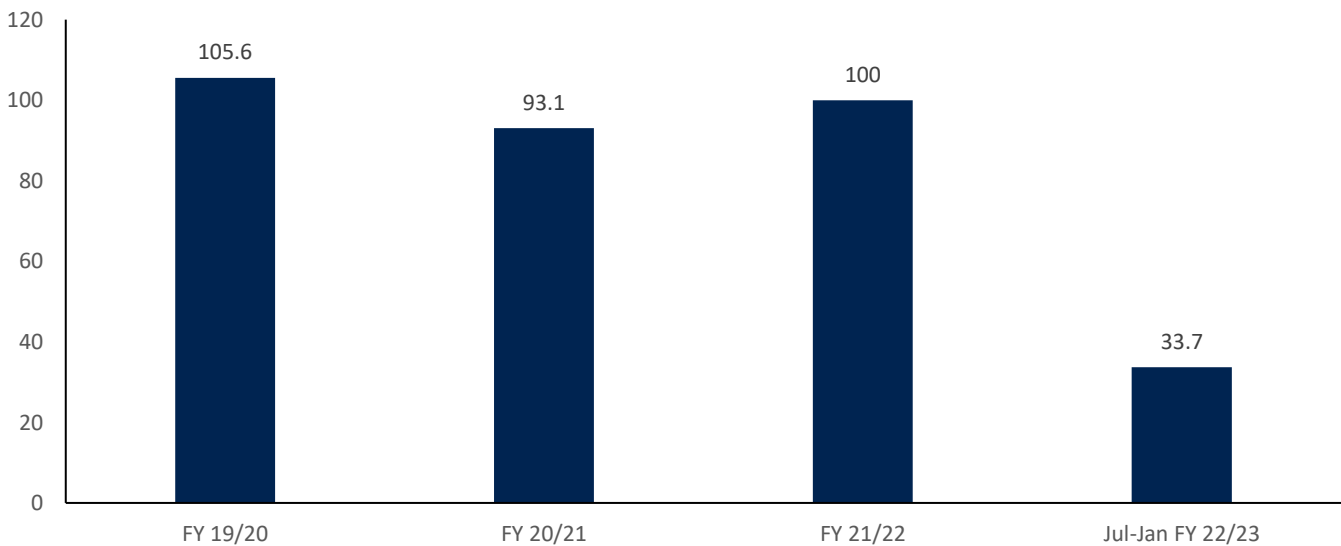
Budget Overview (Bn EGP)



Source: The Ministry of Finance, 2023

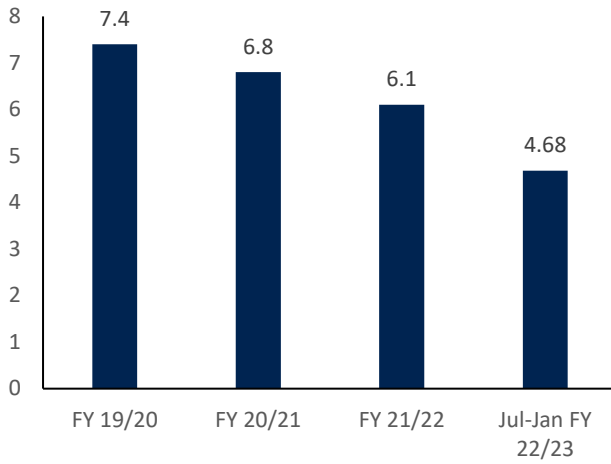
During the first seven months of the fiscal year, total revenues recorded EGP 686.8 billion while total expenditures reached EGP 1136.4 billion. Egypt's budget deficit reached EGP 449.6 billion during the corresponding period. The budget deficit recorded 4.68% of the GDP, taking an upward trend due to the severity of the international challenges. Thus, the Ministry of Finance announced that the budget deficit is likely to reach 6.4% by the end of the FY (lower than its previous expectation of 6.8%). The Ministry of Finance projects that the next fiscal year's budget deficit will reach 6.9%.

Primary Balance (Bn EGP)

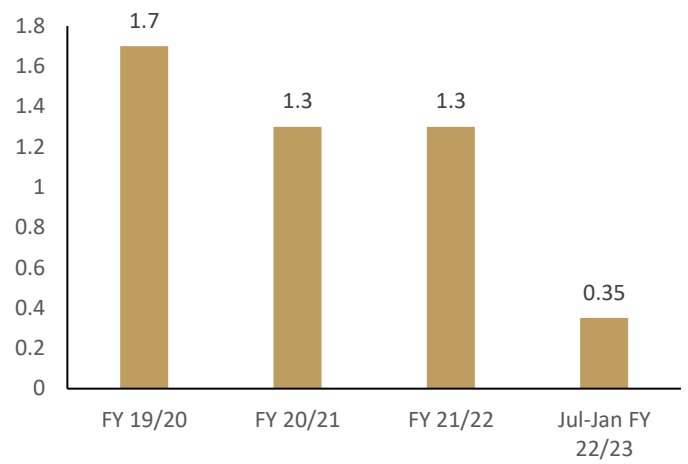


Source: The Ministry of Finance, 2023

Overall Budget Deficit (% GDP)

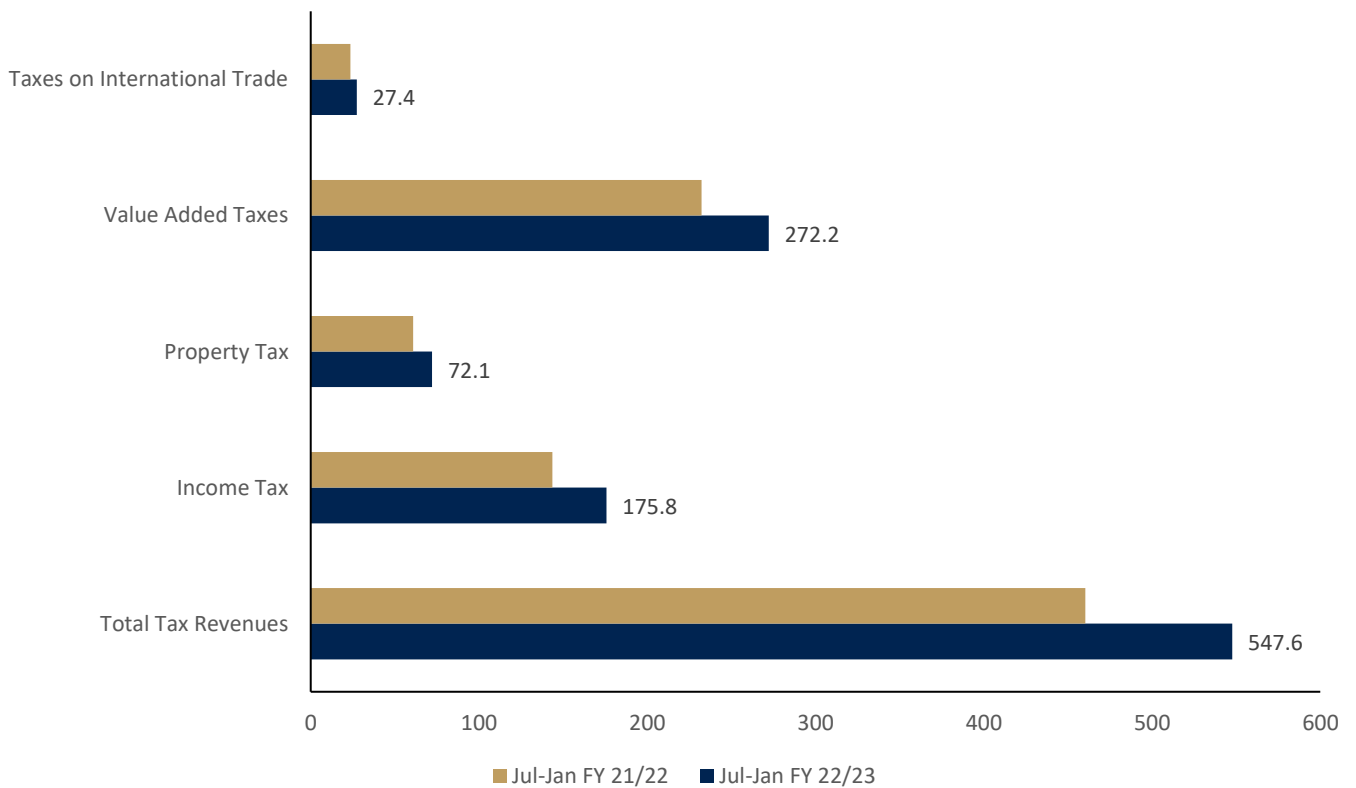


Primary Balance (% GDP)



