



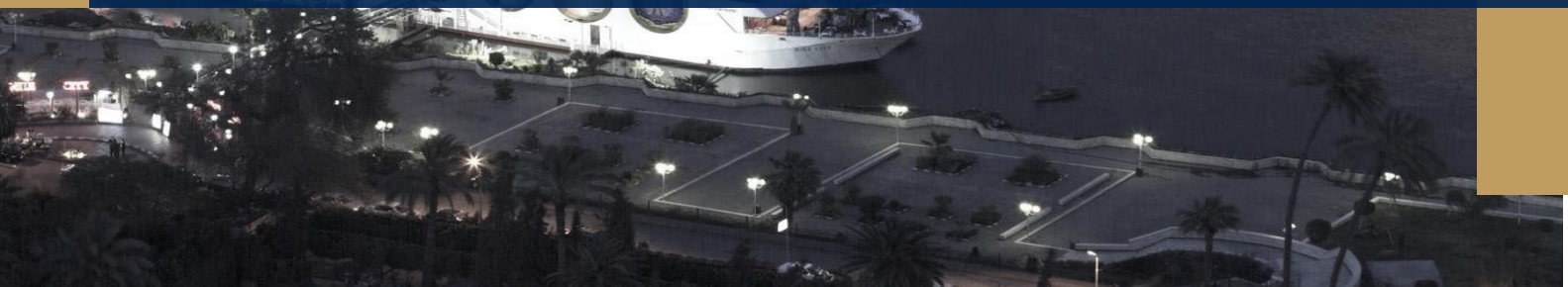
# Egypt's Macroeconomic Overview

## Q4 FY 21/22

(including latest updates until February 2023)

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February 2023



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## Background

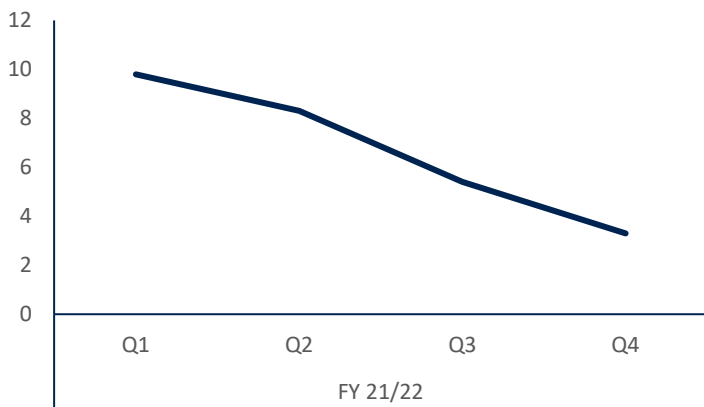
This report is published at critical times as the Egyptian economy is suffering from increasing external shocks vulnerabilities with the rising external debt levels and decreasing foreign currency inflows. After a series of currency devaluations in the context of the new IMF financing deal of USD 3 billion, the market is suffering from soaring inflation that is negatively affecting most of the population and pushing more citizens under the poverty line. This is creating mounting pressures on the cohesion of the society as well as putting pressures on the local production facilities which depends heavily on imported intermediate goods. Despite the success of the government to partially solve the problem of blockage of shipments at the ports after receiving foreign currency inflows from the sales of government stakes in some companies as well as the return of minimal portfolio investments, it is still important to tackle the inherent structural imbalances of the economy to be able to generate a sustainable stream of foreign currency revenues that are required to meet the external debt service obligations. This entails serious commitment to the structural reform program announced earlier by the government that is focusing on developing and boosting the productive economic capacities of the economy.

## Latest Highlights

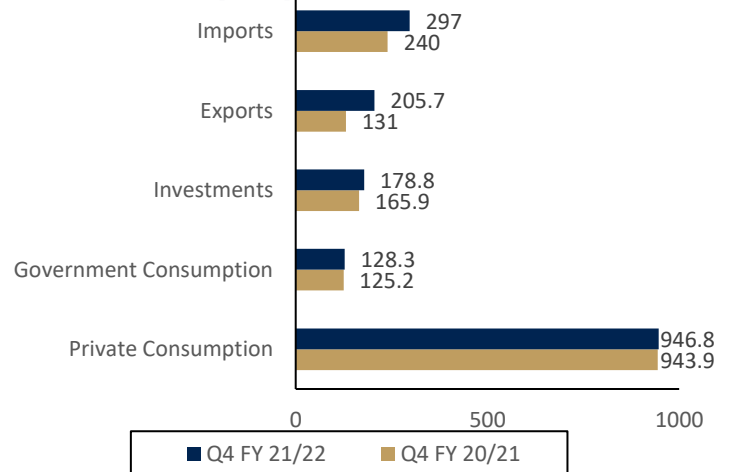
- Significant decrease by 57.1% in the GDP growth rate during Q4 21-22 to record only 3.3%, compared to 7.7% in Q4 20-21. However, the annual growth rate nearly doubled in FY 21/22 to reach 6.6% compared to only 3.3% in the preceding year.
- Fueled by global inflationary environment and sharp depreciation of the local currency against the US dollar to exceed the level of USD/LE 30, the headline inflation rate significantly increased from 5.9% in December 2021 to over 21.2% by December 2022.
- The CBE responded to the accelerating inflation and sharp depreciation of the currency by raising its key interest rates four times throughout 2022. Latest rates are as follows: overnight deposit rate at 16.25% and overnight lending rate at 17.25%. The discount rate and the rate of the main operations at 16.75%. These increases in the interest rates will lead to considerable decreases in the investment and spending rates which will likely affect the growth rates of the private sector negatively.
- Egypt's production index of manufacturing and extractive industries (excluding crude oil and petroleum products) decreased by 0.39% in September 2022 to record 115.29 compared to 115.74 in the preceding year. This was accompanied by a sharp decline in the Procurement Managers Index (PMI) to reach 45.5 by January 2023, reflecting a sluggish performance in the business sector.
- The total external debt increased by Q4 21-22 by 13%, recording USD 155.7 billion compared to USD 137.8 billion in the same quarter in the previous year, while total net international reserves declined significantly in the same quarter to record USD 33.4 billion by end of Q4 21-22 compared to USD 40.6 billion in the preceding year.
- The government's overall budget deficit recorded 5.5% of the GDP by May 2022. The government is improving its revenue base which witnessed a significant growth by over 22% in the FY 21-22 while maintaining its spending levels at sustainable levels.

# Real Sector

## Real GDP Growth Rate (%)



## GDP by Expenditure (Bn EGP)

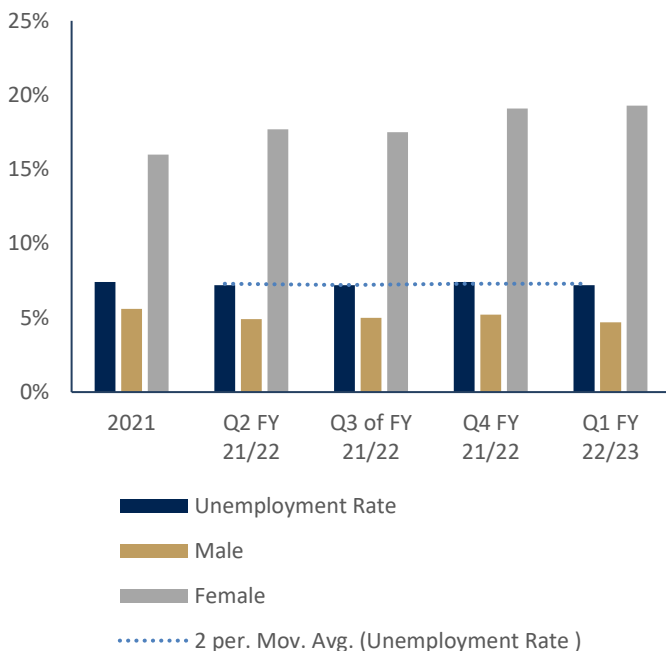


Source: The Ministry of Planning and Economic Development

During the fourth quarter (Q4) of the fiscal year (FY) 2021/2022, the Egyptian economic activity declined by 57.1% (YoY), recording a rate of 3.3% compared to 7.7% in Q4 FY 21/22. Although the Minister of Planning and Economic Development previously predicted that the average GDP growth rate would reach 5.7% during FY 21/22, the recorded a real GDP growth rate ended up reaching 6.6%.

Q4 of FY 21/22 coincided with the fallout from the conflict between Russia and Ukraine. For this reason, imports backlogged and a continuous increase of the US interest rates and imported inflation occurred, which burdened the economy and caused further contraction in the private sector. Data of the GDP by expenditure shows that the economic growth was driven by the positive contributions from private consumption, whereas imports and investments' contribution to the economic growth remain limited.

## Unemployment rate (%)



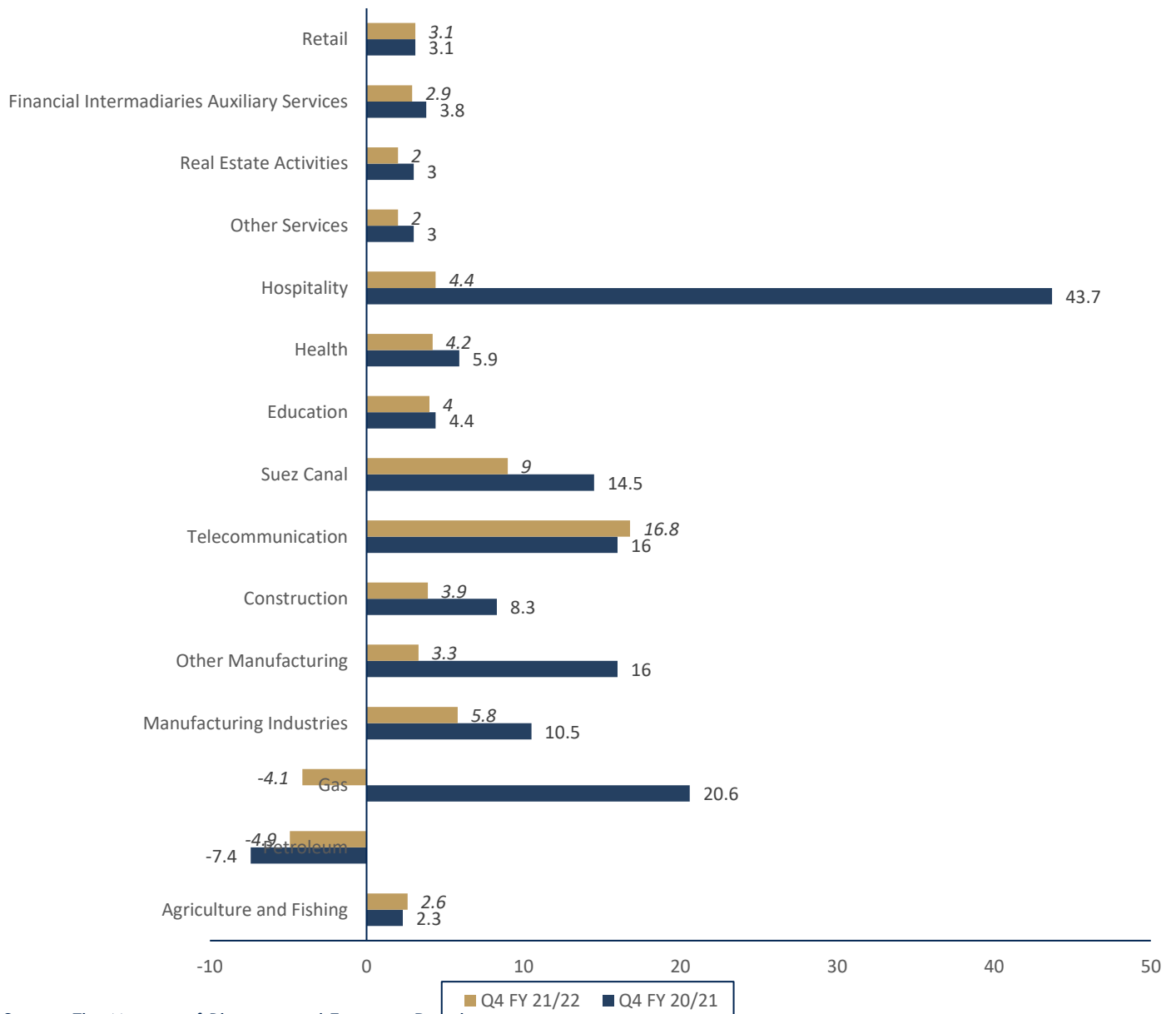
The unemployment rate during Q4 FY 21/22 increased from 2.7% to record 7.4%.

