

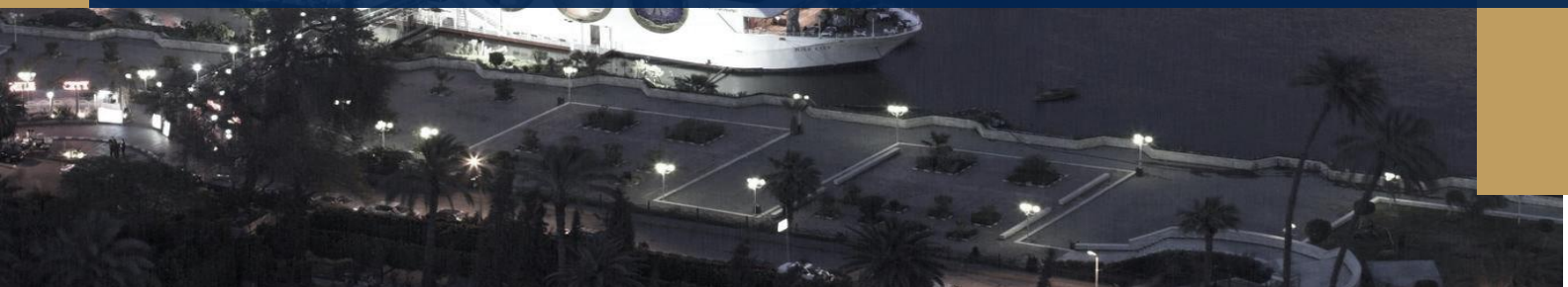


# Egypt's Macroeconomic Overview Q3 FY 2021/2022

(including latest updates until October 2022)

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November 2022



# Table of Contents

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3	Background
3	Executive Summary
4	Latest Projections
5	Real Sector
7	Monetary Sector
9	Fiscal Sector
11	External Sector
13	Foreign Investment
15	International Trade
19	Capital market

## Background

The Egyptian economy is witnessing a series of accelerating developments that are negatively affecting businesses and households. The economy is still suffering from the foreign currency shortage that is causing disruptions in supply chains, specifically in the manufacturing sector in addition to commercial sector. Inflation is keeping its upward trend as a reflection of the weakening Egyptian pound. This report provides an overview of Egypt's macroeconomic performance for the third quarter (Q3) (January-March 2022) of the fiscal year (FY) 2021/2022, it also includes the most recent data available for the following months. It monitors the performance of the real, monetary, fiscal, and external sectors.

## Executive Summary

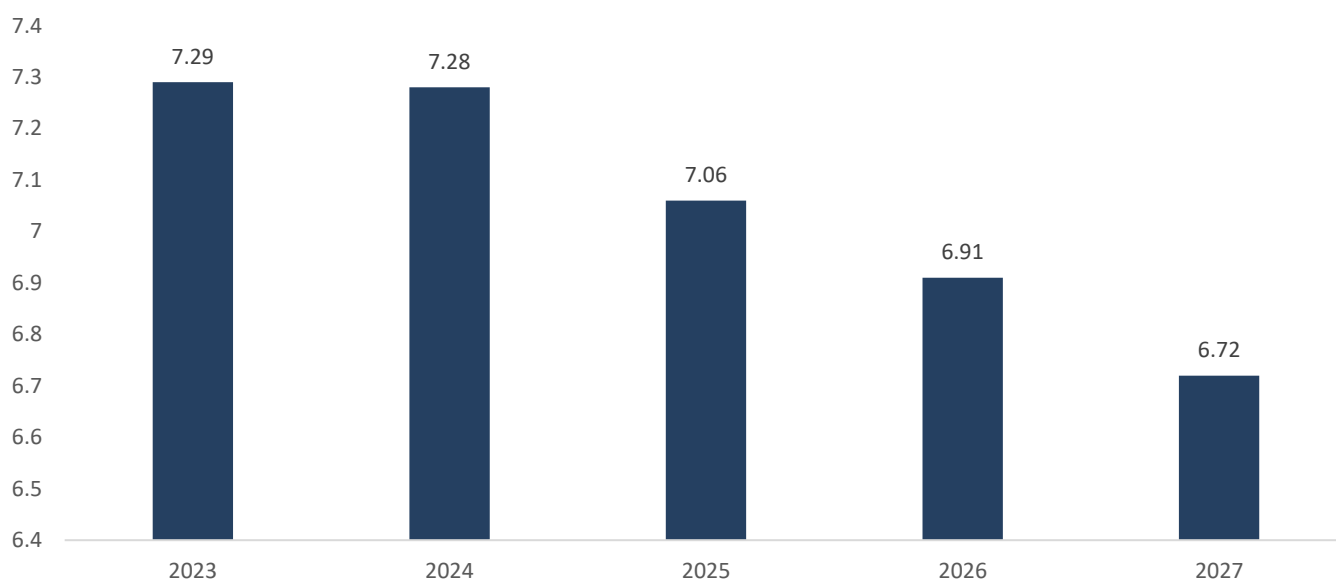
- During Q3 of FY 2021/2022, the real GDP reached 5.4%, compared to 2% during the same quarter in the previous fiscal year.
- The unemployment rate reached 7.2% during Q1 of 2022, and it persisted during Q2 of 2022. This could be explained by the implementation of several national projects that helped creating job opportunities. Male unemployment rates reached 4.9% during Q1 of 2022, while female unemployment rate recorded 17.7%.
- All sectors recorded a positive performance except for the manufacturing industries and petroleum industry due to slowdown in investments.
- Annual Headline Urban Inflation recorded 10.4% by end of March 2022, while it recorded 14.6% in August 2022, breaking the upper bound of the CBE's target for inflation rates. Economists expect higher inflation rates through the remainder of 2022 resulting from pass-through effects of local currency's continuous depreciation and global price hikes.
- Tourism revenues increased in Q3 of FY 2021/2022 to record USD 2.3 billion, compared to USD 1.3 billion in Q3 FY 2020/2021.
- Foreign Direct Investment (FDI) in Egypt recorded a net inflow of USD 40.2 billion in Q3 of FY 2021/2022, compared to USD 16.5 billion in the previous quarter of the same year.
- Suez Canal receipts rose by 15% to record USD 1.7 million in Q3 of FY 2021/2022, compared to USD 1.4 during Q3 of FY 2020/2021. Revenues are expected to increase over the next period due to the new expansion of the canal.
- Egypt's overall deficit exacerbated to record EGP 167.4 billion during the first half of FY 2021/2022, compared to EGP 132.1 during the same period in FY 2020/2021.

# Latest Updates and Projections

## The International Monetary Fund lowers its forecast for Egypt's GDP growth to 4.4%

According to its updated World Economic Outlook, the IMF revealed that the Egyptian economy is expected to grow by 4.4% in the current fiscal year, compared to its previous forecast of 4.8% in July 2022. It is worth noting that in July 2022, the IMF had lowered its forecast for the economic growth by 0.2%, compared to its forecast in April 2022. Although the report highlighted that the global GDP growth remains unchanged at 3.2% for this year, the fund lowers its forecast for growth in 2023 to 2.7%, as a result of the increasing pressures on the global economy.