Source: The Ministry of Finance, 2023

Sources of Revenue (Bn EGP)



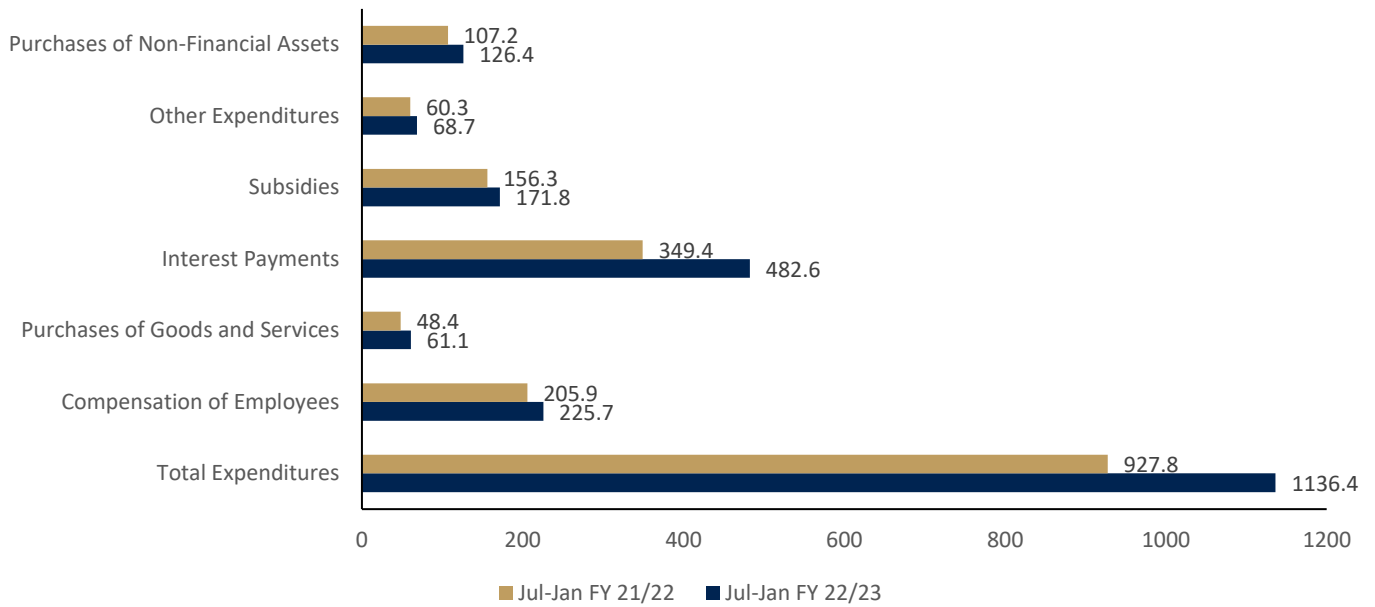
Source: The Ministry of Finance

Total tax revenues accounted for 80% of the government's total revenues during this period. Income tax revenues represented 26% of total tax revenues, amounting to EGP 175.8 billion, while the value-added taxes amounted for 40% of the tax revenues, reaching EGP 277.2 billion.

On a yearly basis, total tax revenues increased by 19%, while income tax and VAT increased by 22% and 17.2%, respectively. Likewise, the government succeeded in recording a primary surplus of 0.35% of the GDP during July-January, and it is expected to reach 0.6% by the end of the current FY and 2.5% in FY 23/24.

Fiscal Sector

Types of Expenditure (Bn EGP)



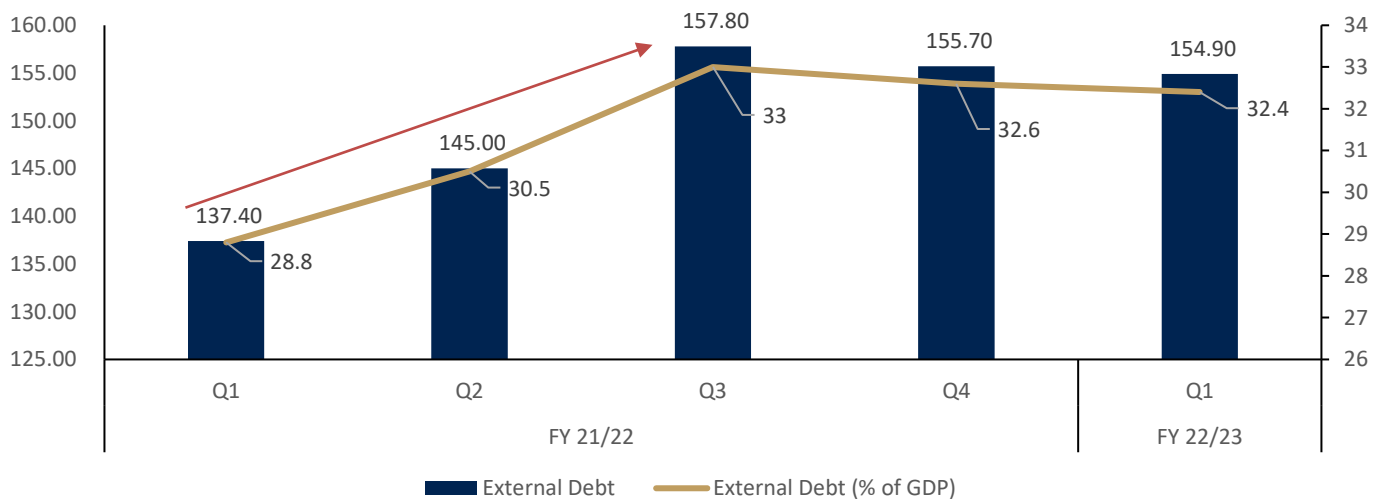
Source: The Ministry of Finance, 2023

During the corresponding period, the GoE's expenditures have increased by 22.5%, reaching EGP 1136.4 billion, compared to EGP 927.8 billion a year earlier. 42% of the government's expenditures were directed to interest payments (almost EGP 482.6 billion). This marks an increase of 22.3% (in interest payments) compared to the same period of the FY 21/22. Compensation of employees and subsidies have also increased by 9.7% and 9.9%, reaching EGP 225.7 billion and EGP 171.8 billion, respectively.

External Sector

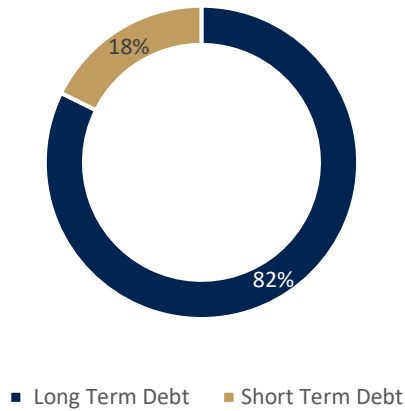
Egypt's external debt increased by almost 13%, reaching USD 154.9 billion in Q1 FY 22/23, up from USD 137.4 billion a year earlier. Multilateral institutions including the IMF, EBRD, the World bank and others, amount for 32% of the total external debt. Gulf Countries Deposits account for 10.8% of the total debt.

External Debt

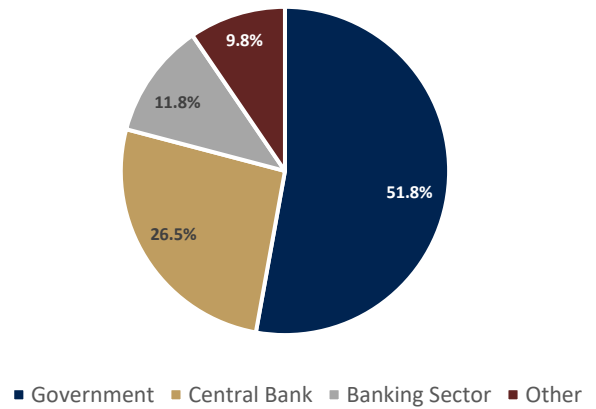


Source: The Central Bank of Egypt, 2023

External Debt (Q1 FY22/23)



Institutions' Share in Total Debt (%)