Total unemployment increased slightly to 10.8% in urban areas compared to 10.6% and it also increased to 4.7% in rural areas compared to 4.5% in the previous quarter.

Male unemployment rate increased to 4%, recording a rate 5.2% in Q4 of FY 2021/2022 compared to 5% in the previous quarter, while unemployment among women also increased by 9.1% reaching 19.1% in the same period compared to 17.5% in Q3 of FY 21/22.

Source: CAPMAS

## Sectoral Growth (%)



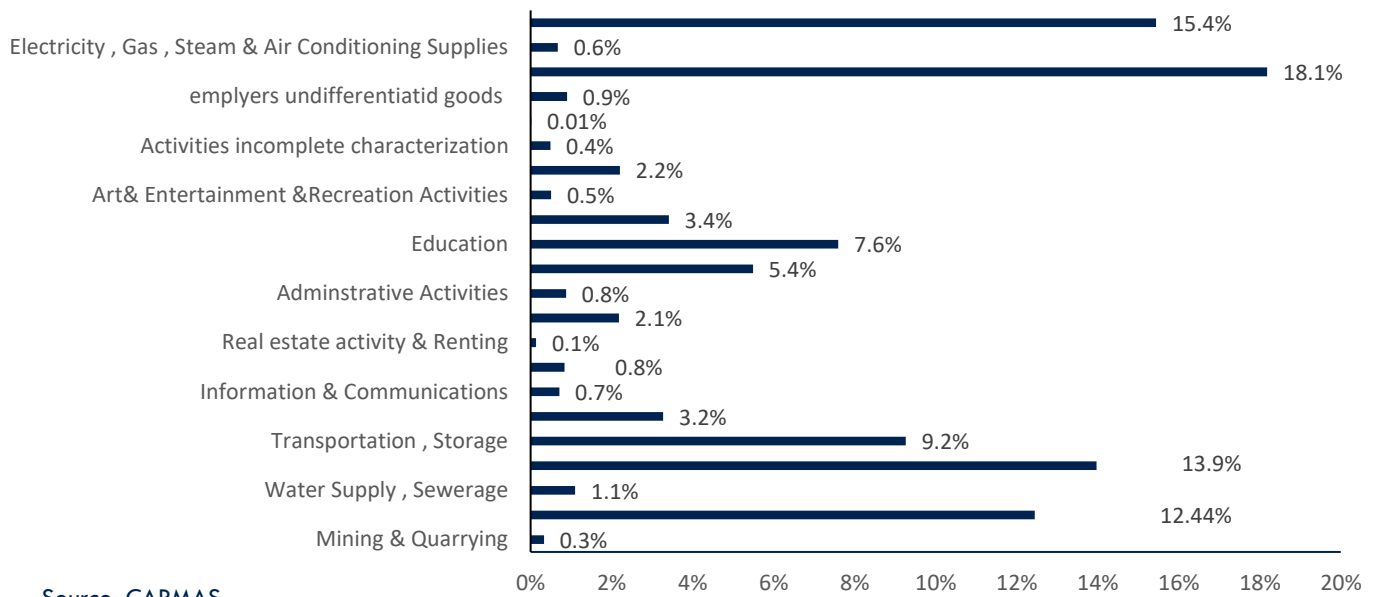
Source: The Ministry of Planning and Economic Development

Prospects for the Egyptian economic recovery exhibited a positive trajectory during the fourth quarter of FY 21/22. However, its pace remained uneven across economic sectors. The telecommunications sector ranked the first in terms of its contribution to the GDP growth during Q4 of FY 21/22, contributing to almost 16.8% compared to 16% during the same quarter in the previous fiscal year. Meanwhile, the hospitality sector's contribution to the GDP growth witnessed a sharp decline of 89%. The sharp decline in tourists could be attributed to both the COVID-19's Omicron variant, leading several countries to close their borders and put Egypt on the no-fly lists. In addition, Egypt is facing a significant decrease in tourists coming from Russia and Ukraine.

The oil and gas sector witnessed a negative contribution with 4.1% in Q4 after it achieved a limited contribution to the GDP growth with 0.4% in Q3 of FY 21/22. This could be attributed to the slowdown in investments and gas exploration. Nevertheless, it is expected that investments in that field will increase during the upcoming period due to the discovery of new offshore gas fields.

## Real Sector

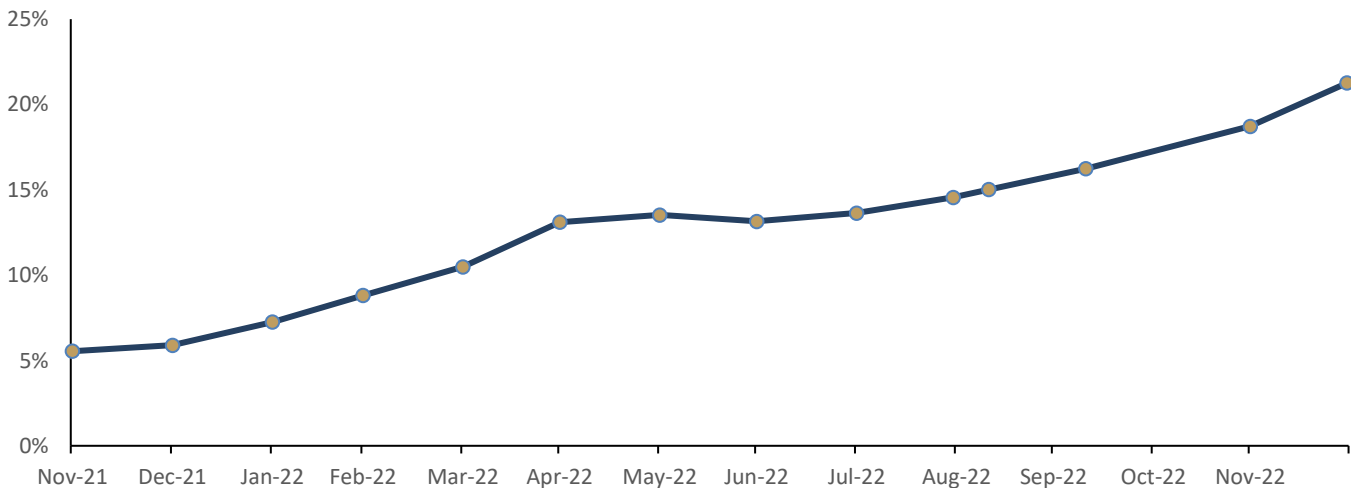
### Share of Employment by Sector (%)



The sectoral employment distribution in Egypt remained almost the same during the whole fiscal year with the agricultural and fishery sector capturing the largest number of employees with 18.18% of total labor force.

## Monetary Sector

### Headline CPI (% change)

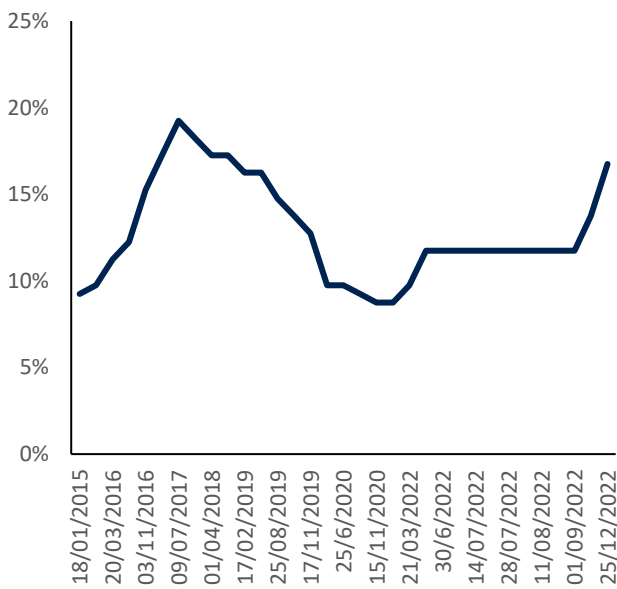


Annual Headline Inflation in Egypt recorded an average of 13% during Q4 FY 21/22. Furthermore, it continued its upward trend that started a year ago to record 21.2% in December 2022 compared to 5.9% in December 2021. On an annual basis, the increase in the inflation is mainly fueled by the increase in the prices of food and beverage, which recorded 37.9% in December 2022.

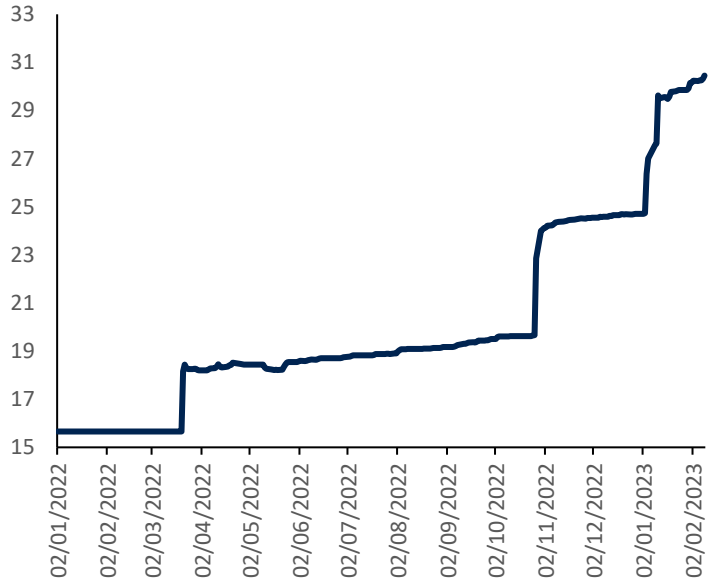
In December 2022, the CBE announced that inflation rates are expected to remain above its preannounced target of 7% (+/-2%) on average in Q4 of 2022. However, a new inflation target was announced: 5% (+/-2%) on average by Q4 2026.