## IMF Projections for Unemployment Rate (%)



## The IMF lowers its forecast for Egypt's unemployment rate

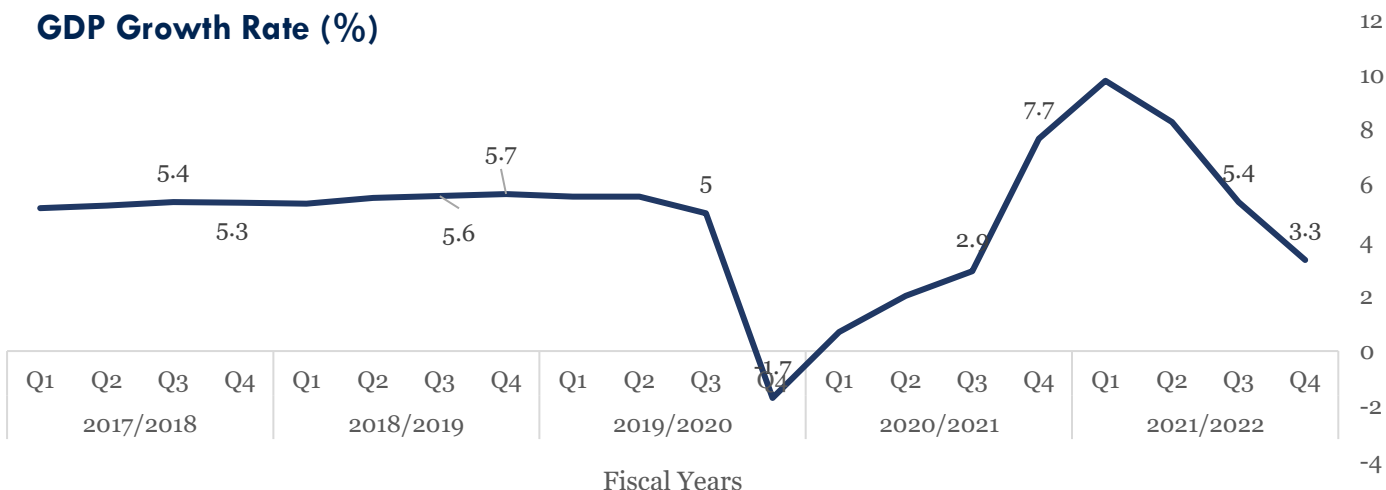
The International Monetary Fund (IMF) revealed in its latest World Economic Outlook that the unemployment rate for Egypt will decline gradually over the upcoming years. The IMF's projections for 2023 for the unemployment rate increased to reach 7.29% versus 6.9% in the previous report, and it anticipates that it will reach 6.7% by 2027. The upward revision could be mainly attributed to the reduced growth expectations in light of the challenges that are facing the local economy.

## Standard and Poor's Global Ratings keeps Egypt's rating at "B"

Standard and Poor's (S&P) Global Ratings kept Egypt's local and foreign currencies credit ratings at "B", with a stable outlook for the second time during this year. The decision reflects the Egyptian economy's strength and resilience to external shocks amidst economic turbulence. Economic experts believe that the Egyptian economy will record higher growth rates in the medium term as a result of policies and reforms supporting investments and businesses. In addition, the Minister of Finance noted that the agency does not expect any outflows from the country due to the government of Egypt (GoE) plans to attract investments.

# Real Sector

## GDP Growth Rate (%)

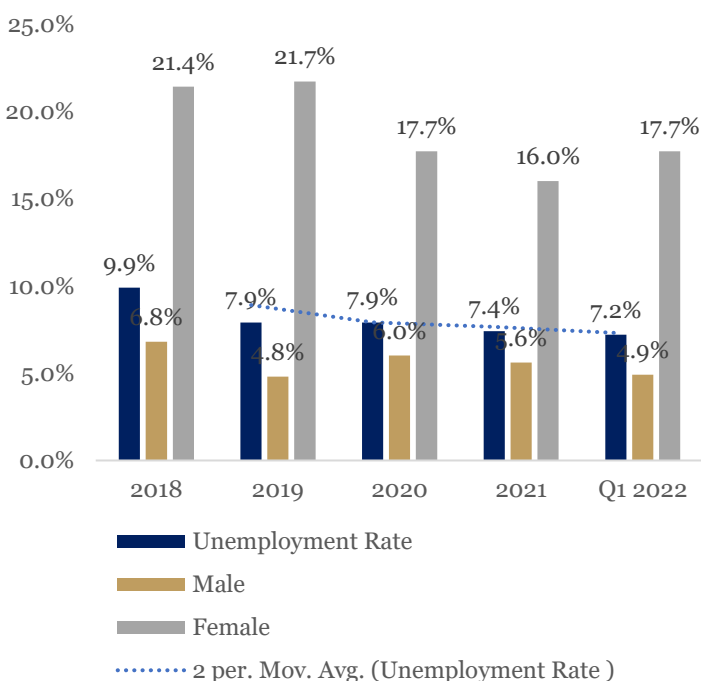


Source: The Ministry of Planning and Economic Development

Egypt's real GDP growth rate (at constant prices) recorded 5.4% during the third quarter of the fiscal year (FY) 2021/2022, compared to 2.0% during the corresponding quarter of the FY 2020/2021. It is worth mentioning that Egypt was one of the few African countries recording a positive real GDP growth rate in 2020, and the only one in the North African region, due to the repercussions of the pandemic.

The first half (H1) of FY 2021/2022 coincided with the breakdown of the Ukrainian war, rising interest rates and high inflationary pressures putting additional burden on the Egyptian Pound (EGP). Although the Minister of Planning and Economic Development previously expected an annual growth rate of 5.7% by end of FY 2021/2022, the GDP growth rate recorded only 3.3% during Q4 of FY 2021/2022, a decline of 57% compared to Q4 of FY 2020/2021.