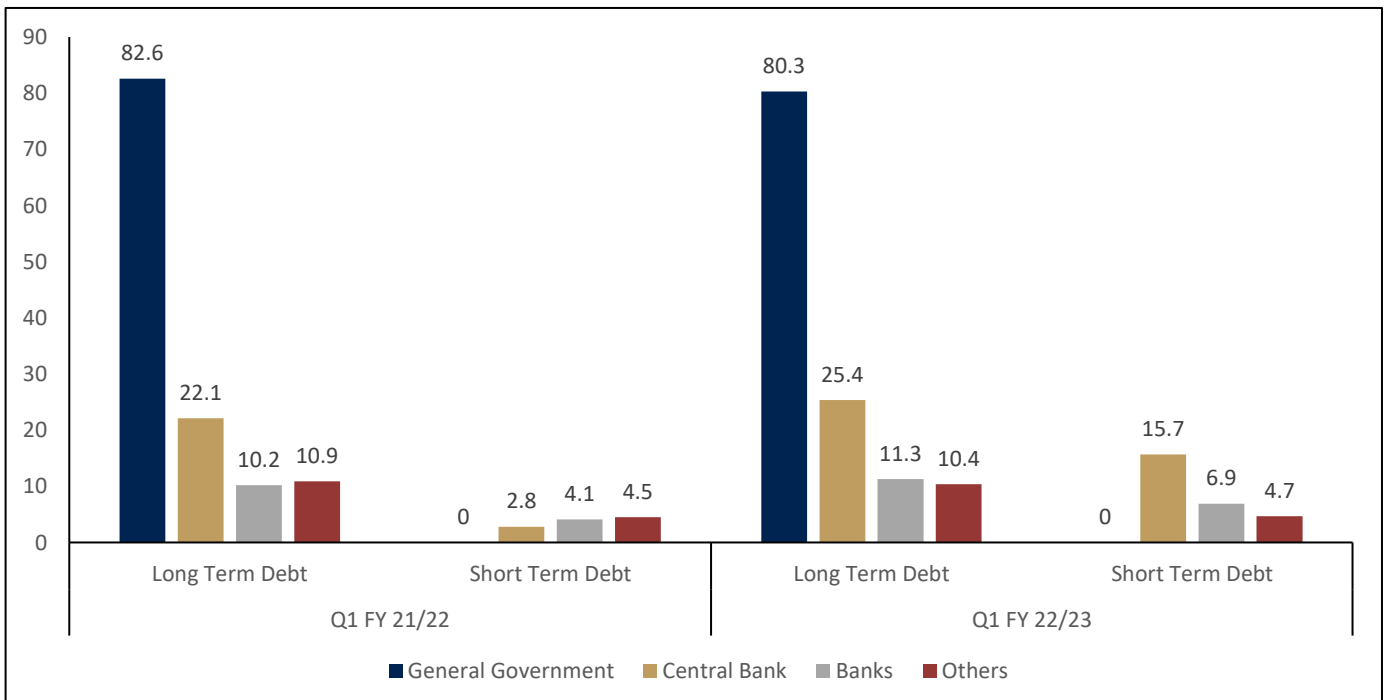


Source: The Central Bank of Egypt, 2023

Similar to the last 2 quarters, 82% of Egypt's total external debt is long term, while 18% is short term debt. 51.8% of the total external debt is the GoE's debt, while the banking sector and the CBE are responsible for 11.8% and 26.5%, respectively.

Nevertheless, the GoE's long-term debt fell by 2.8%, reaching USD 80.3 billion in Q1 FY 22/23, compared to USD 82.6 billion during the same period of FY 21/22. The CBE's long-term debt increased by 15%, reaching USD 25.4 billion, compared to USD 22.1 billion a year earlier. The increase in the CBE's long-term debt is driven by the increase in the CBE's loans by 12%, reaching USD 6.8 billion, compared to USD 6.1 billion a year earlier.

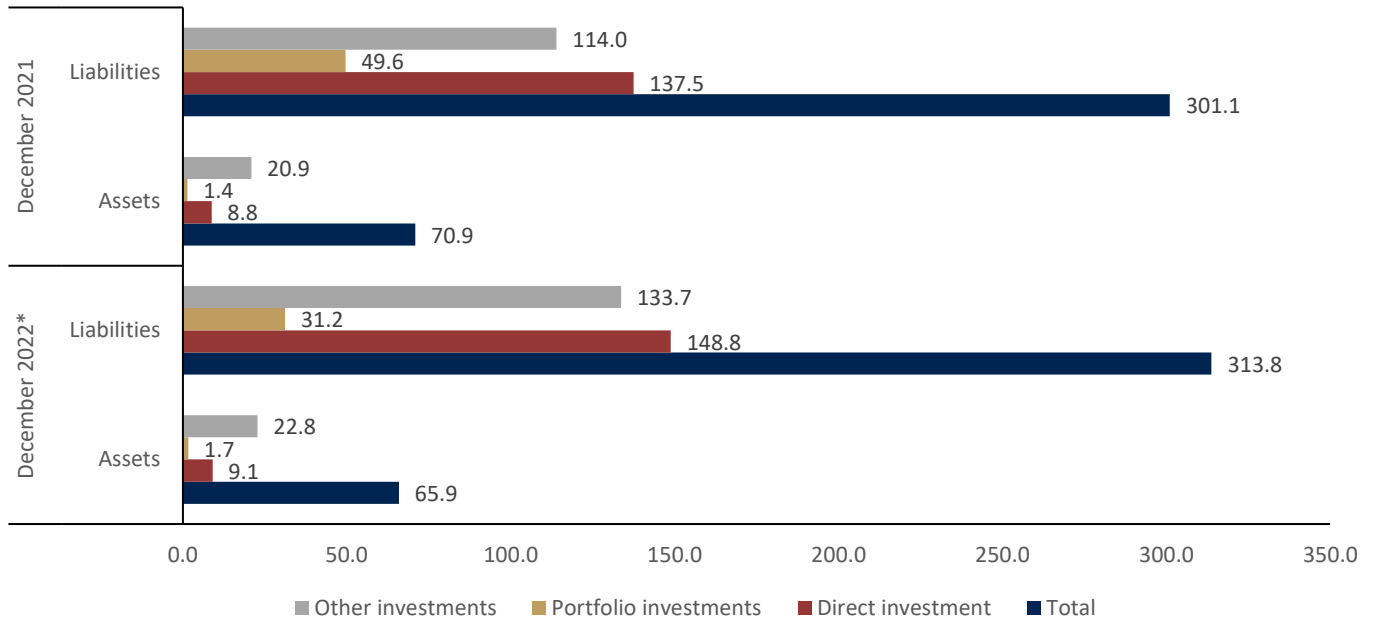
External Debt Structure by Debtor and Maturity (Bn USD)



Source: The Central Bank of Egypt, 2023

External Sector

International Investment Position (Bn USD)

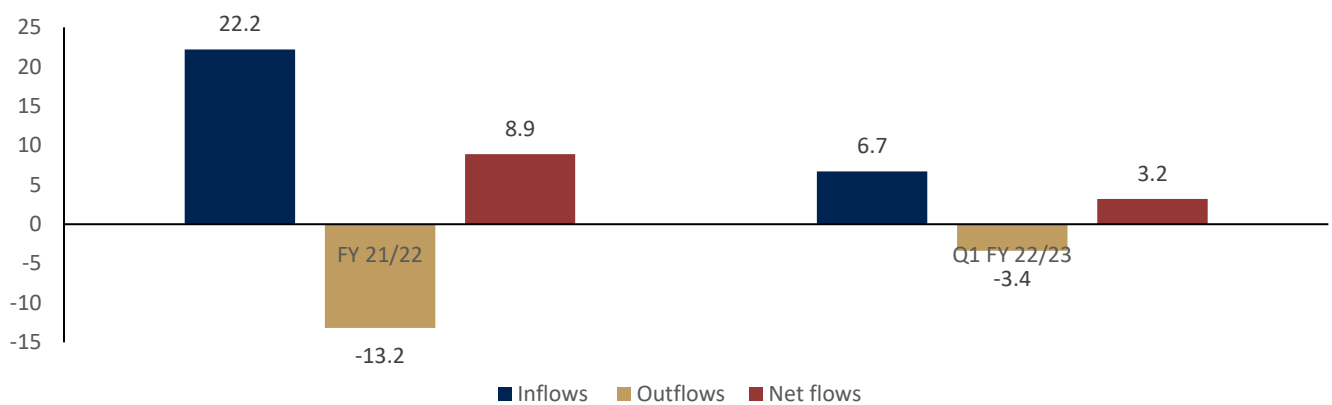


Source: The Central Bank of Egypt, 2023

Egypt's net international investment position reached USD -247.9 billion in December 2022, compared to USD -230.2 billion in December 2021, marking an increase of 7.7%. The increase is driven by the rise in total liabilities which increased by 4.2%, reaching USD 313.8 billion, compared to USD 301.1 billion in December 2021. The increase in total liabilities is fueled by an 8.2% increase in direct investment and other investments, which rose by 8.2% and 17.3%, respectively. On the other hand, total assets decreased by 7%, reaching USD 65.9 billion, compared to USD 70.9 billion in December 2021, driven by a 21.4% increase in portfolio investment in Egypt and 9% increase in other investments.