# Monetary Sector

**Discount rate – CBE Main Operation (%)**



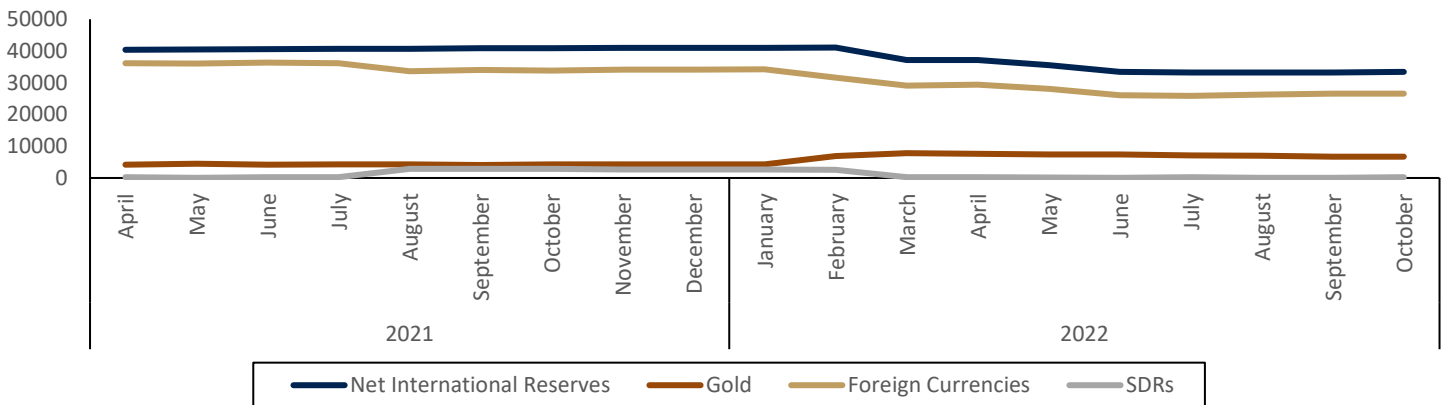
**Exchange rate (USD/EGP)**



Source: The Central Bank of Egypt

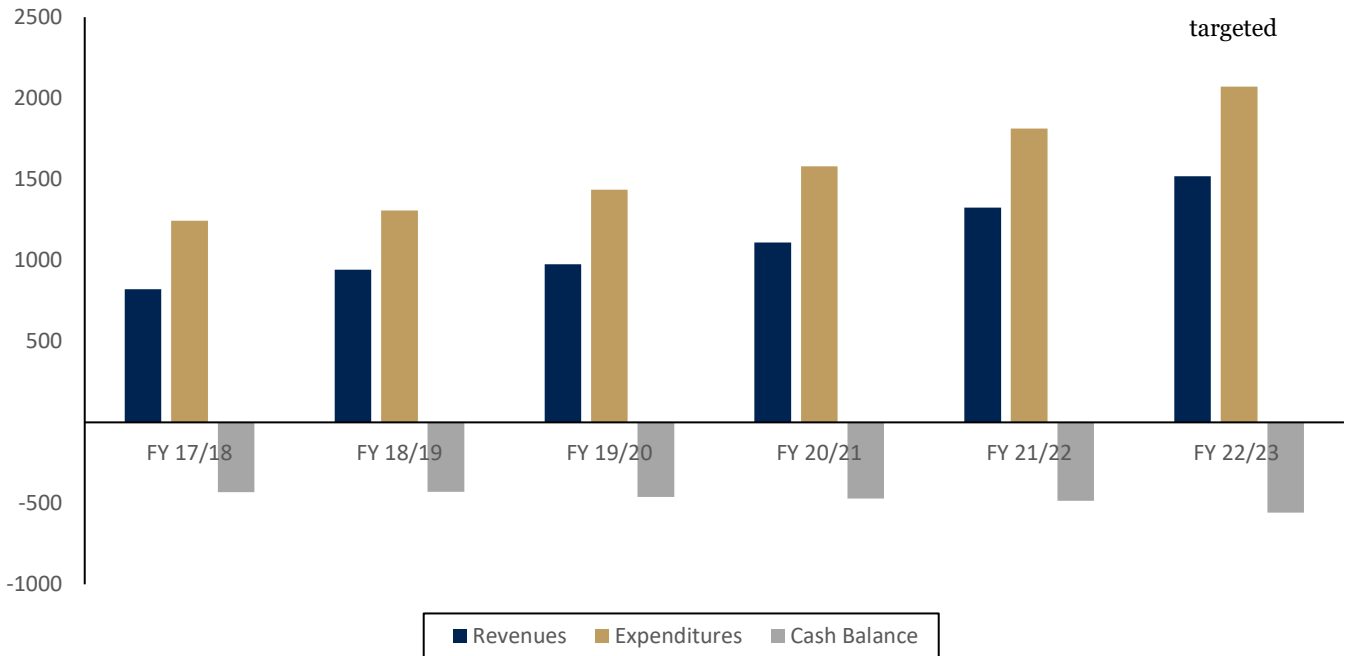
During Q4 FY 21/22, The Central Bank of Egypt (CBE) raised its key interest rates by 500 bps in its consecutive attempts to tamp down the increasing inflation rates. Therefore, the overnight deposit rate, overnight lending rate and the rate of the main operations reached 16.25 percent, 17.25 percent, and 16.75 percent respectively. The discount rate was set at 16.75 percent. These are considered the highest increases since the CBE's raised key rates in November 2016.

**International Reserves (Mn USD)**



Egypt's net international reserves declined by 18.2% in October 2022, recording USD 33.4 billion compared to USD 40.8 billion in October 2021. Egypt's foreign currencies declined by 21.4%, reaching USD 26.5 billion in October 2022 compared to USD 33.8 billion in October 2021. Likewise, Egypt's Special Drawing Rights (SDRs) declined by 91.1%, recording only USD 251 million compared to USD 2.8 billion in October 2021. Finally, gold reserves increased by 56.8% in October 2022 compared to October 2021. Increasing foreign exchange reserves is a top priority for the GoE as well as the CBE due to their importance in covering international obligations against payments for basic commodities and debt service.

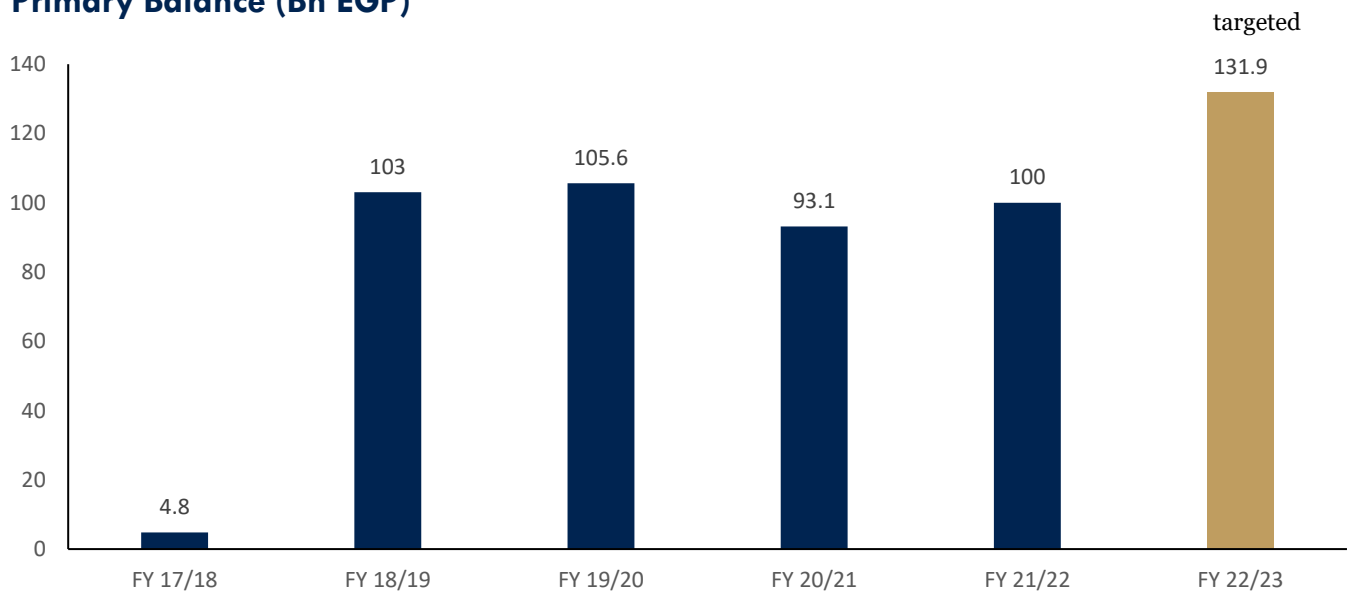
## Budget Overview (Bn EGP)



Source: The Ministry of Finance

During the first half (H1) of the FY 21/22, the government’s overall deficit widened to record USD 286.1 billion compared to USD 228.2 billion in the corresponding period a year earlier with an increase of 25.3% fueled by the increase in tax revenues and non-tax revenues. Nevertheless, Egypt achieved a primary surplus of almost 1.5% of the GDP during FY 21/22. It is worth noting that the Ministry of Finance announced that the government is aiming to achieve a primary surplus of at least 2% during FY 23/24.

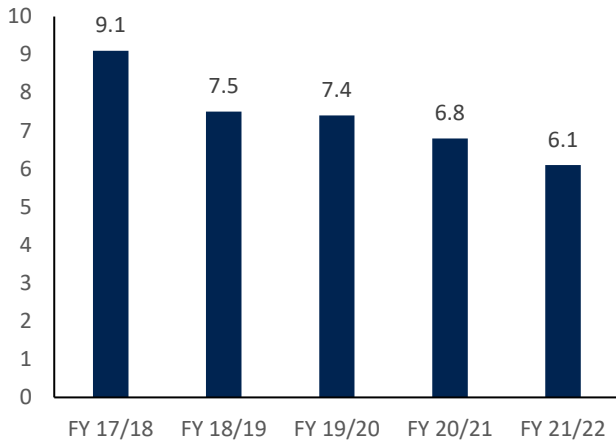
## Primary Balance (Bn EGP)