## Unemployment rate (%)



Source: CAPMAS

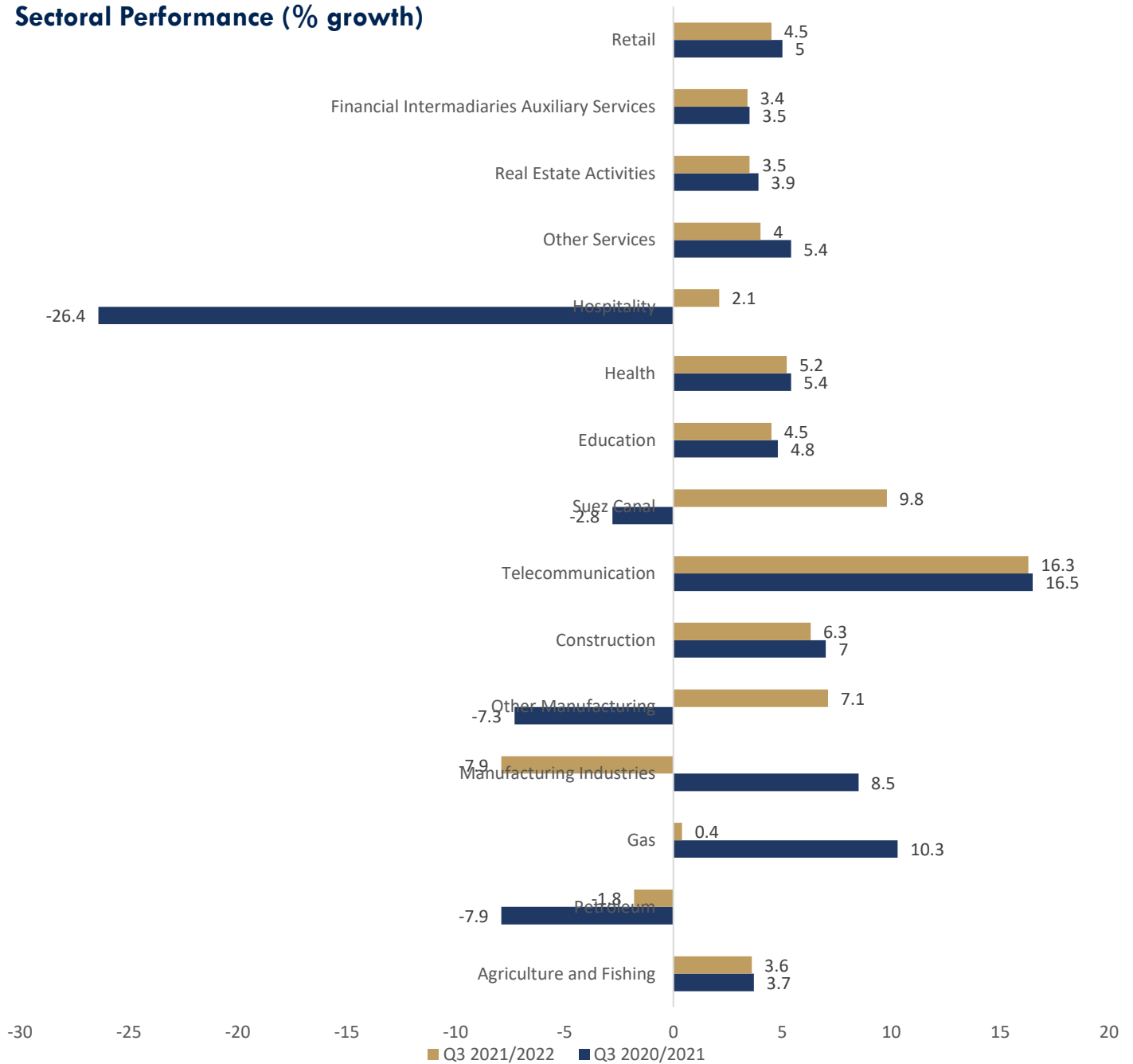
The unemployment rate declined to 7.2% in the first quarter of 2022, compared to 7.4% at the end of 2021. The decline in unemployment rate can be attributed to the decrease in male unemployment rates to 4.9% in Q1 2022, compared to 5.6% at the end of 2021.

However, unemployment rate among women increased to record 17.7% in Q1 2022, compared to 16.0% at the end of 2021. According to CAPMAS Quarterly Labor Force Survey, the creation of new jobs was mainly driven by the construction sector, the agricultural sector, and the manufacturing sector. It is worth mentioning that the stability of unemployment rates during that period is a result of national projects, which had secured almost a million job opportunities, according to the Ministry of Manpower.

As for Q2 of FY 2021/2022, the Minister of Planning and Economic Development announced it remained unchanged at 7.2%, recording 10.6% in urban areas, while it recorded 4.5% in rural areas.

# Real Sector

## Sectoral Performance (% growth)

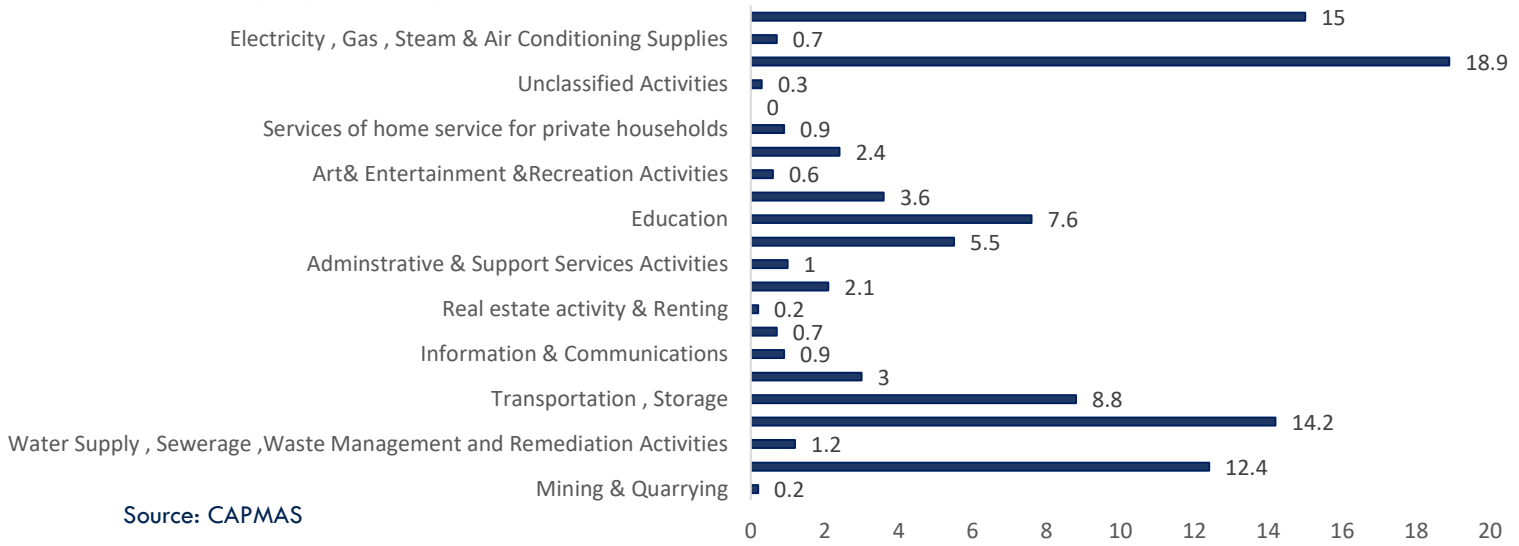


Source: The Ministry of Planning and Economic Development

During the period in study, all sectors recorded a positive performance except for the manufacturing industries and petroleum industry. Sources of economic growth by sector emerged from several sectors: telecommunications sector which grew at 16.5% during Q3 of FY 2021/2022. Moreover, gas and Suez Canal sector recorded high growth rates: 10.3% and 9.8% respectively. Hospitality sector recorded a growth rate of 2.1%, compared to a rate of -26.4% during Q3 2020/2021, mainly driven by the eased restrictions of Covid-19. Petroleum sector achieved a negative growth rate of 1.8% during Q3 FY 2021/2022, compared to a negative growth rate of 7.9% during Q3 FY 2020/2021. It is worth noting that the economic and social development plan of the government aims to increase the production for the petroleum and mineral resources sector by 17.8%. Oil and gas sector achieved a growth rate of 0.4% due to slowdown in investments and gas exploration.