Foreign Investment

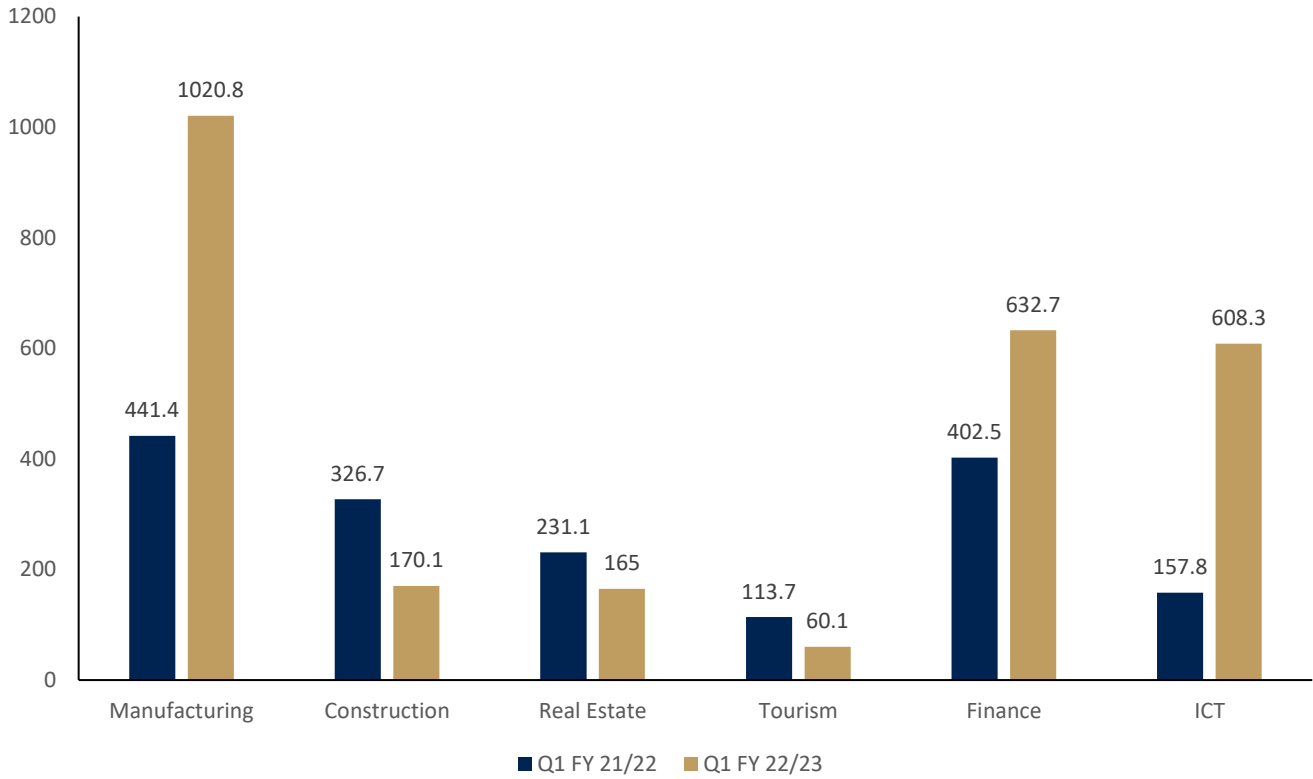
Net FDI (Bn USD)



Source: The Central Bank of Egypt, 2023

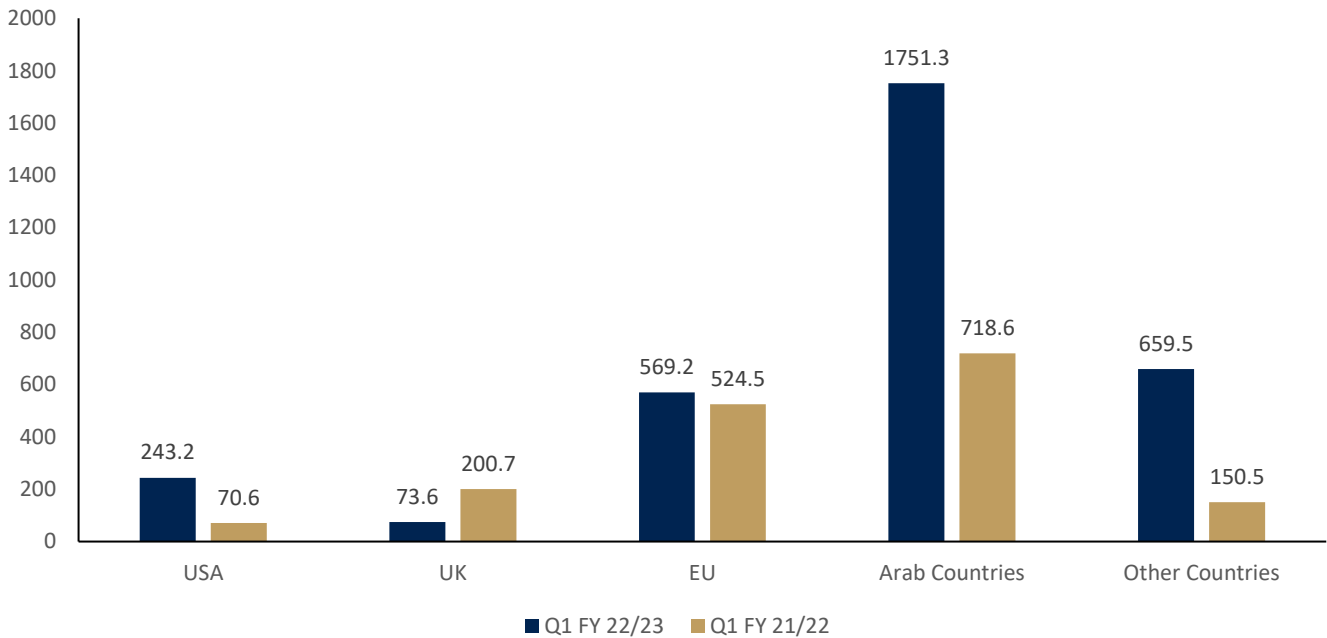
In Q1 FY 22/23, the net foreign direct investments (FDI) increased by 93%, reaching USD 3.2 billion, compared to USD 1.66 billion a year earlier. The increase is fueled by a 56% increase in the total inflows in Egypt, which reached USD 6.7 billion in Q1 FY 22/23, compared to USD 4.3 billion a year earlier. Nevertheless, total outflows increased by 26%, reaching USD 3.4 billion, compared to USD 2.7 billion in Q1 FY 21/22. As for the top sectors in terms of FDI, the services sector (real estate, tourism, finance among others) captured the highest shares (59% of the net FDI), followed by the manufacturing sector (31%),

Foreign Direct Investment by Sector in Q1 FY 22/23 (Mn USD)