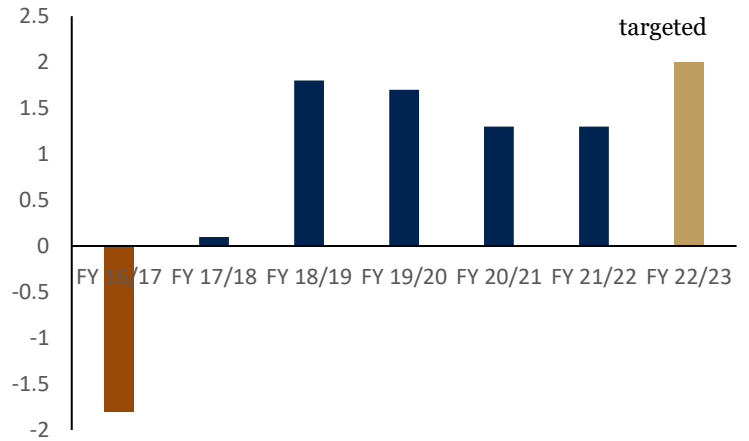
Source: The Ministry of Finance



## Overall Budget Deficit (% GDP)

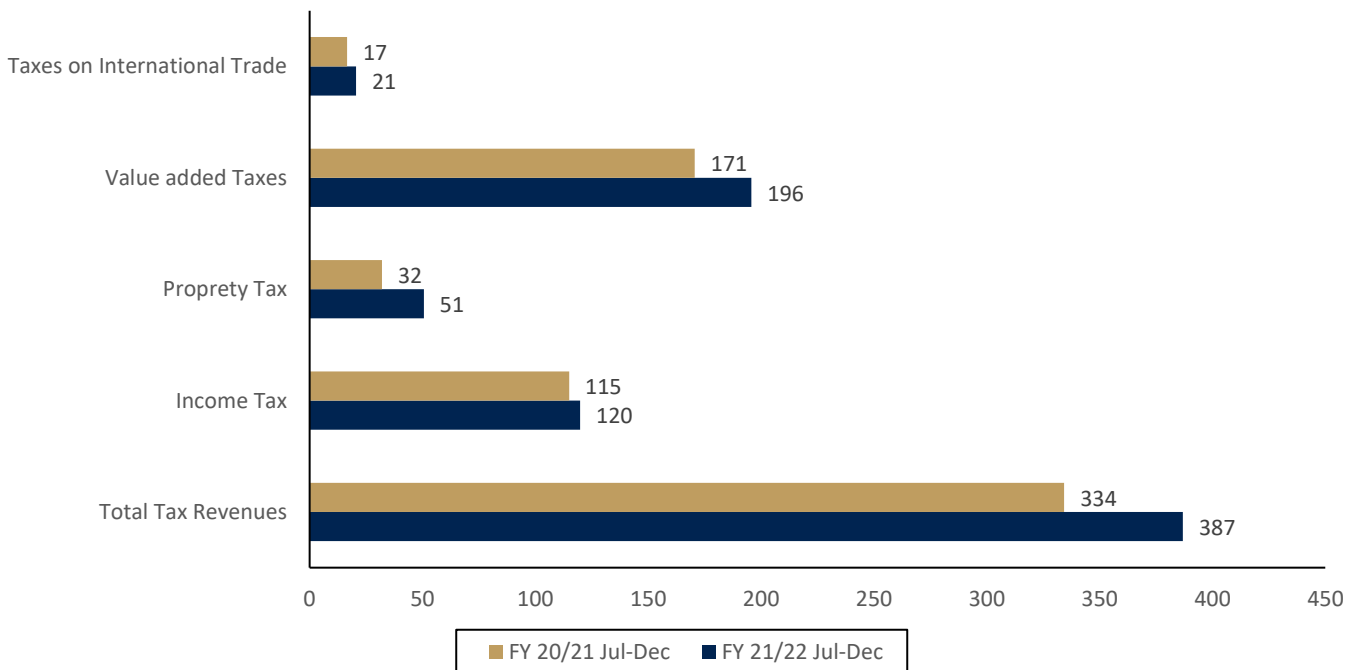


## Primary Balance (% GDP)



Source: The Ministry of Finance

## Sources of Revenue (Bn EGP)



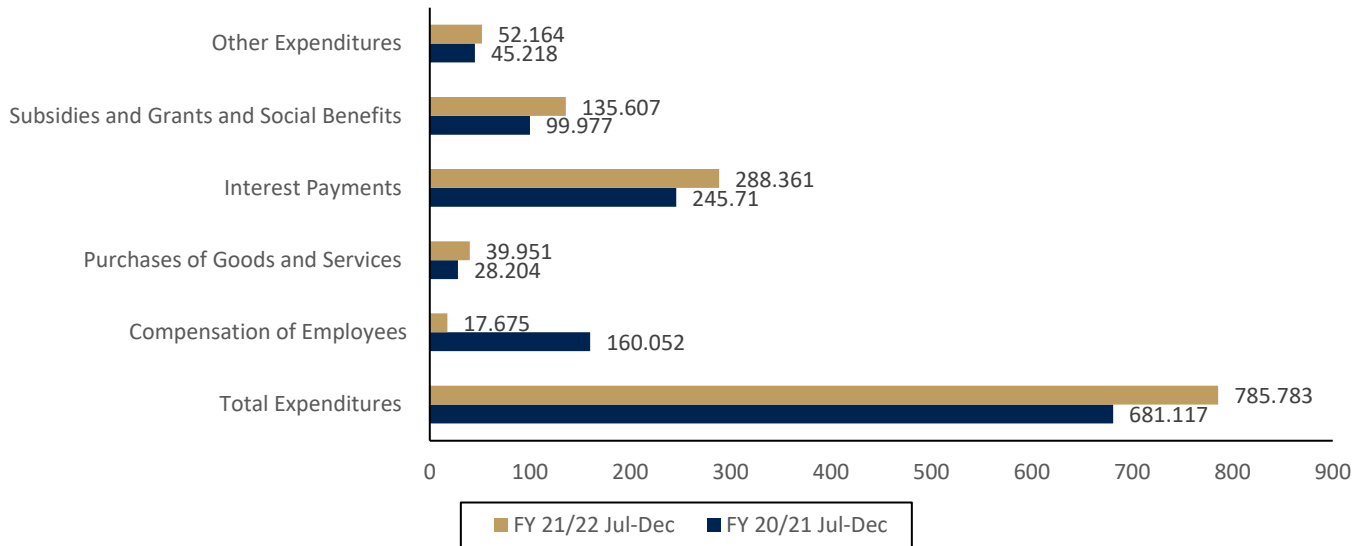
Source: The Central Bank of Egypt

Tax revenues increased by 15.7%, recording EGP 386 billion during H1 FY 21/22 compared to EGP 334 billion during H1 FY 20/21. The hike in tax revenues was an outcome of the increase in proceeds from income tax rose, which rose by 4.6%, to record EGP 119 billion compared to EGP 114.9 billion in H1 of FY 20/21.

Moreover, property tax and Value Added Tax (VAT) increased by 58% and 14.8%, respectively. Taxes on international trade (customs) increased by 24%, recording EGP 20 billion H1 FY 21/22, compared to EGP 16 billion in the previous year.

# Fiscal Sector

## Types of Expenditure (Bn EGP)



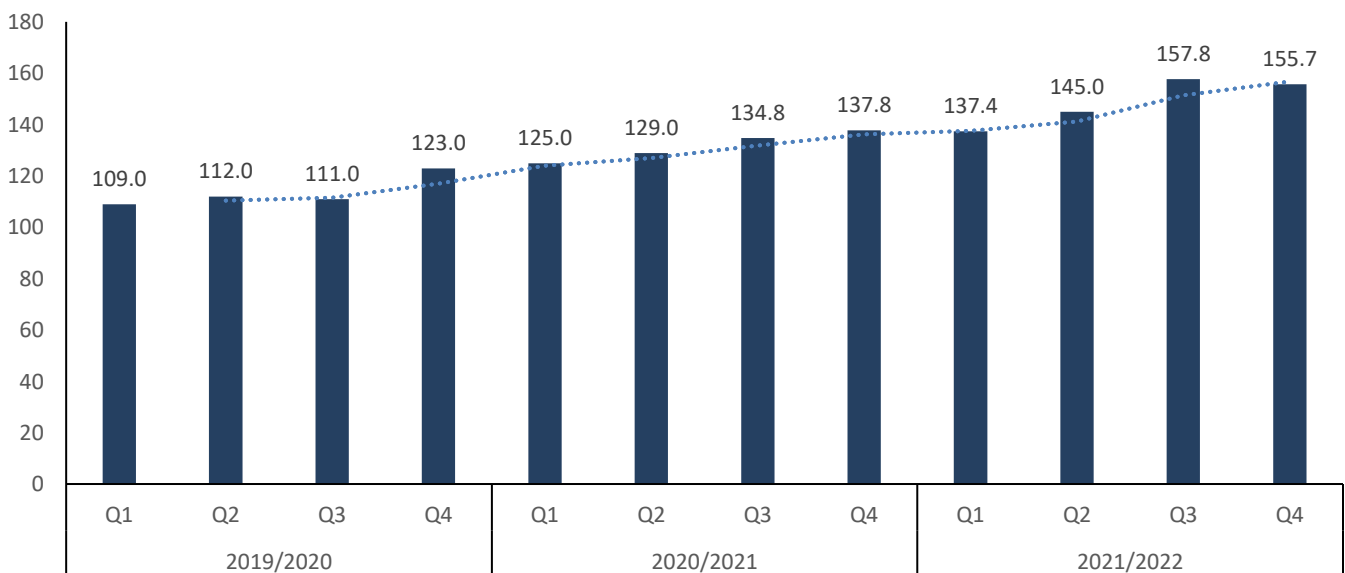
Source: The Central Bank of Egypt

Similar to the increase in government revenues, government expenditures increased by 15.4% in H1 FY 21/22, to record EGP 786 billion compared to EGP 681 billion in H1 FY 20/21. The increase is mainly driven by the increase in spending on the purchase of goods and services by 41.6% in H1 FY 21/22, recording EGP 40 billion. Likewise, interest payments and subsidies and social benefits increased by 17.4% and 35.6% respectively.

# External Sector

Egypt's external debt increased by 13% during Q4 of FY 2021/2022 to record USD 155.7 billion compared to USD 137.8 billion in Q4 of FY 20/21.

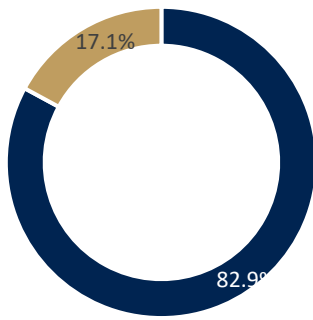
## External Debt (Bn USD)



Source: The Central Bank of Egypt

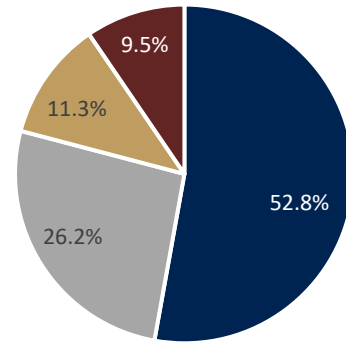
# External Sector

## External Debt (Q4 FY21/22)



■ Total Long-term Debt (share) ■ Total Short-term Debt (share)

## Debtor Share in Total Debt (%)

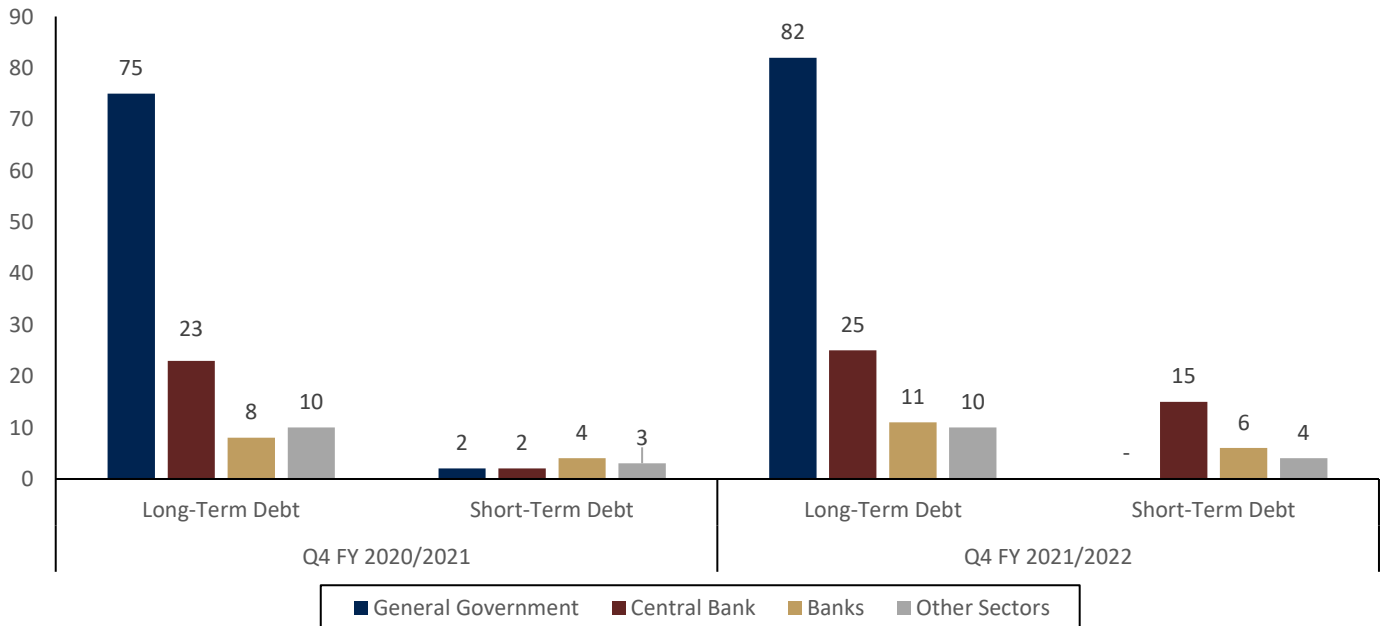


■ General Government ■ Central Bank  
■ Banks ■ Other Sectors

Source: The Central Bank of Egypt

The structure of Egypt’s debt remains almost the same throughout the FY 21/22. During Q4 of FY 21/22, long-term debt held 82.9% of Egypt’s total external debt, while the government’s short-term debt captured 17.1% of the total external debt. External debt owed by the government recorded 52.8% of total external debt during Q4 FY 21/22. The Central Bank of Egypt (CBE) was liable for 26.2% of the total external debt, while the banks and other sectors captures 11.3% and 9.5% of the total external debt during the same period.

## External Debt Structure by Debtor and Maturity (Bn USD)



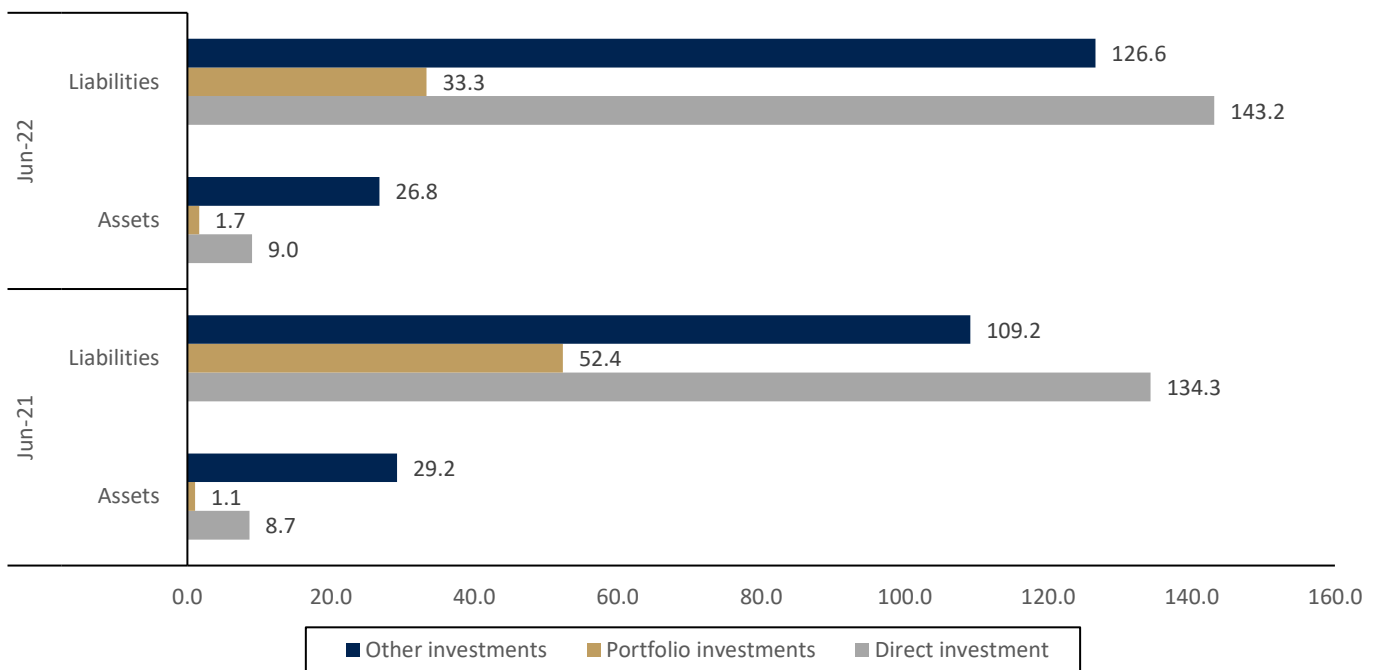
■ General Government ■ Central Bank ■ Banks ■ Other Sectors

Source: The Central Bank of Egypt

During Q4 FY 21/22, the general government’s debt decreased by 0.2%; however, the government’s long-term debt increased by 9.3% while the short-term debt decreased by 100%. The Central Bank’s long-term debt increased by 8.7% in Q4 FY 21/22 while its short-term debt increased by 650%. External debt of banks and other sectors amounted to USD 17 billion and USD 14 billion respectively during Q4 FY 21/22.