# Real Sector

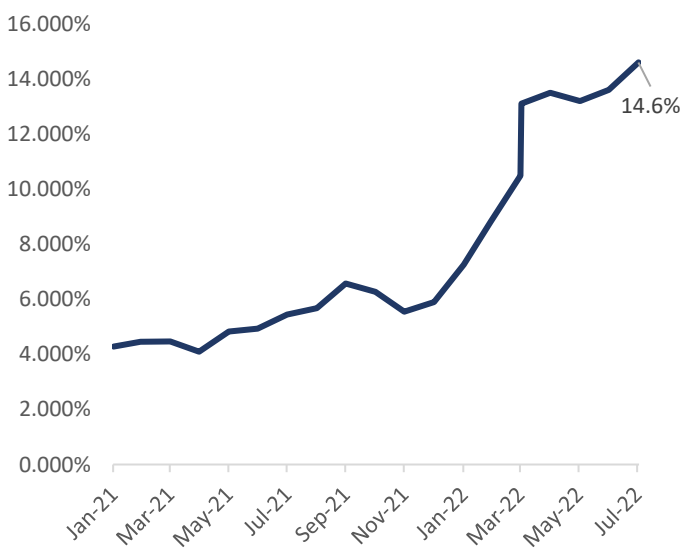
## Share of Employment by Sector (%)



The sectoral employment distribution during Q1 2022 is similar to the sectoral employment distribution during Q4 of 2021. The agriculture, forestry, hunting and fishing sector remains the main sector where major employees work: 18.9% of total labor force. Trade, retail and construction sectors come in the second and third places, employing almost 15 and 14.2%, respectively of total labor force.

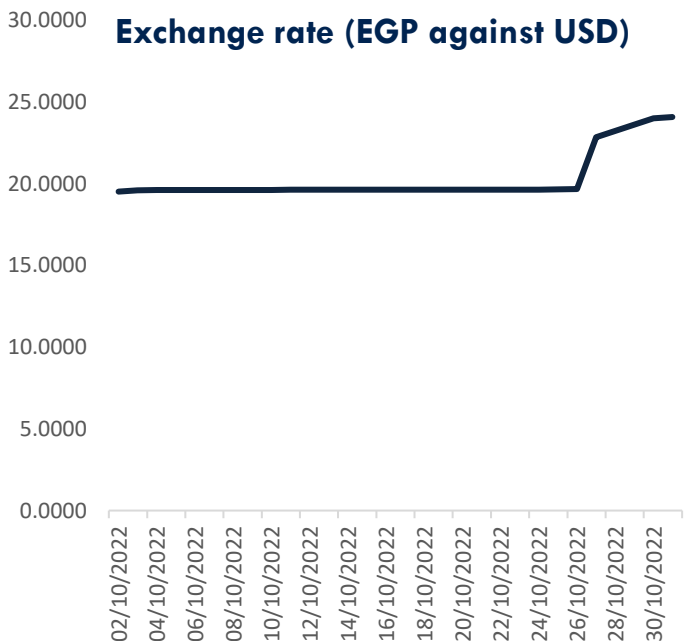
# Monetary Sector

## Headline Inflation (y-o-y % change)



Source: The Central Bank of Egypt

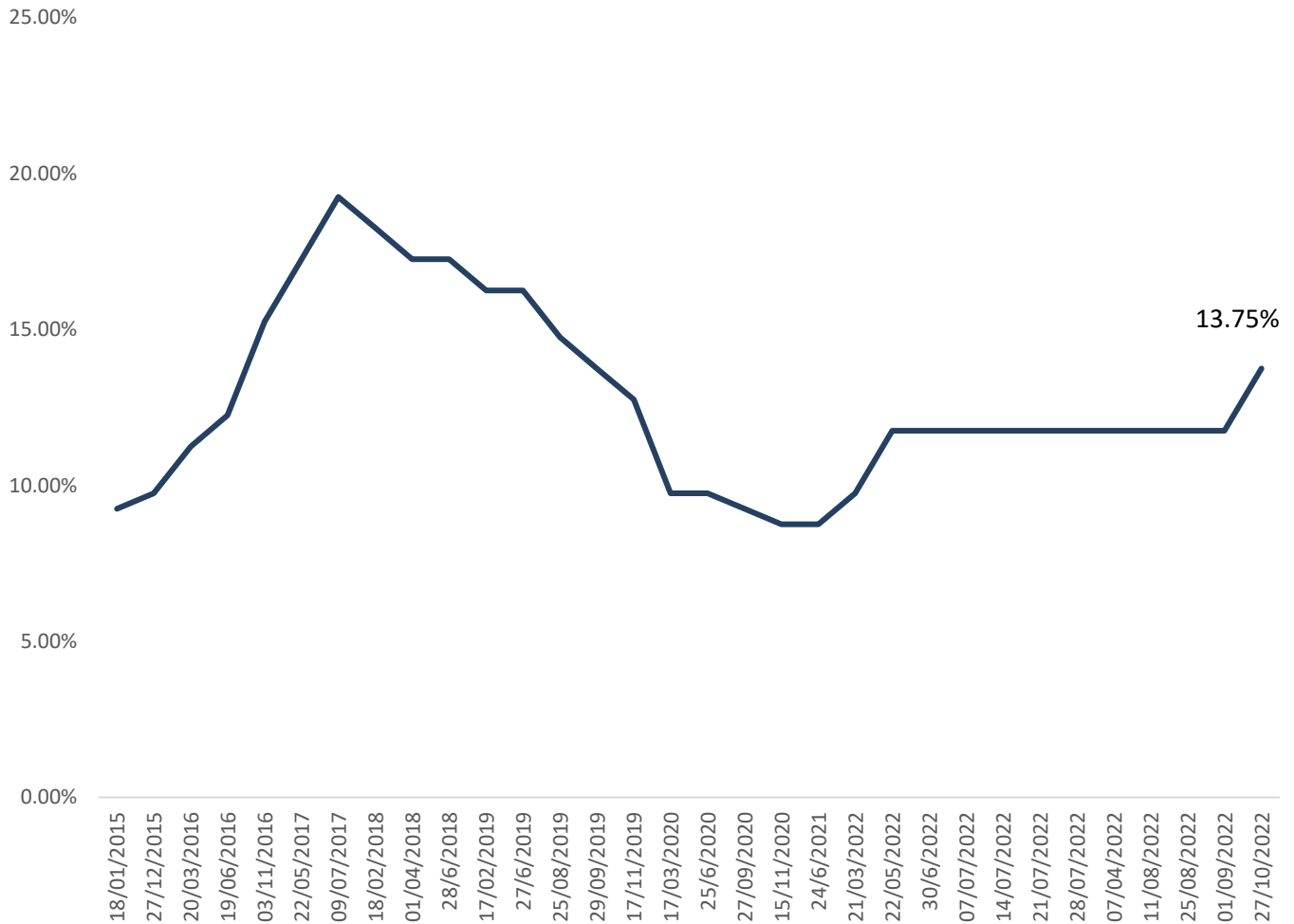
## Exchange rate (EGP against USD)



Annual Headline Urban Inflation Rate recorded 14.65% in August 2022, compared to 5.6% in August 2021, breaking the upper bound of the Central Bank's target inflation rate ( $\pm 7\%$ ) for the seventh consecutive month. On one hand, the continual upward trend of inflation was mainly driven by the increase in monthly core CPI, which reached 16.6% during August 2022, compared to 4.5% in August 2021. On the other hand, fruits and vegetables prices decreased, after a strong acceleration for six consecutive months, to record 2.6% in August 2022, compared to 8.7% in August 2021. Economists expect higher inflation rates through the remainder of 2022 resulting from pass-through effects of local currency's continuous depreciation and global price hikes.