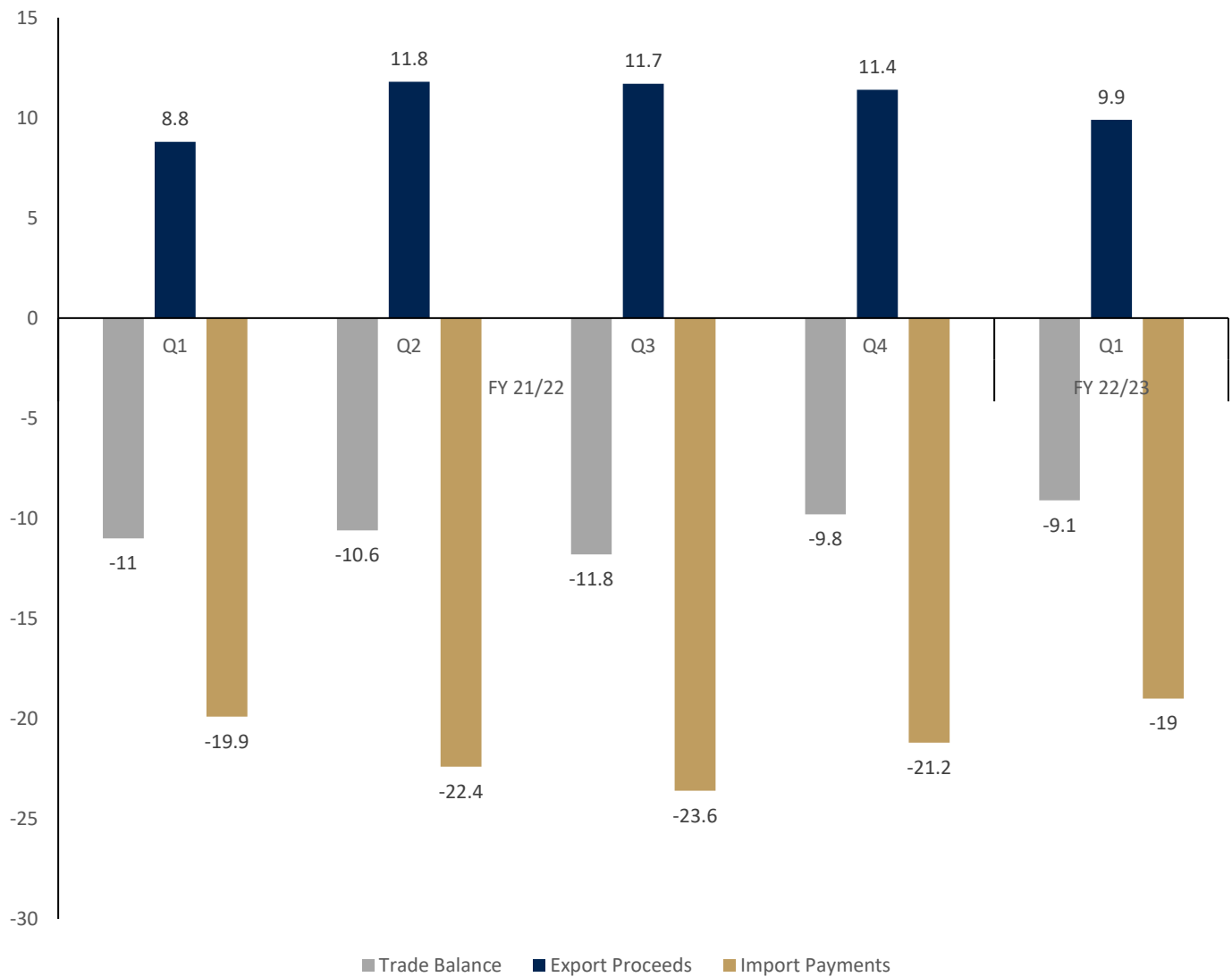
Source: The Central Bank of Egypt, 2023

Total Inflows by Country in Q1 FY22/23 (Mn USD)



Source: The Central Bank of Egypt, 2023

Trade Balance (Bn USD)



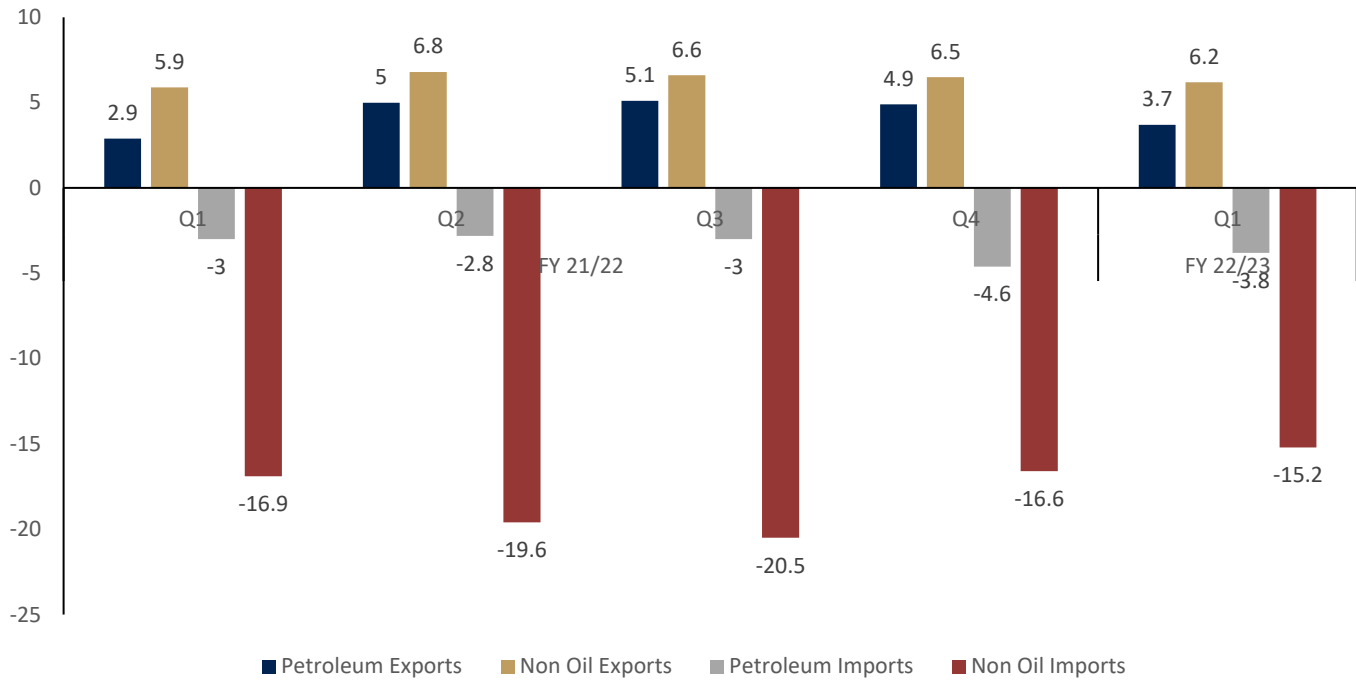
Source: The Central Bank of Egypt, 2023

Egypt's trade deficit fell by 17.2%, reaching USD 9.1 billion during Q1 FY 22/23, compared to USD 11 billion during Q1 FY 21/22. The recovery in the trade deficit is due to a 12.5% increase in export proceeds. Such proceeds increased on the back of non-petroleum exports, which rose by 5.1% through the increase in exports of phosphate and mineral fertilizers, gold, transmitter and receiver devices of radio and television, as well as ready-made clothes. On the other hand, petroleum exports' proceeds increased by 27.6%, reaching USD 3.7 billion in Q1 FY 22/23, compared to USD 2.9 billion in Q1 FY 21/22.

At the level of merchandise classification, Egypt's exports of finished goods represented 38% of total exports, followed by Egypt's exports of fuel and mineral oil products (37% of total exports). Meanwhile, Egypt's imports of intermediate goods represented 33% of total exports, followed by its imports of fuel and mineral oil products.

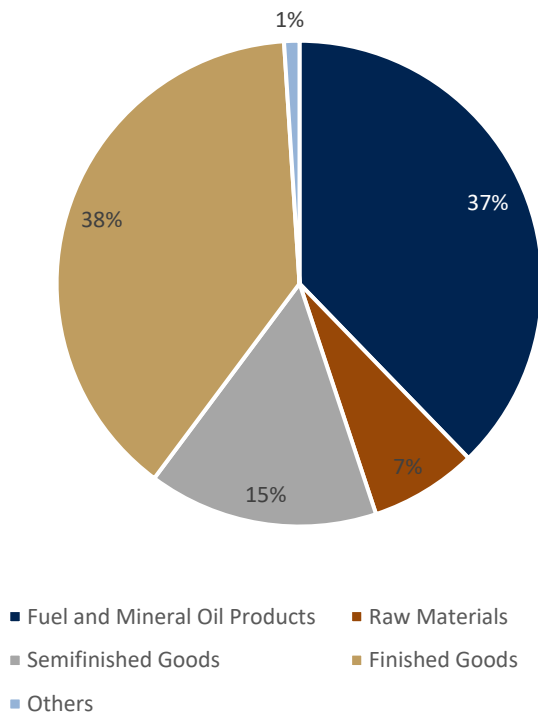
Total imports decreased by 4.5%, fueled by a 10% decrease in non-oil imports. The decline is driven by a decline in imports of passenger vehicles, telephones, pharmaceutical products and vaccines. On the other hand, petroleum imports increased by almost 27%, reaching USD 3.8 billion in Q1 FY 22/23, compared to USD 3 billion a year earlier.