## External Sector

### International Investment Position (Bn USD)

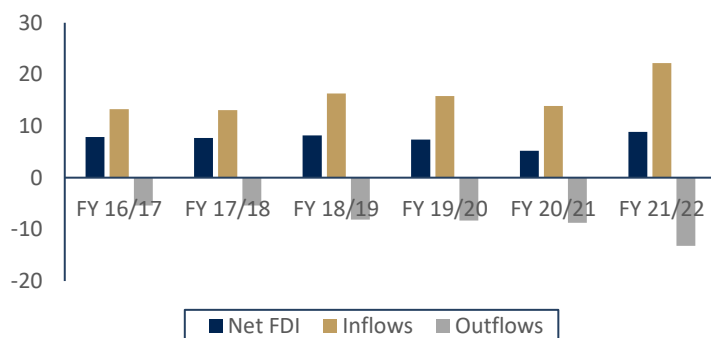


Source: The Central Bank of Egypt

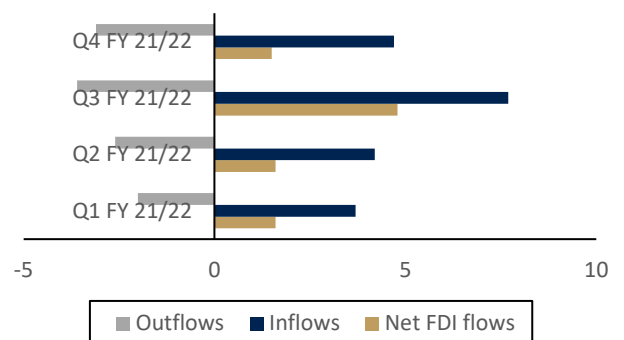
Egypt's international investment position recorded net external liabilities of USD 303.1 billion by end of June 2022 compared to USD 295.9 billion a year ago marking an increase of almost 2.4%. The increase in total liabilities is mainly driven by the increase in direct investments by 6.6% to record USD 143.2 billion compared to USD 134.3 billion. Moreover, total assets decreased by 3.8%, to record USD 37.5 billion by end of June 2022 compared to USD 39 billion by end of June 2021. This is attributed to the decrease in other investments which recorded USD 26.8 billion by end of June 2022 compared to USD 29.2 billion by end of June 2021.

## Foreign Investment

### Net FDI (Bn USD)



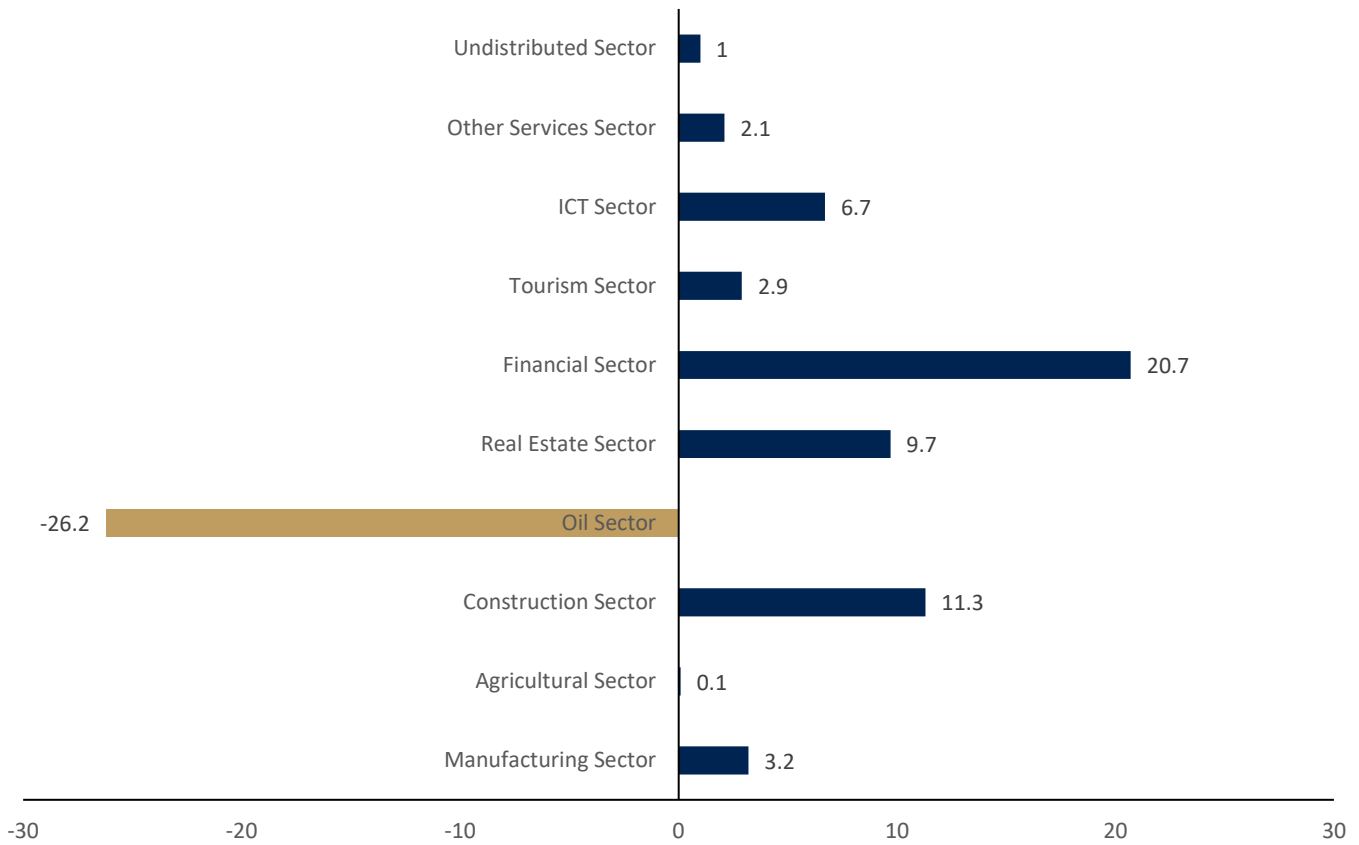
### Net FDI (Bn USD)



Source: The Central Bank of Egypt

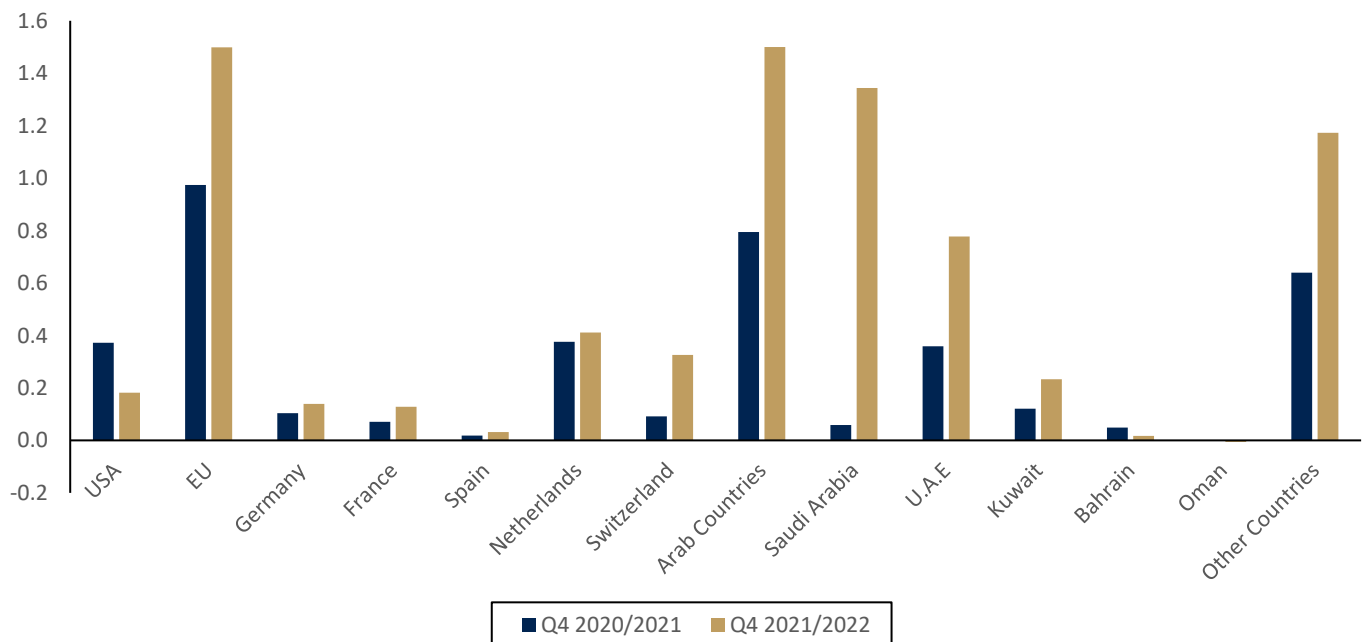
Net foreign investments (FDI) in Egypt decreased by 61% in Q4 of FY 21/22 to record USD 1.5 billion compared to USD 4.1 billion in the previous quarter of the same fiscal year. This was driven by the decrease in total inflows, which recorded USD 4.7 billion in Q4 of FY 21/2022 compared to USD 7.7 billion in Q3 of FY 21/22. On the other hand, total outflows decreased by 13.7% to record USD 3.2 billion in Q4 of FY 21/22 compared to USD 3.7 billion in the previous quarter. We expect that net FDI to increase over the upcoming period due to the continuous investment support offered by the GoE.