# Monetary Sector

## Discount rate – CBE Main Operation (%)



Source: The Central Bank of Egypt

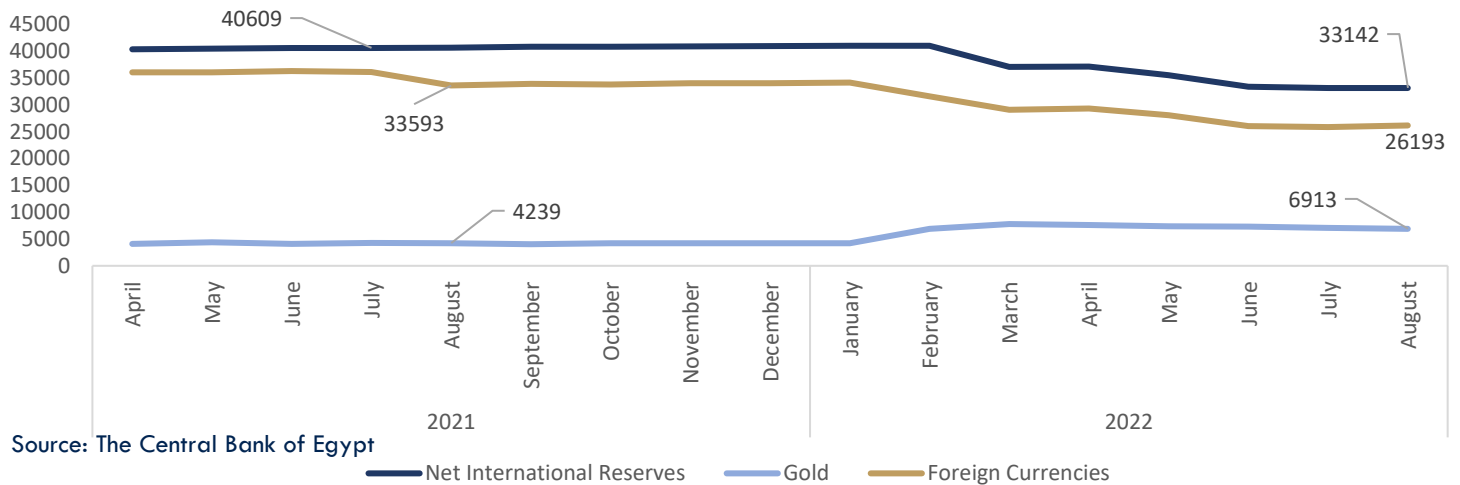
The announcement of the liberalization of the exchange rate on October 27th caused the USD/EGP exchange rate to reach 24.09 on November 1st. However, the announcement of the floatation was important to reduce the continued pressures on the EGP and bring back currency inflows in Egypt. The liberalization of the EGP was a crucial step to conclude the agreement with the IMF on the new loan to achieve macroeconomic stability

As for the discount rate, it remained unchanged at 11.75% until May 2022. Following the Fed Reserve decision to increase its rates, the CBE raised its policy rates in March 2022 by 1%, attempting to tackle high inflation rates prevailing in local and international markets. However, on October 27<sup>th</sup>, the CBE raised interest rates by 2%. The discount rate therefore increased to record 13.75%.



# Monetary Sector

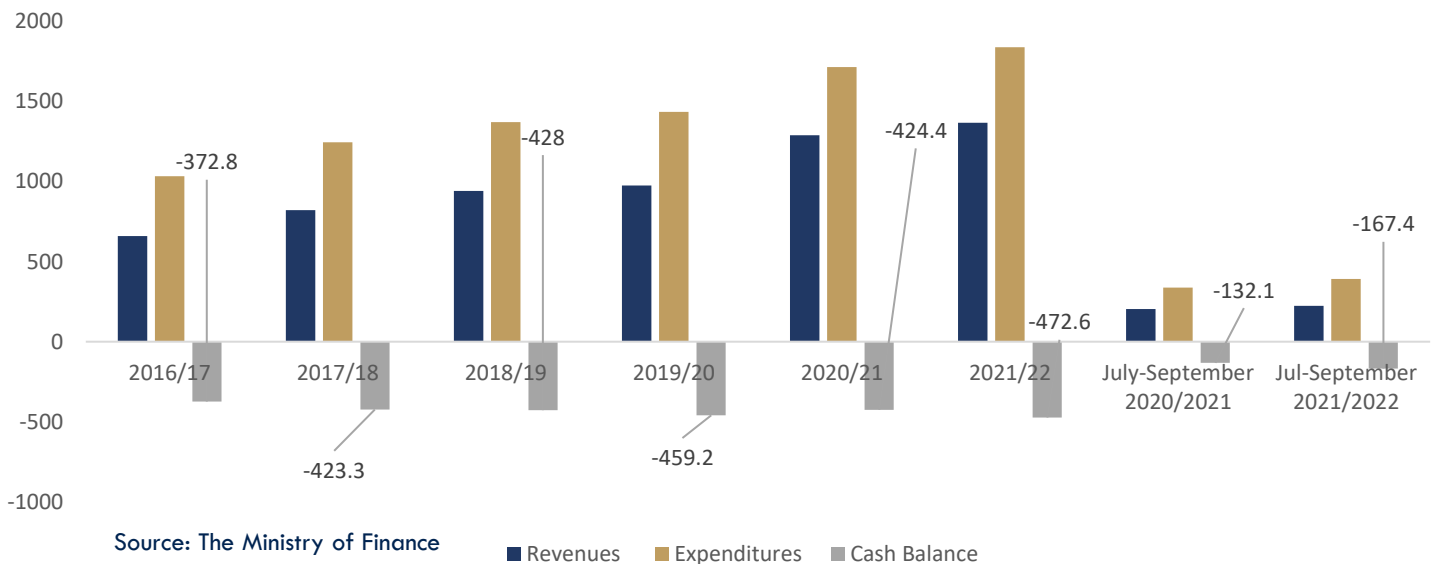
## International Reserves (Bn USD)



Net International Reserves declined gradually during January-August 2022, compared to the same period in 2021. Net International Reserves recorded USD 33.1 billion by end of August 2022, compared to USD 40.6 billion in August 2021, a decrease of 18.5%. The decline could be partially explained by the decrease in foreign currencies to USD 26.1 billion, compared to USD 33.6 billion in August 2021, resulting from the repercussions of the global economic crisis amidst Russia-Ukraine conflict that caused a massive capital flight accompanied by diminishing proceeds from the tourism sector that was heavily reliant on arrivals from Russia and Ukraine.