Trade Balance by Economic Activity (Bn USD)

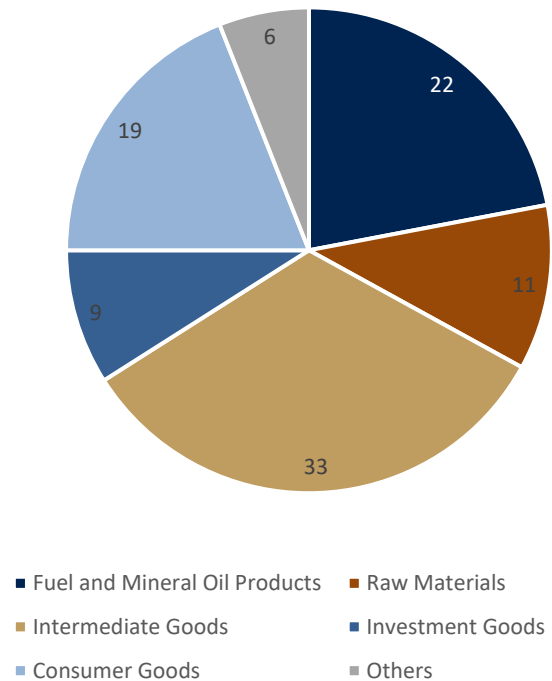


Source: The Central Bank of Egypt, February 2023

Proceeds of Mechandise Exports (%)

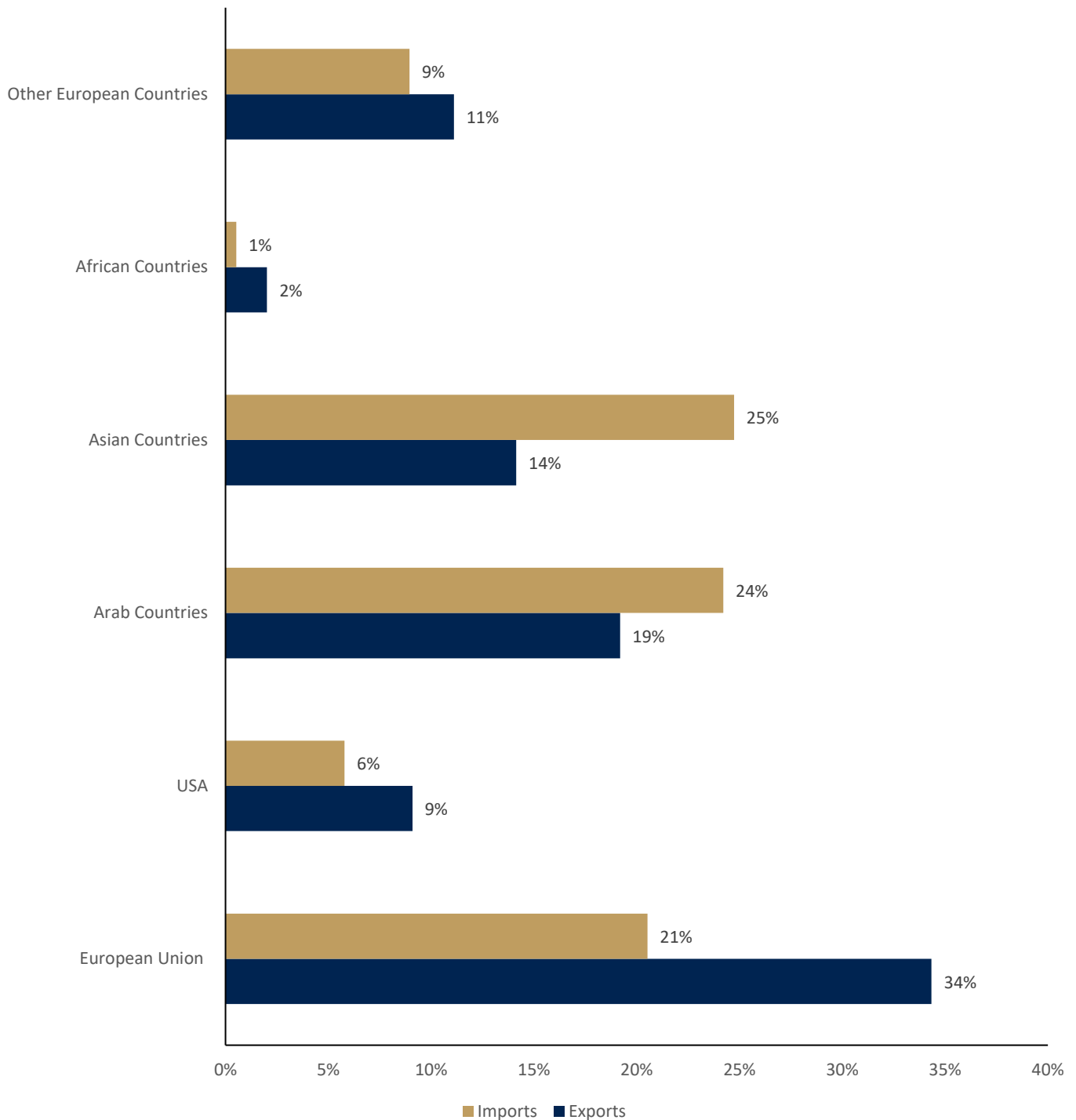


Payments of Mechandise Imports (%)



Source: The Central Bank of Egypt, February 2023

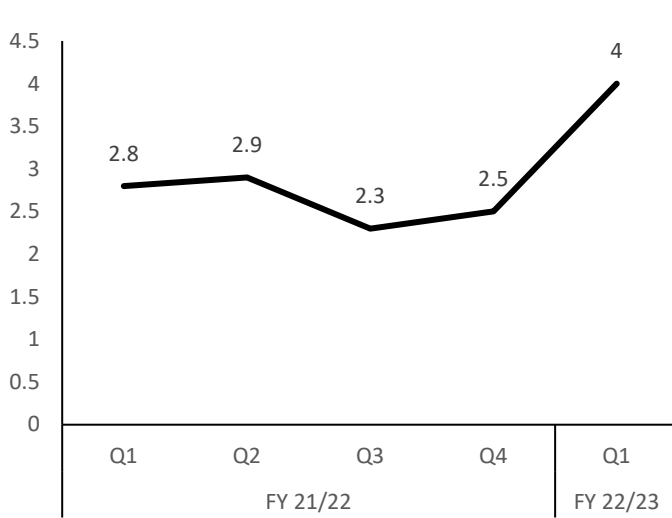
Trade by Geographical Distribution in Q1 FY22/23 (%)



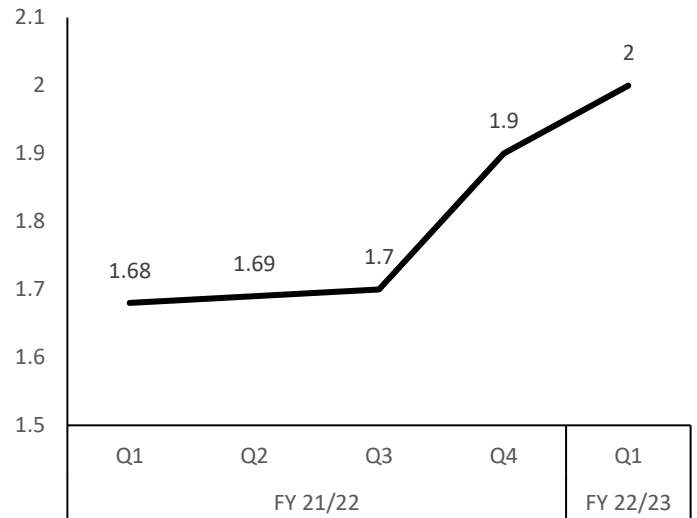
Source: The Central Bank of Egypt, February 2023

34% of total Egypt's exports are directed to markets within the European Union, while only 2% are directed to Asian countries. Nevertheless, 25% of Egypt's total imports arrive from Asian markets, while only 1% of total imports come from Africa. In terms of major countries, the United Arab Emirates (UAE) recorded the highest trade value with Egypt (USD 2.3 billion), followed by China and the United States which recorded USD 2.16 and USD 2.11 billion, respectively.