## Foreign Direct Investment by Sector in FY 21/22 (Bn USD)



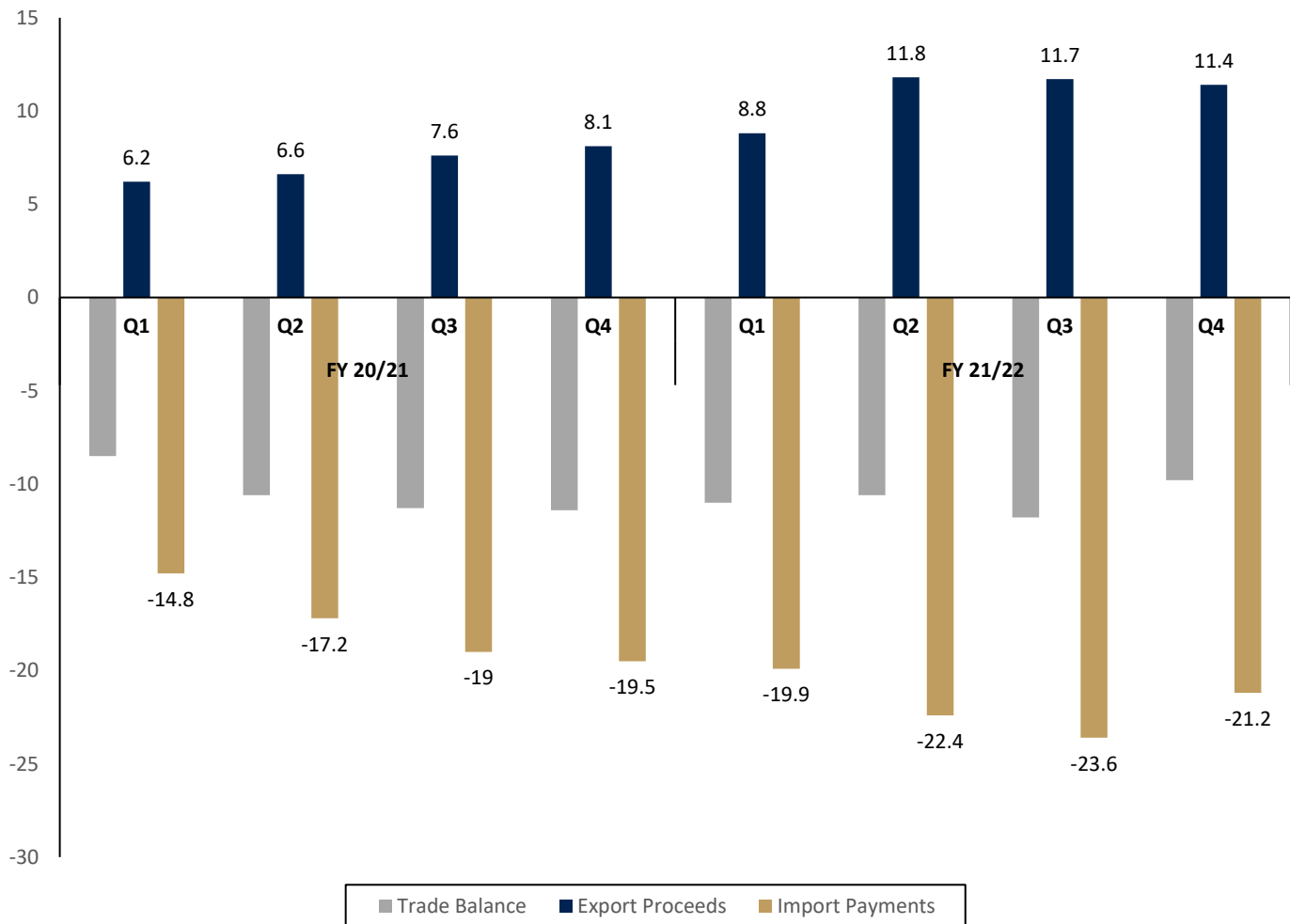
Source: The Central Bank of Egypt

## Total Inflows by Country in Q4 FY21/22 (Bn USD)



Source: The Central Bank of Egypt

## Trade Balance (Bn USD)



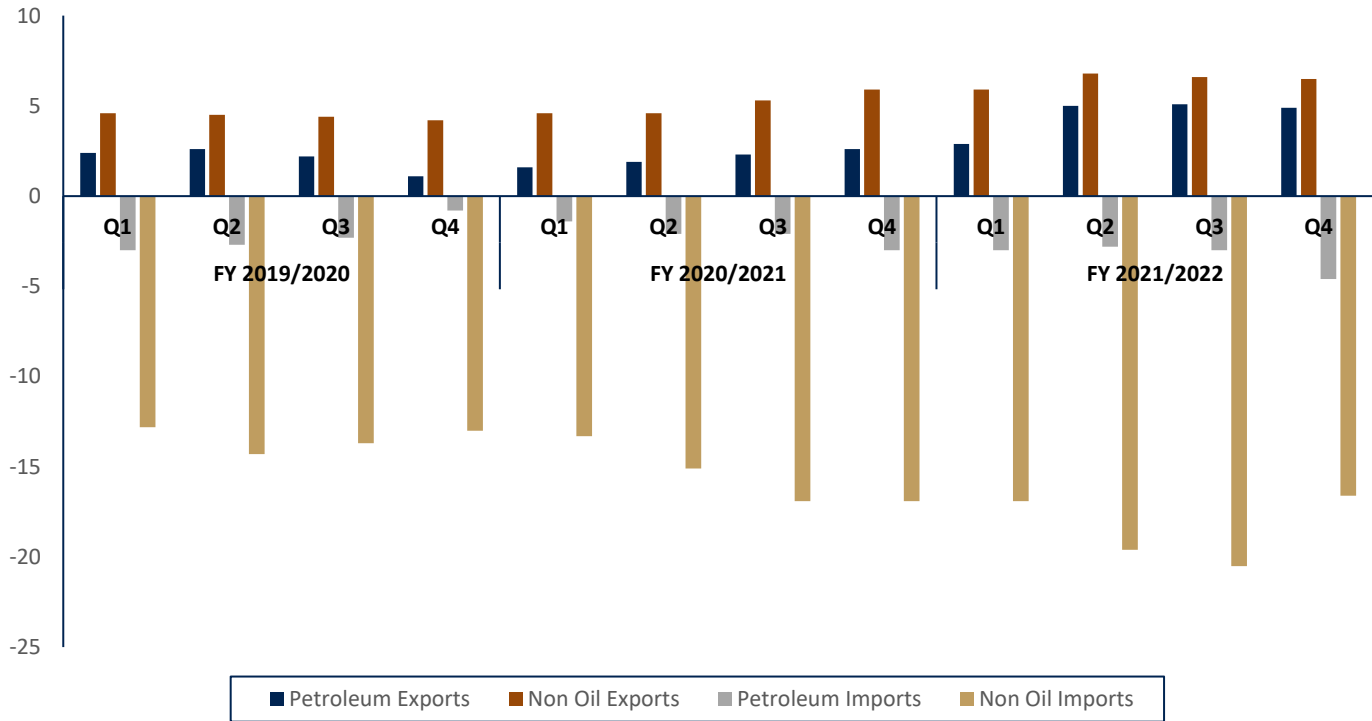
Source: The Central Bank of Egypt

Egypt's trade deficit witnessed a recovery during Q4 of FY 2021/2022, marking a decrease of 14.2%, compared to the fourth quarter of the previous fiscal year. The recovery in the trade deficit is fueled by an increase of 41.4% in export proceeds during the period under scope. Petroleum exports increased by 83.9% during Q4 of FY 21/22 recording USD 4.9 billion compared to USD 2.6 billion in Q4 20/21.

Likewise, non-oil exports increased by 20.1%, recording USD 6.5 billion in Q4 of FY 2021/2022 compared to USD 5.4 billion in Q4 of FY 20/21. Petroleum exports increased by 83.9% during Q4 of FY 21/22, recording USD 4.9 billion, compared to USD 2.6 billion in Q4 of FY 20/21. Moreover, petroleum imports witnessed a powerful increase of 61.7% during Q4 of FY 21/22.

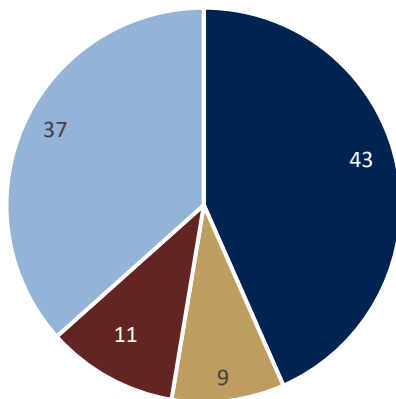
Meanwhile, non-oil imports witnessed a slight decrease of 0.3% due to the restrictions imposed on the imports which led to imports backlog. However, the CBE decided to cancel those restrictions and restore the documentary collections system for imports.

## Trade Balance by Economic Activity (Bn USD)



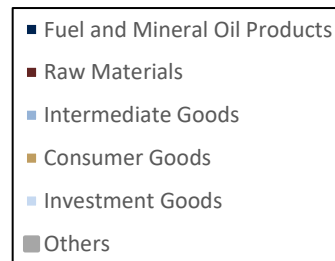
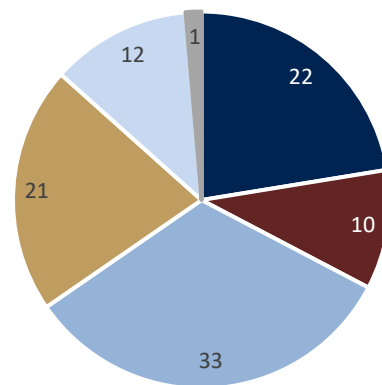
Source: The Central Bank of Egypt

## Proceeds of Merchandise Exports (%)

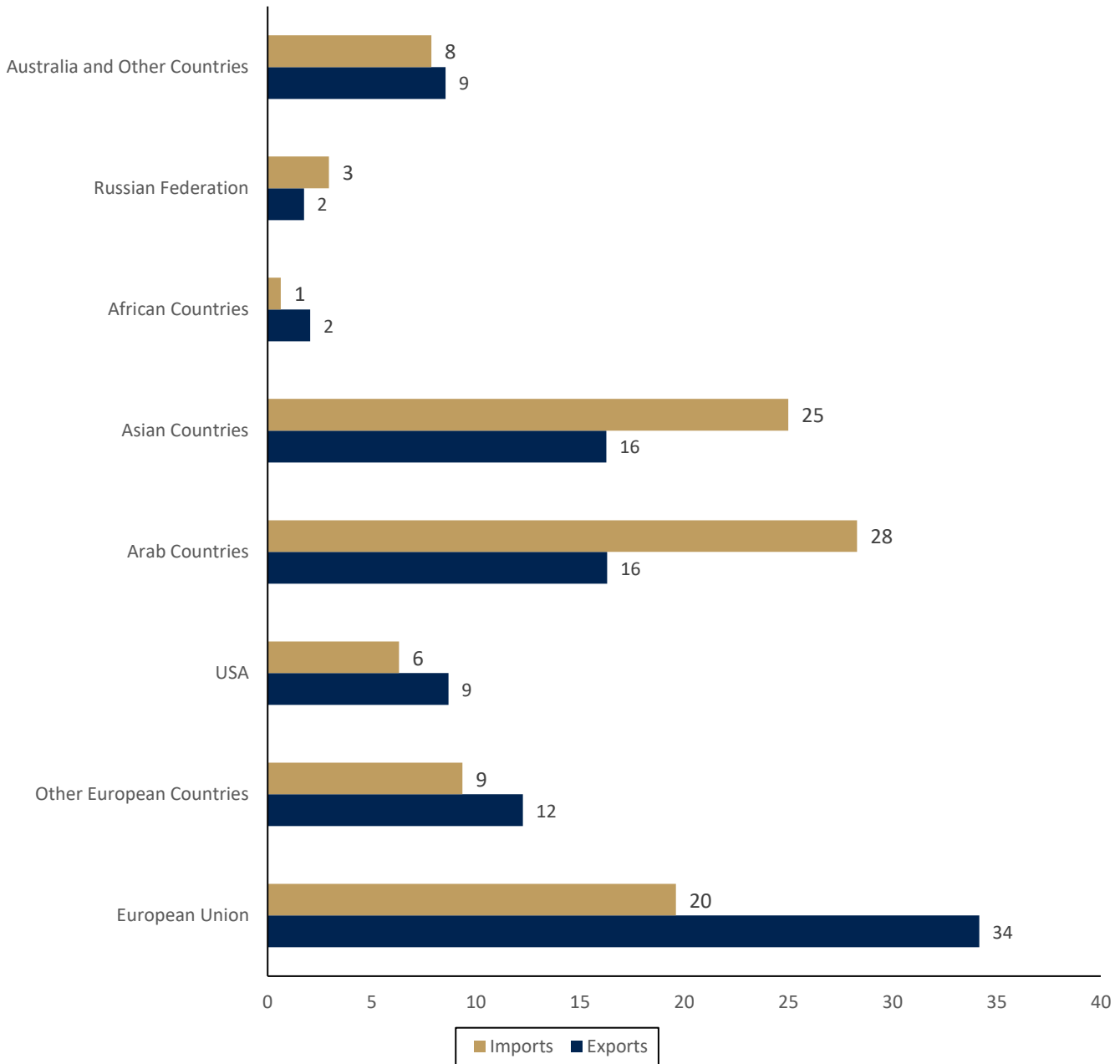


Source: The Central Bank of Egypt

## Payments of Merchandise Imports (%)



## Trade by Geographical Distribution in Q4 FY21/22 (%)



Source: The Central Bank of Egypt

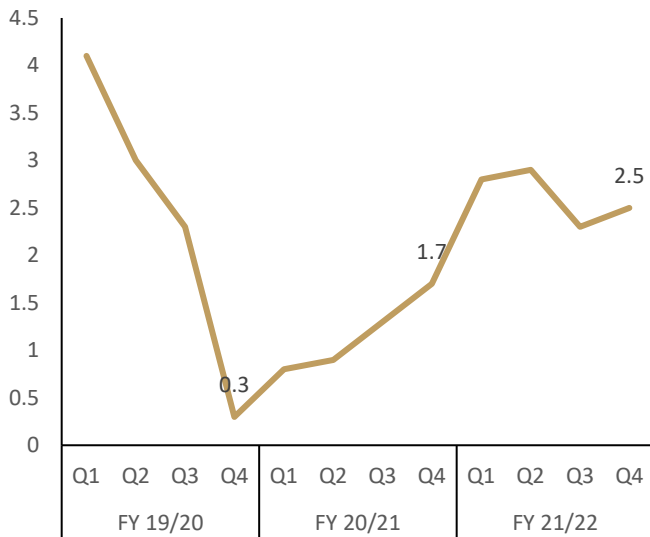
Egypt's total exports during Q4 of FY 2021/2022 recorded USD 11.4 billion, marking an increase of 41.1% compared to USD 8.1 billion recorded in Q4 of FY 2020/2021. A total of 34% of Egypt's total exports were directed to the European Union countries, while 16% were directed to Asian countries and Arab countries each.