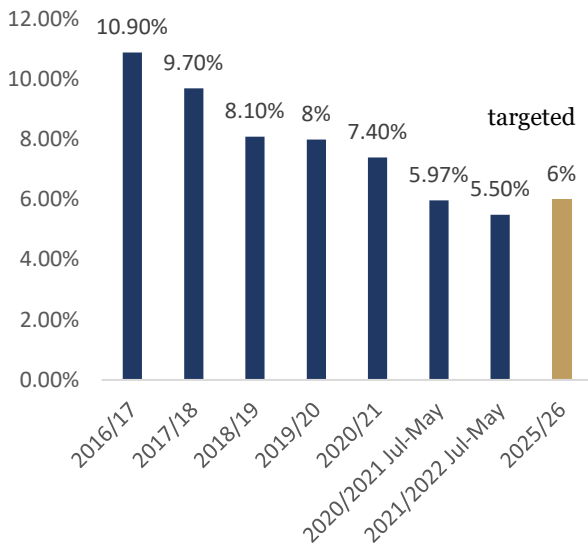
# Fiscal Sector

## Budget Overview (Bn EGP)



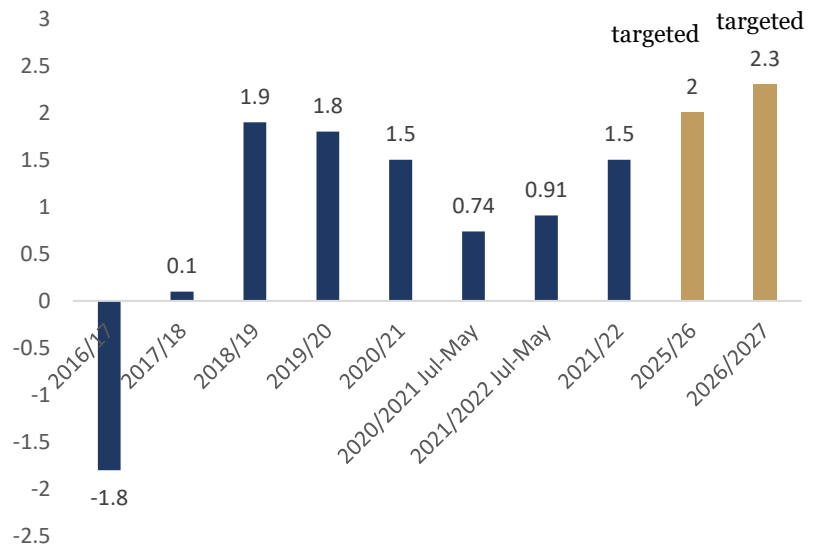
During the first half (H1) of FY 2021/2022, Egypt's overall deficit widened to record EGP 167.4 billion, compared to EGP 132.1 billion during the same period of the previous fiscal year. However, during July-May of FY 2021/2022, the general budget achieved a primary surplus of 0.91% of GDP, compared to 0.74% during the corresponding period in the previous fiscal year. It is worth noting that the Minister of Finance announced in the economic conference that kicked off on October 23rd, that a surplus of 2.3% is expected to be reached in FY 2026/2027.