Tourism Receipts (Bn USD)



Suez Canal Receipts (Bn USD)

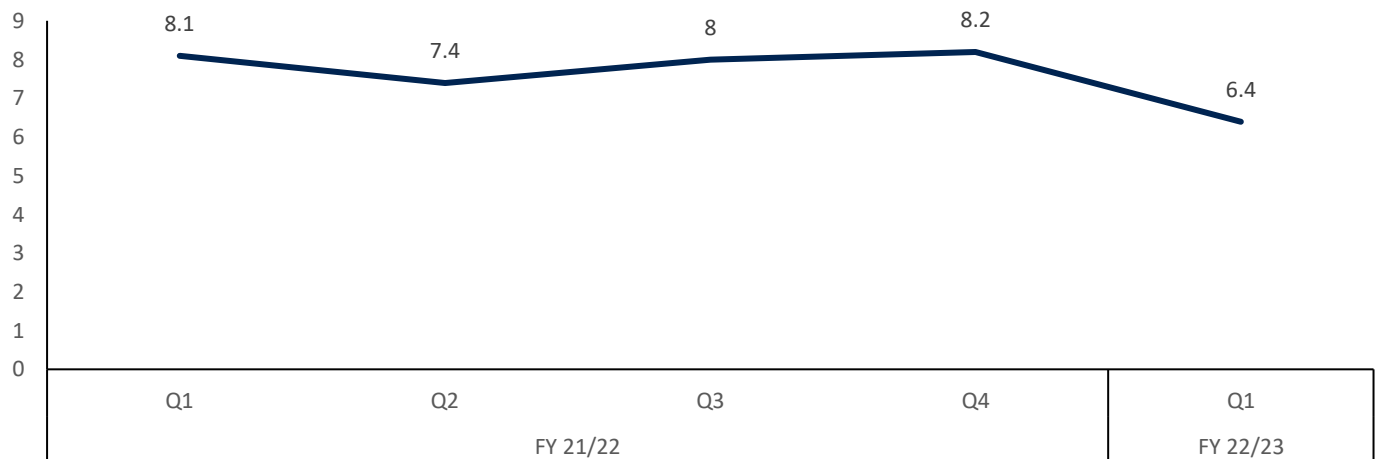


Source: The Central Bank of Egypt, February 2023

Tourism receipts recorded the highest record in three years, reaching USD 4 billion in Q1 of FY 22/23, compared to USD 2.8 billion a year earlier (growth rate of 43%). This is in line with the GoE ambitious plan to triple tourism revenues over the next three years. The GoE aims to increase the revenues to USD 30 billion per year, instead of USD 9 billion in the last FY.

Similar to tourism receipts, Suez Canal revenues have slightly increased, recording USD 2 billion in Q1 FY 22/23, compared to USD 1.68 billion a FY earlier. The highest figure recorded by the Suez Canal Authority on the monthly revenues generated by the Canal reached USD 832.2 million in March 2023.

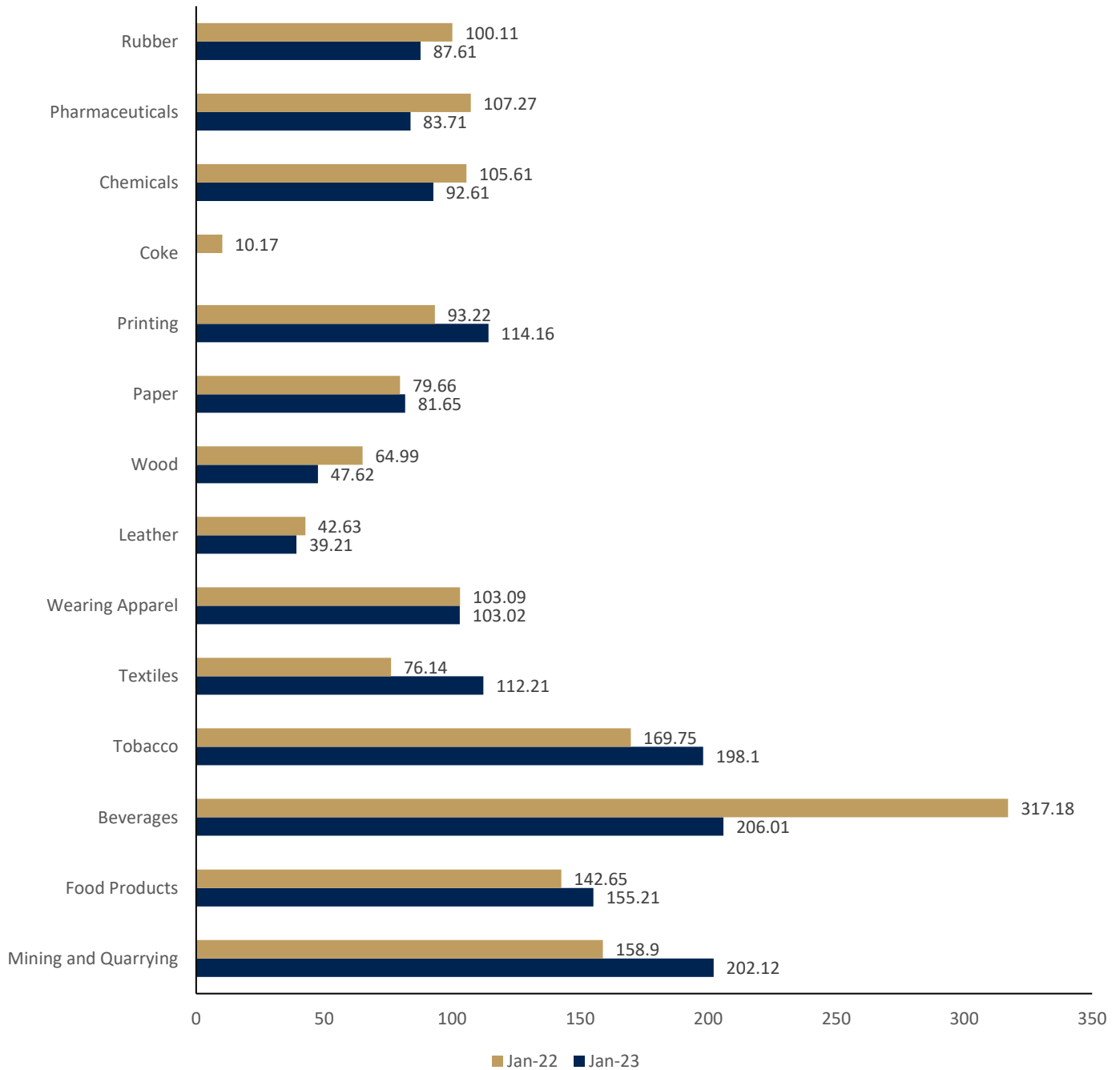
Remittances from Egyptians Abroad (Bn USD)



Source: The Central Bank of Egypt, February 2023

Unlike tourism receipts and Suez Canal revenues, remittances from Egyptian expatriates into the local banking system have fell by 21%, recording USD 6.4 billion in Q1 FY 22/23, compared to USD 8.1 billion a FY earlier. The decrease in Egypt's remittances was projected by international institutions. For instance, the World Bank's 'Remittances Brave Global Headwinds Special Focus: Climate Migration' report stated that persistent adverse trends in the global environment and deeper financial difficulties in the MENA region are anticipated to slow the pace of remittance receipts in 2022 and 2023.

Monthly Industry Production Index by Economic Activity



Source: CAPMAS, April 2023

Production index for manufacturing and extractive industries (excluding crude oil and petroleum products) declined by 6.6%, reaching 105.08 in January 2023, compared to 112.46 in January 2022. The index of the food products industry rose by 8.8%, reaching 155.21 during January 2023, compared to 142.65, to increase the production and cover the needs of the market with the advent of the holy month of Ramadan (April 2022.)

Meanwhile, the index of the chemicals products fell by 12.3%, reaching 92.61 in January 2023, compared to 105.61 a year earlier. The index for the manufacture of pharmaceutical and medicinal preparations decreased by 21.9%, reaching 83.71 in January 2023 compared to 107.27 in January 2022. The decline in the index is due to the shortages of raw materials required for production in these industries.

Fitch Ratings Downgrades Egypt's Credit Rating to "B" and Remains its Negative Outlook

Fitch Ratings announced in its latest press release a downgrade of Egypt's long-term foreign-currency Issuer Default Rating (IDR) to B, instead of B+, with a negative outlook.

The international credit agency attributed the decision to Egypt's high external financing needs and the uncertainty over the current monetary policy. In addition, the Agency highlighted the risk of undermined confidence if the GoE's transition towards a flexible exchange rate regime is delayed.

Similar to S&P Global Ratings, which predicted further depreciation of the Egyptian Pound, Fitch also projected a further depreciation of the EGP before it stabilizes in the next fiscal year (FY 23/24). In addition, Fitch expects that the current account deficit will decline to 3.3% of GDP in the current and next FY.

Moreover, Fitch expects that Egypt will face difficulties in securing its external financing needs in FY 23/24, and attributed this projection to the increase in the value of external debts that are due for repayment (USD 7.2 billion), compared to USD 4.3 billion in FY 22/23.

It is worth mentioning that Fitch Ratings is not the only credit agency that downgraded Egypt's credit rating. S&P Global Ratings recently affirmed that the local and foreign currencies credit ratings of the country are B. However, it lowered its outlook for Egypt to negative from stable.