Meanwhile, Egypt's total imports amounted to USD 21.2 billion during Q4 of FY 2021/2022, compared to USD 19.5 billion. Approximately 28% of the total exports are directed to Arab countries while Asian countries amounted to 25% of Egypt's total exports.

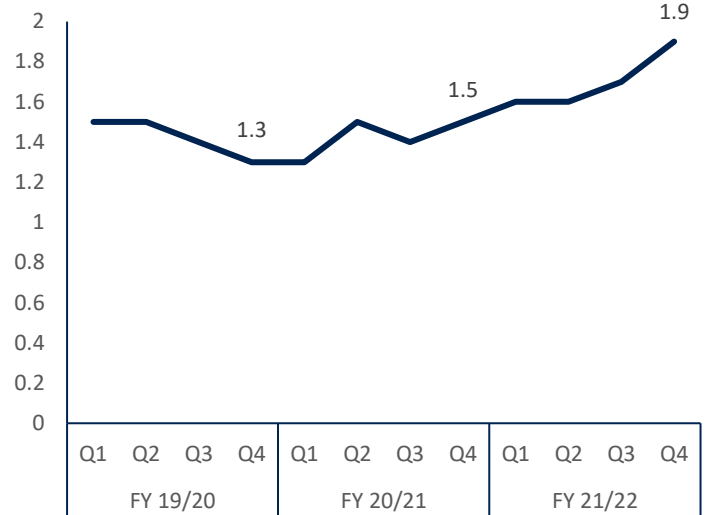
Regarding Egypt's trade partners, China was the top importer from Egypt with a trade exchange of USD 111 billion, USD 97.4 billion of which are imports.



## Tourism Receipts (Bn USD)



## Suez Canal Receipts (Bn USD)

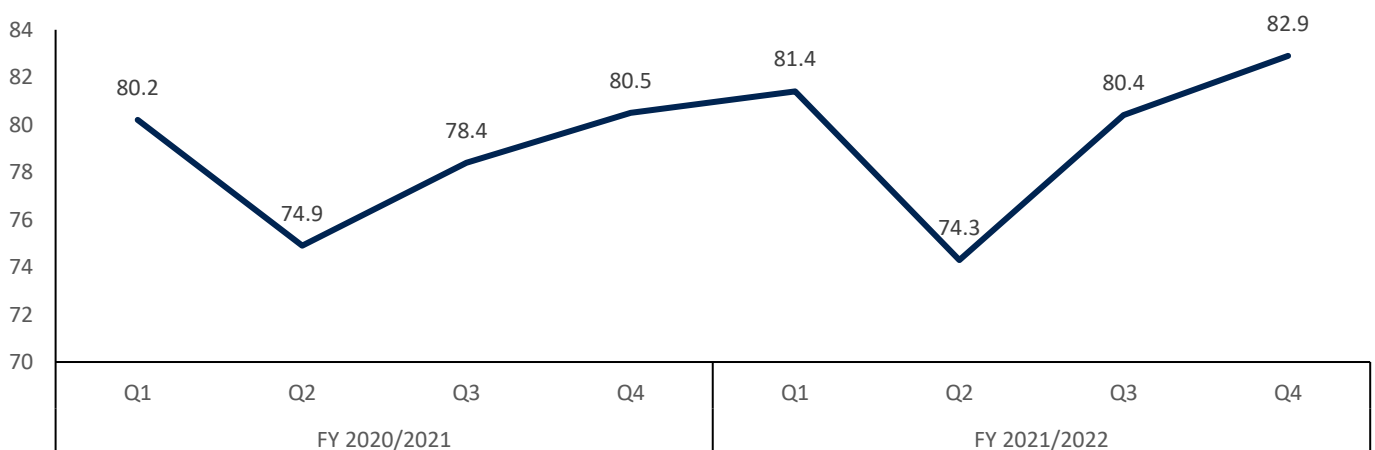


Source: The Central Bank of Egypt

Tourism receipts increased by 45.6% to record USD 2.5 billion during Q4 of FY 2021/2022 compared to USD 1.7 billion during Q4 of FY 20/21. This came despite the absence of tourists from Russia and Ukraine since the outbreak of the war and its negative impact on the tourism movement. It is worth mentioning that Fitch Solutions projected that the revenues generated by the tourism sector would increase by 17.7% to record USD 13.6 billion in 2023. Previously, the Minister of Tourism and Antiquities stated that Egypt needs to invest around USD 30 billion into tourism sector to grow the sector by 25%-30% annually between now and 2028 to implement its ambitious plan of attracting around 30 million tourists by 2028.

In addition, Suez Canal revenues increased by 22.4% in Q4 of FY 21/2022, recording USD 1.9 billion, compared to USD 1.5 billion in the corresponding quarter of FY 20/21.

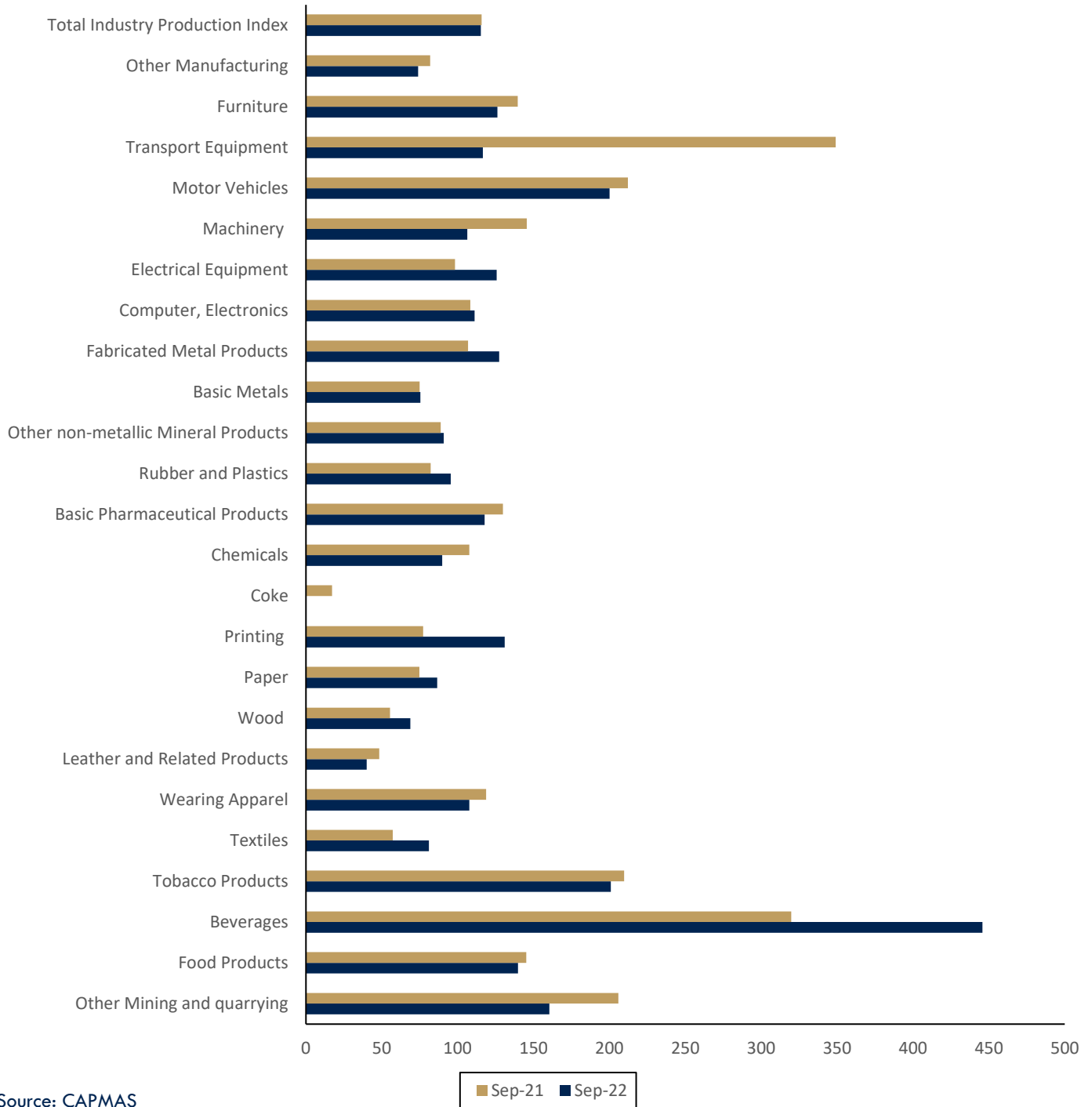
## Remittances from Egyptians Abroad (Bn USD)



Source: The Central Bank of Egypt

Remittances from Egyptian expatriates slightly increased by 2.9%, recording USD 82.9 billion in Q4 of FY 21/22 compared to USD 80.5 billion in Q4 of FY 20/21. Latest figures issued by the World Bank projected Egypt's remittances to record USD 32.3 billion by end of 2022 compared to USD 31.5 billion in 2021. The country was forecasted to be the 5<sup>th</sup> largest recipient of remittances during 2022 after India, Mexico, China and the Philippines.

## Monthly Production Index for Industry Production According to Economic Activity



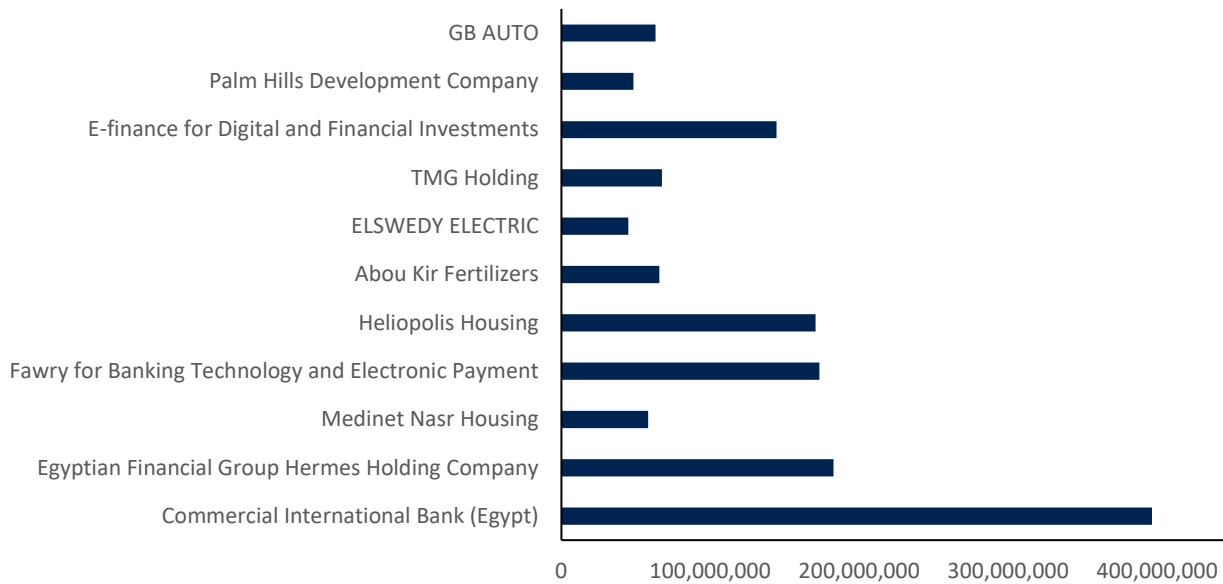
Source: CAPMAS

The value of the production index of manufacturing and extractive industries (excluding crude oil and petroleum products) in Egypt decreased by 0.39% in September 2022, recording 115.29, compared to 115.74 in September 2021.