## Overall Deficit (% GDP)

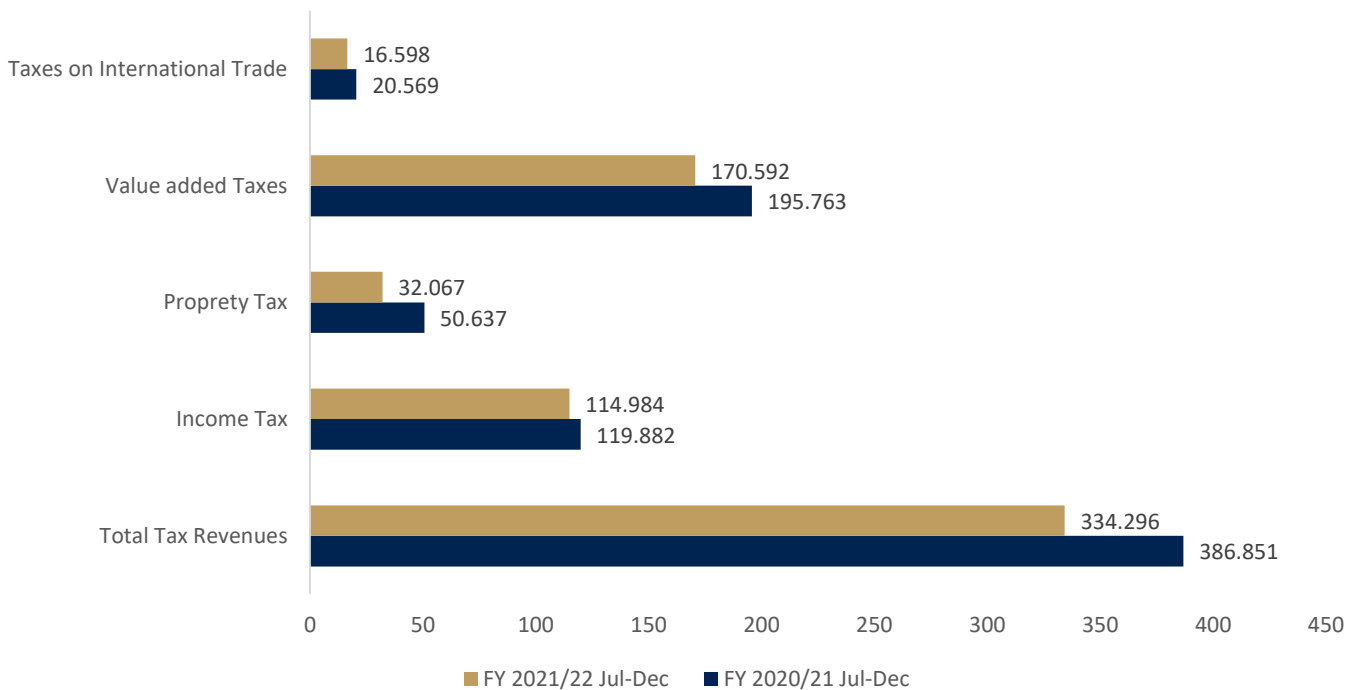


Source: The Ministry of Finance

## Primary Balance (% GDP)



## Sources of Revenue (Bn EGP)



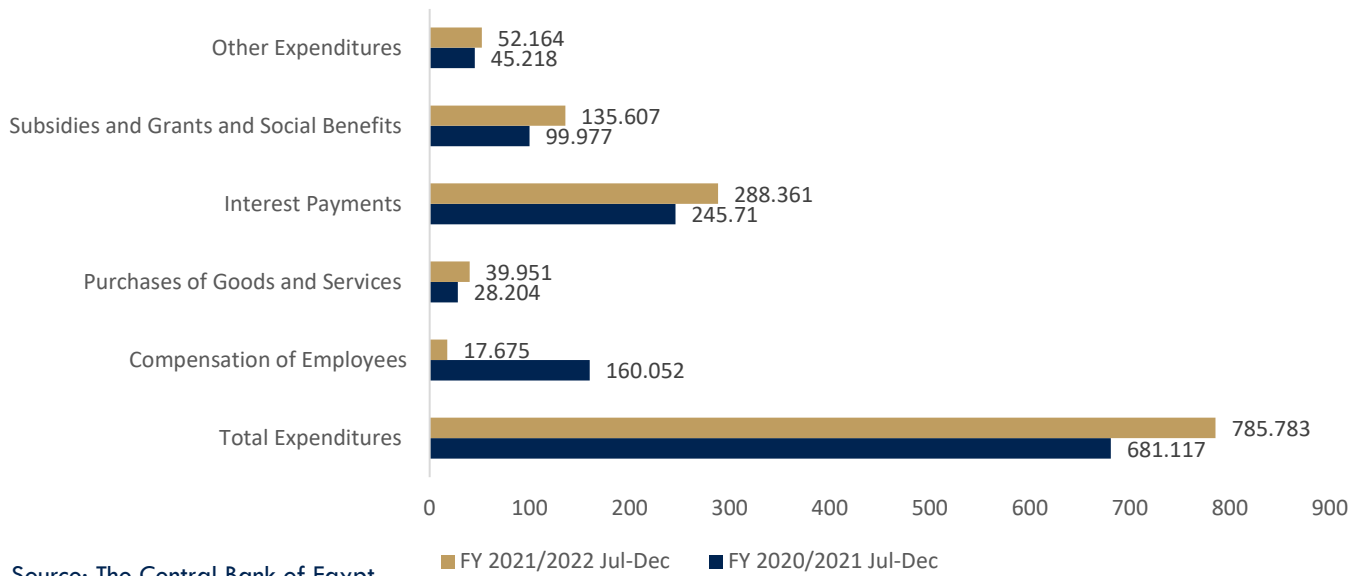
Source: The Central Bank of Egypt

Government revenues decreased in H1 of FY 2021/2022, compared to H1 of FY 2020/2021. During H1 of FY 2021/2022, total tax revenues decreased by 15.2% compared to Q3 of FY 2020/2021, amounting to only EGP 334.2 billion. Value added taxes decreased by 13% to record EGP 170 billion, compared to EGP 195 billion in Q3 of FY 2020/2021. Taxes on international trade decreased by

Furthermore, income tax revenues decreased from EGP 119.8 billion in Q3 FY 2020/2021, to record EGP 114.9 billion in Q3 of FY 2021/2022. It is worth mentioning that the government previously announced that it aims to raise its revenues by 11% during the FY 2022/2023.

# Fiscal Sector

## Types of Expenditure (Bn EGP)



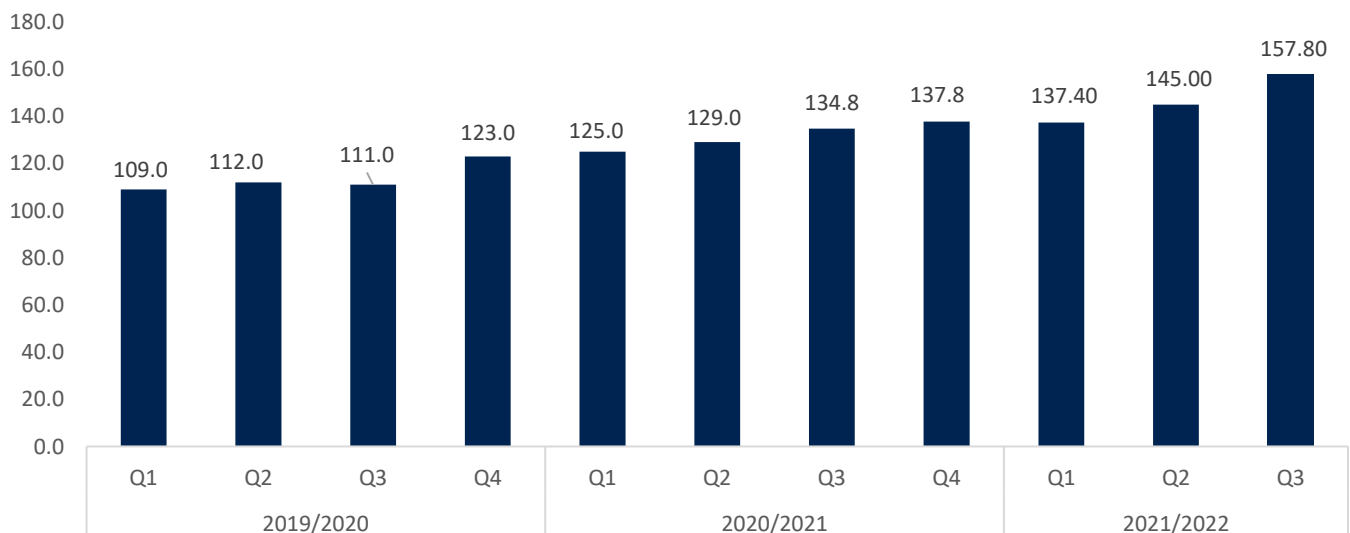
Source: The Central Bank of Egypt

Total expenditures increased in H1 of FY 2021/2022 to reach EGP 785.7 billion, compared to EGP 681.1 billion in H1 of FY 2020/2021. Most expenditures were directed to interest payments which increased to reach EGP 288.3 billion, compared to EGP 245.5 billion. Subsidies, grants and social benefits' expenditures also increased in H1 of FY 2021/2022 to reach EGP 135.6 billion, compared to EGP 99 billion in the previous year. It is worth noting that budgetary allocations to subsidies and social protection programs will increase in the budget of FY 2022/2023 to reach EGP 356 billion.

# External Sector

External debt rose to USD 157.8 billion in Q3 of FY 2021/2022, compared to USD 145 billion during the same quarter of FY 2020/2021. Furthermore, total debt interests and principals paid by the government increased by almost 48%.

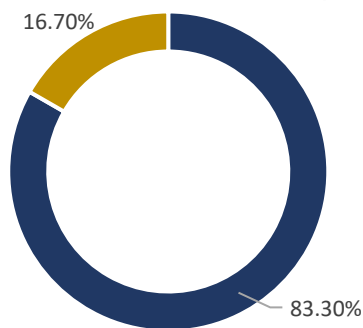
## External Debt (Bn USD)