Standard and Poor's Global Ratings Kept Egypt's Rating at "B" with Negative Outlook

S&P Global Ratings stated on April 21, 2023 that the local and foreign currencies credit ratings of Egypt are B. However, the Agency lowered its outlook for Egypt from stable to negative. The rating is based on the expectation that the country's high external financing needs shall be met by multilateral and bilateral lenders. Although the Agency affirmed the GoE's efforts in mitigating the impact of the Ukraine war, it mentioned that the economic policies adopted by the GoE may be insufficient to stabilize the USD/EGP exchange rate and attract foreign currency inflows. In addition, the Agency stated that it may lower its outlook for Egypt within the next 12 months if lenders' funding is not sufficiently met.

S&P forecasted a further decline in the Egyptian Pound by 53% by the end of FY 22/23. It also expects further decline of the Pound during the next few years. Additionally, Egypt's economic growth is likely to reach 4% over the next three years, as per S&P's analysis. Meanwhile, the current account deficit is projected to decline to around USD 13 billion in the upcoming fiscal year and is likely to remain near this level until FY 25/26, according to S&P.

Following the S&P's announcement, the yield on Egyptian bonds witnessed a significant increase, reflecting the higher risk of the sovereign debt and the reduced appetite of portfolio investors to inject cash flows in the Egyptian economy.

It is worth mentioning that Egypt has never defaulted on its debt payments. If the net foreign assets position in the banking sector kept deteriorating (which is likely to happen) and if the problem of shortage of dollars persists, the GoE will find itself in a critical position. Given the ambiguity of data of the current account, it is difficult to affirm that the inflows of USD 2 billion from asset sales by June 2023 would be sufficient to bridge the financing gap of the current fiscal year.

Moody's May Downgrade Egypt's B3 Ratings

According to a recent statement issued by Moody's Investors Services, the credit ratings agency put Egypt's B3 long-term foreign-currency and local-currency issuer ratings under review for downgrade. The credit ratings agency has also placed Egypt's B3 foreign currency senior unsecured ratings on review for potential downgrade. The review for downgrade sheds light on the sovereign growing liquidity and debt affordability risks which have been questioned by several other credit rating agencies as well as the slow progress with the state-owned assets sale.

As per their statement, the review period will focus on the GoE's ability to complete the intended USD 2 billion in asset sales required to meet the requirements of the reform program agreed with the IMF. In addition, the review period will center on the capacity of the GoE and CBE to increase Egypt's net international reserves to meet the objectives of the USD 3 billion finance program with the IMF.

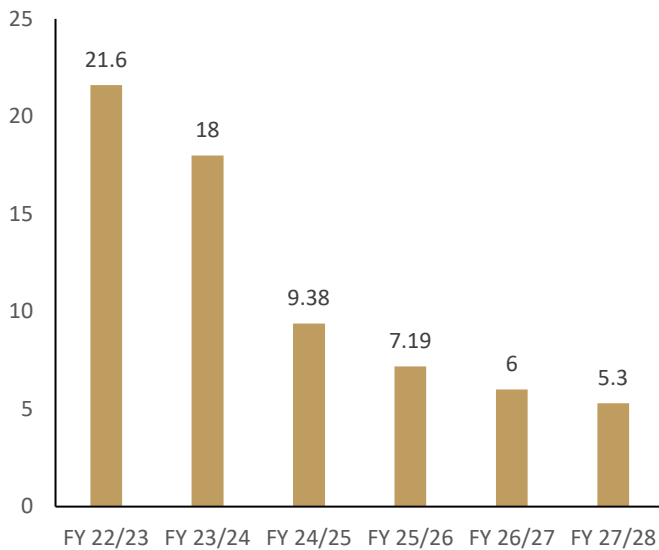
Updates and Projections

According to the World Economic Outlook issued by the IMF, the institution has revised down Egypt's expected real GDP growth for the second consecutive time since October 2022, projecting that Egypt's real GDP growth rate will reach 3.7% in 2023, down from 4.4% in its October projections. The decline in the projections was not only for Egypt but in several economies due to the tightening monetary policies adopted by the major central banks aiming at reaching their targets of inflation.

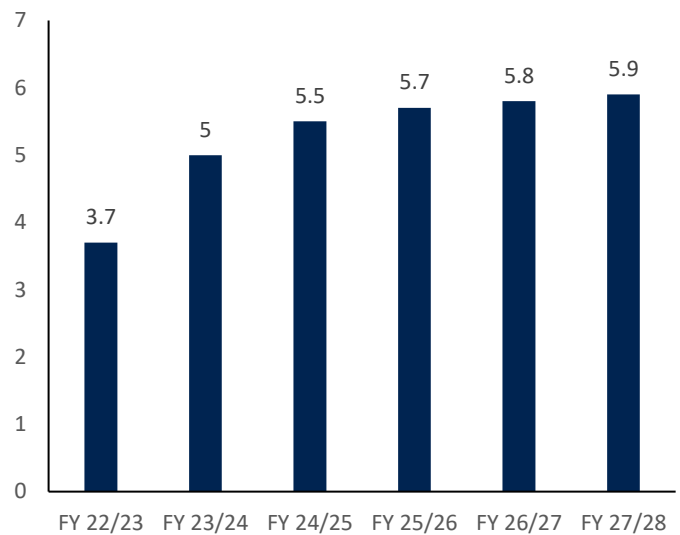
As for the country's inflation rates, the IMF expects it to decrease, reaching 21.6% and 18% in FY 22/23 and FY 23/24, respectively.

Meanwhile, GoE revenues and expenditures are expected to take an upward trajectory as of the current FY until FY 27/28.

Annual Inflation Rates (%)

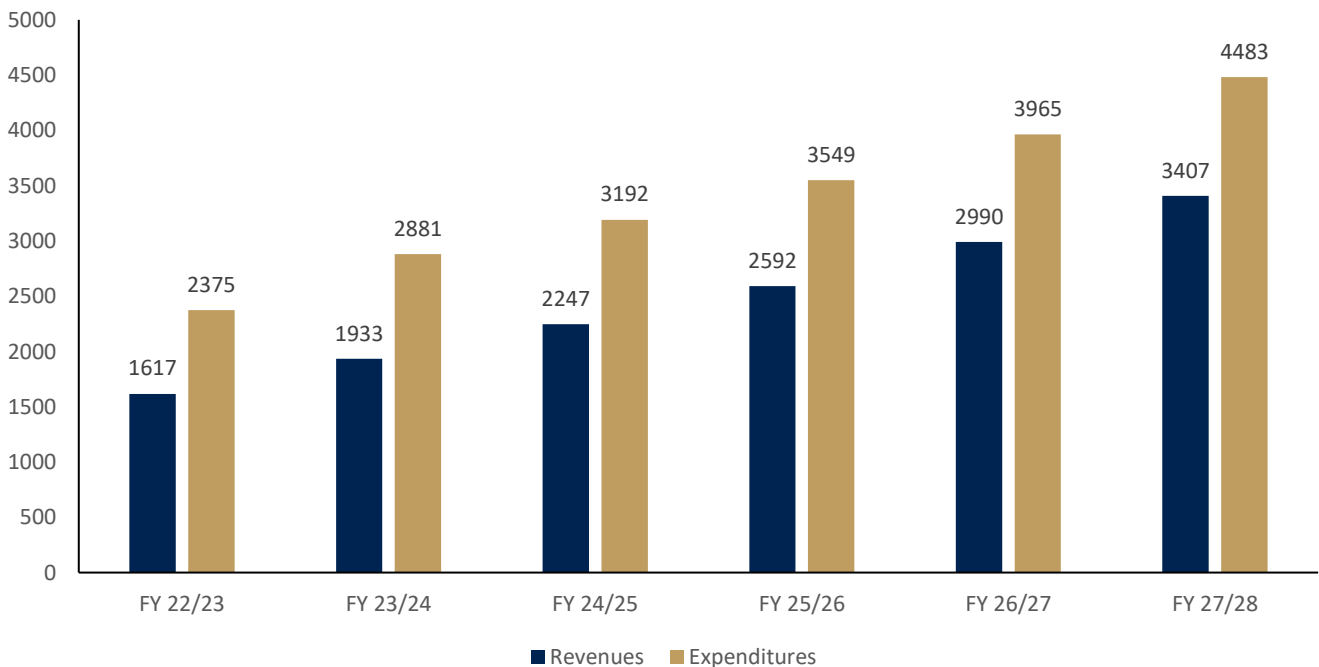


Real GDP Growth (%)



Source: The International Monetary Fund, 2023

Government Revenues and Expenditures (Bn EGP)



Source: The International Monetary Fund, 2023



Website: www.lynxegypt.com

Email: info@lynxegypt.com

Address: 4 Latin America Street, Garden City, Cairo

Phone: +2 02 27944331