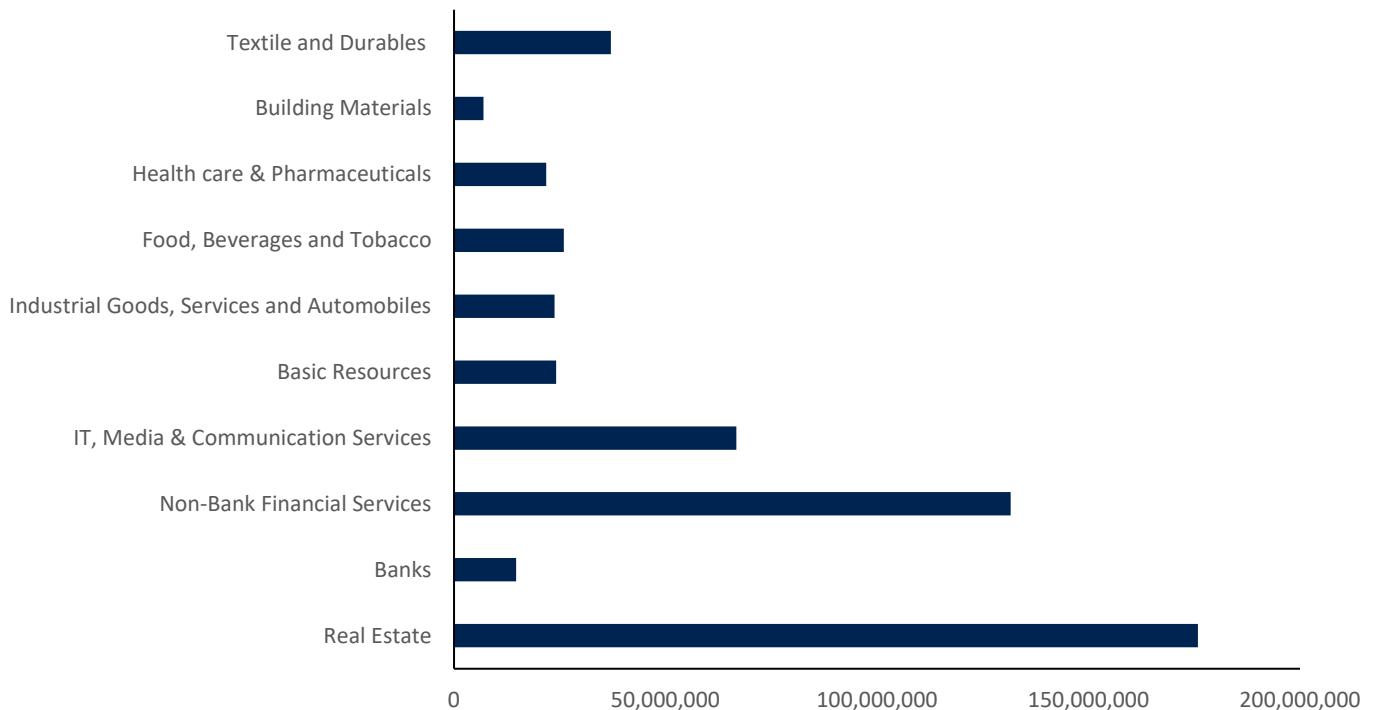
The decrease in the index can be explained by the tightening monetary policy that were imposed by the Central Bank of Egypt (CBE) in February 2022, which led to a decrease in the total production index. However, we expect that after the cancellation of the letters of credit (LCs), the index will take an upward trajectory.

The computer and electronics index increased by 69.7% to record 111.14 in September 2022, compared to 108.34 in September 2021. Meanwhile, the machinery and pharmaceuticals index decreased by 27.1% and 3.2%, respectively.

## The 10 Most Active Companies in Terms of Volume Traded – February 2023 (Mn EGP)



## The 10 Most Active Sectors in Terms of Volume Traded – February 2023 (Mn Shares)



Source: The Egyptian Exchange (EGX)

Based on the latest data prevailing on the Egyptian Stock Exchange (EGX), the real estate sector was the top sector on the stock market, with a trading value of EGP 530 million and a trading volume of 175 million shares, capturing almost 33% of the total volume of shares traded. As for the top companies in terms of the volume traded, the commercial international bank (CIB) ranked first, followed by Hermes.

## Moody's Downgraded Egypt's Ratings to B3 instead of B2

Moody's Investors Service downgraded Egypt's long-term foreign and local-currency issuer ratings as well as foreign-currency senior unsecured ratings from B2 to B3 and changed its outlook from negative to stable.

According to the agency, the downgrade to B3 reflects Egypt's reduced external buffers and shock absorption capacity due to the decline in liquid foreign exchange reserves and decreasing foreign currency liquidity buffers in the monetary system have (as measured by the build-up of large net foreign liability positions at the central bank and commercial banks), increasing external vulnerability. The agency highlighted the risks of tight international capital markets conditions as well as higher domestic borrowing costs and social spending pressures in an inflationary environment.

However, Moody's changed the outlook for Egypt to "stable" due to the availability of the government's dedicated domestic funding base and the government's track record of consistently generating primary surpluses which is expected to help reduce the debt burden.

The effective implementation of the committed economic reforms may enhance the economy's export base and support foreign direct investment inflows which, in turn, would enhance the economy's external debt carrying capacity and sustainably reduce the economy's external vulnerability risks.

Despite the "stable" outlook, this rating downgrade pushes Egyptian bonds to the "non-investment" grade zone which will substantially increase the cost of external borrowing for the Egyptian government and would further suppress the appetite of portfolio investors. Implications on the ability to attract FDI are yet to be assessed.

## Standard and Poor's Global Ratings Kept Egypt's Rating at "B"

S&P Global Ratings affirmed the local and foreign currencies credit ratings of Egypt at 'B', with a stable outlook for the second time in three months. According to the agency, Egypt's economy is stable and is currently recovering from the repercussions of the global and local economic developments throughout the last year.

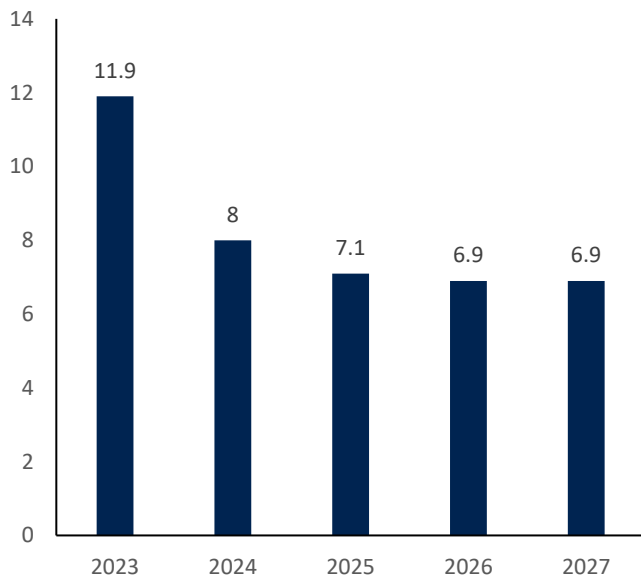
Nevertheless, during the next 12 months, S&P will consider downgrading the country's rating if Egypt's external position witnesses further pressure. This credit rating is based on the agency's expectations that Egypt will be able to cover its financing gap for this fiscal year (USD 17 billion), their expectations are built upon the belief that Egypt's commitments under the IMF EFF will be fulfilled and consequently funding from international financial institutions and Gulf countries in addition to commercial debtors would be sufficient for Egypt – in addition to its own resources- to honor its external debt obligations. The "stable" outlook is based on the continuation of economic reform that is centered around promoting the private sector investments.

As such, during the next 12 months, S&P will consider downgrading the country's rating if Egypt's is not able to attract adequate financial flows leading to more pressures on the external position.

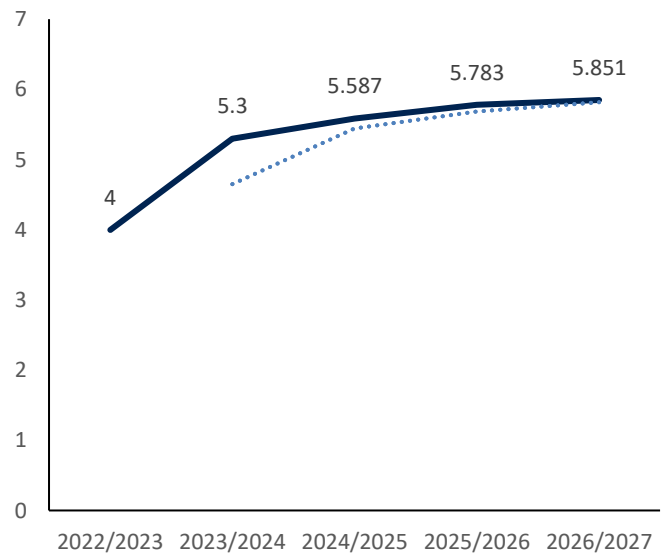
# Updates and Projections

According to its updated World Economic Outlook, the International Monetary Fund (IMF) stated that annual inflation rates will start taking a downward path after the unprecedented increase due to the local and international economic situation as of 2023 to record 6.9 in 2027. The outlook highlighted that the Russian war continues to powerfully destabilize the worldwide economy, which made the IMF's forecasts the global growth to record 2.9% in 2023, then rise to 3.1% in 2024. Meanwhile, the institution projected Egypt's real GDP growth rate to gradually increase to record 5.8% in 2027. Moreover, the IMF expected that the government revenues and expenditures to increase throughout the next years to help manage urgent needs for food and energy commodities.

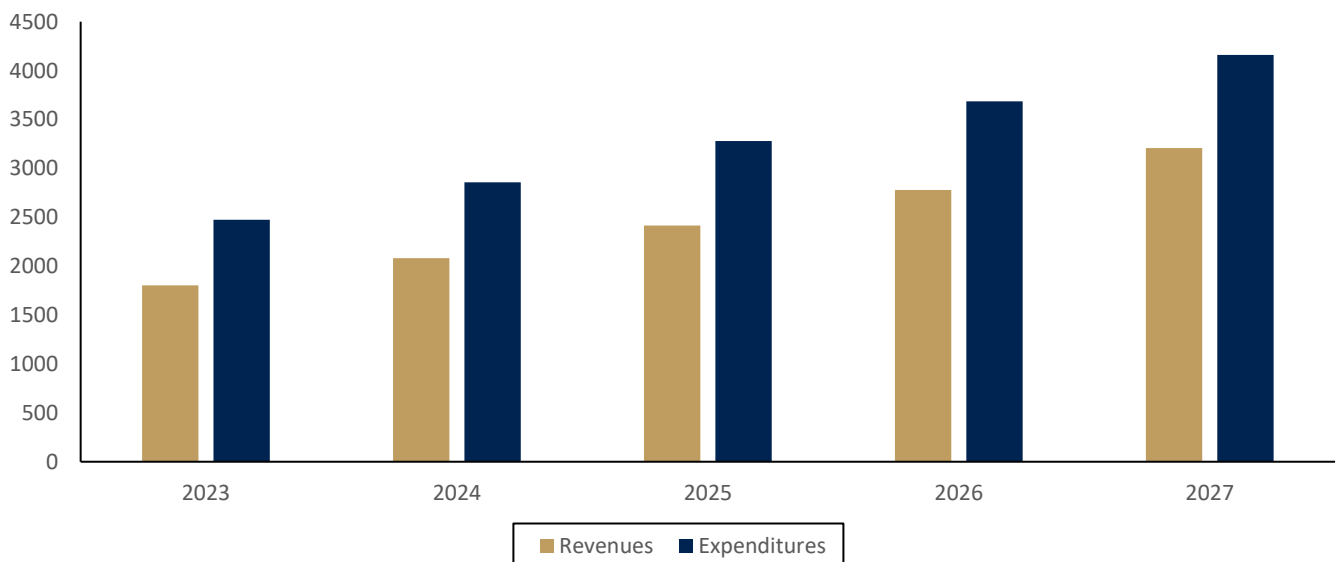
**Annual Inflation Rates (%)**



**Real GDP Growth (%)**



**Government Revenues and Expenditures (Bn EGP)**



Source: The International Monetary Fund



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