Source: The Central Bank of Egypt

# External Sector

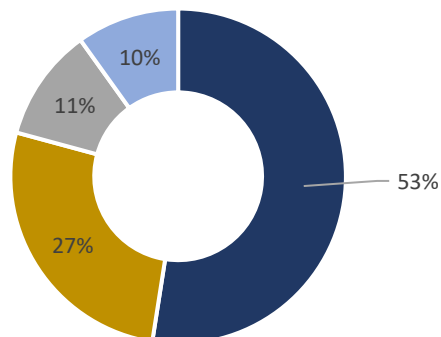
## External Debt in Q3 FY21/22



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

Source: The Central Bank of Egypt

## Debtor Share in Total Debt (%)

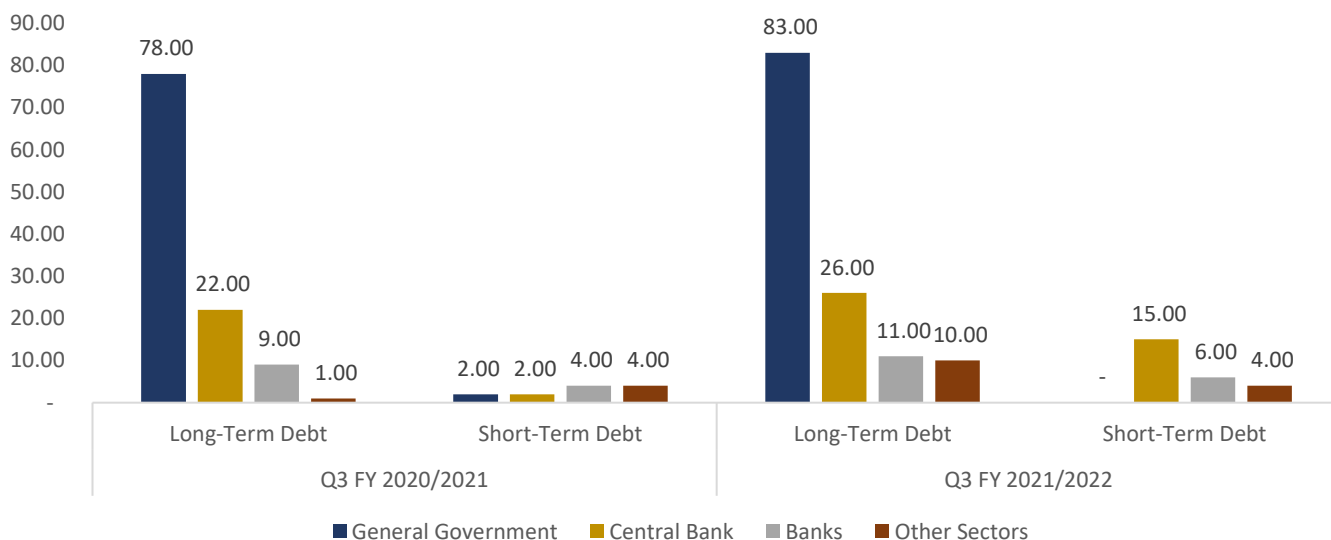


- General Government
- Central Bank
- Banks
- Other Sectors

During Q3 of FY 2021/2022, long-term debt held a share of 83.3% of Egypt's total external debt, while short-term debt recorded 16.7% of total debt. It is worth noting that during Q2 of the same fiscal year, long-term debt recorded 91%, while short-term debt recorded 16.7% of Egypt's total debt.

The General Government remains the main debtor, with a share of 53% of total external debt during Q3 of FY 2021/2022. The CBE came in the second place, with a total share of 20% of total external debt. Banks and other sectors were both liable for 11% and 10% respectively of total external debt.

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

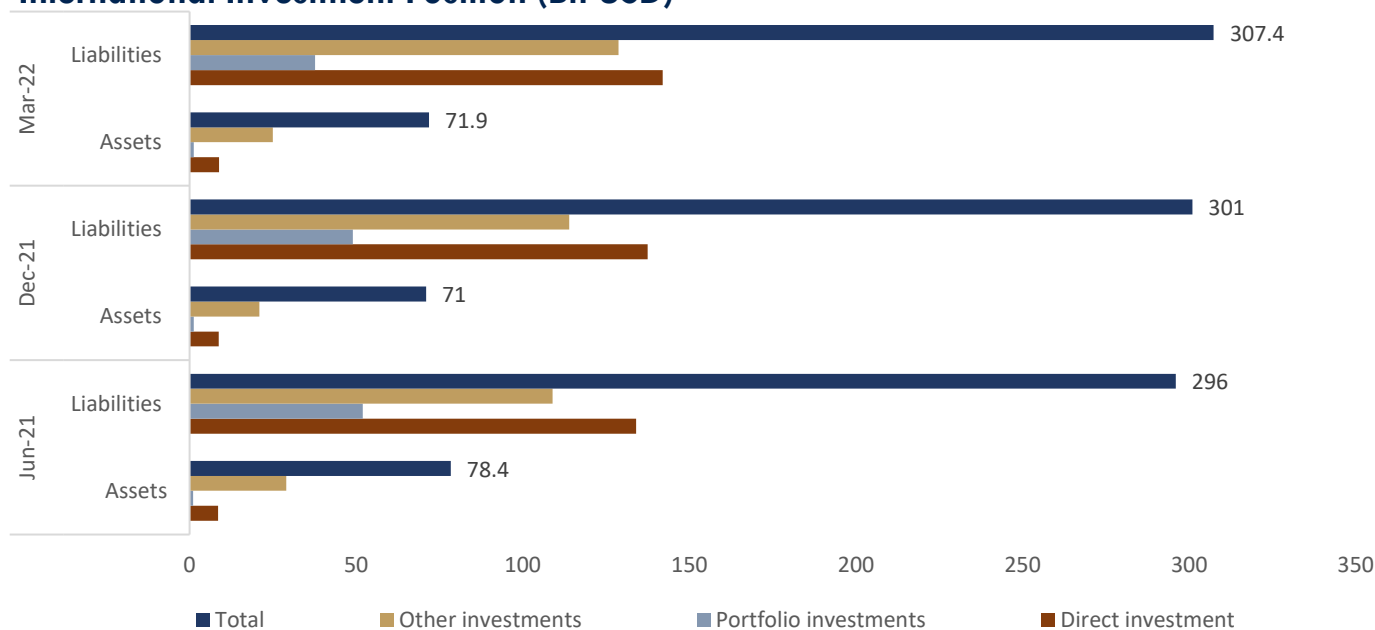


Source: The Central Bank of Egypt

The General Government's debt increased to USD 83 billion in Q3 of FY 2021/2022: total long-term debt amounted to USD 83 billion, compared to USD 78 billion in Q3 of FY 2020/2021. The CBE's external debt rose to USD 41 billion in Q3 of FY 2021/2022, compared to USD 25 billion in Q3 of FY 2020/2021: long-term debt amounted to USD 26 billion, while short-term debt reached USD 15 billion. External debt of banks and other sectors reached USD 17 and USD 15 billion respectively during the period under study.

# External Sector

## International Investment Position (Bn USD)



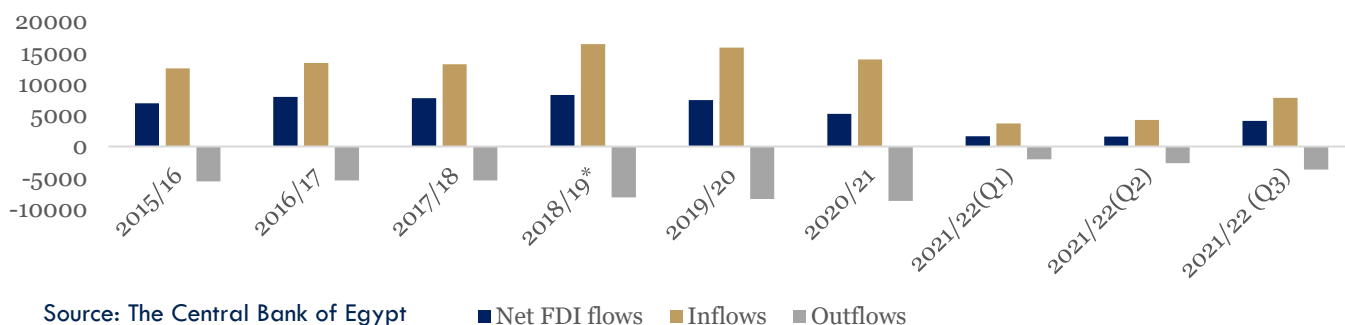
Source: The Central Bank of Egypt

Egypt's International Investment Position recorded net external liabilities of USD 307.4 billion at end of March 2022, compared to USD 301 billion at end of December 2022. The increase in total liabilities is attributed to the increase in direct investments which recorded USD 142 billion in March 2022, compared to USD 137.5 billion in December 2021.

Furthermore, total assets witnessed a slight increase to record USD 71.9 billion at end of March 2022, compared to USD 71 billion in December 2021. Noteworthy that total assets decreased by USD 6.5 billion, compared to June 2021. The increase in total assets is attributed to the increase in other investments to record USD 25 billion, compared to USD 21 billion in December 2021.

# Foreign Investment

## Net Foreign Direct Investment Flows (Mn USD)



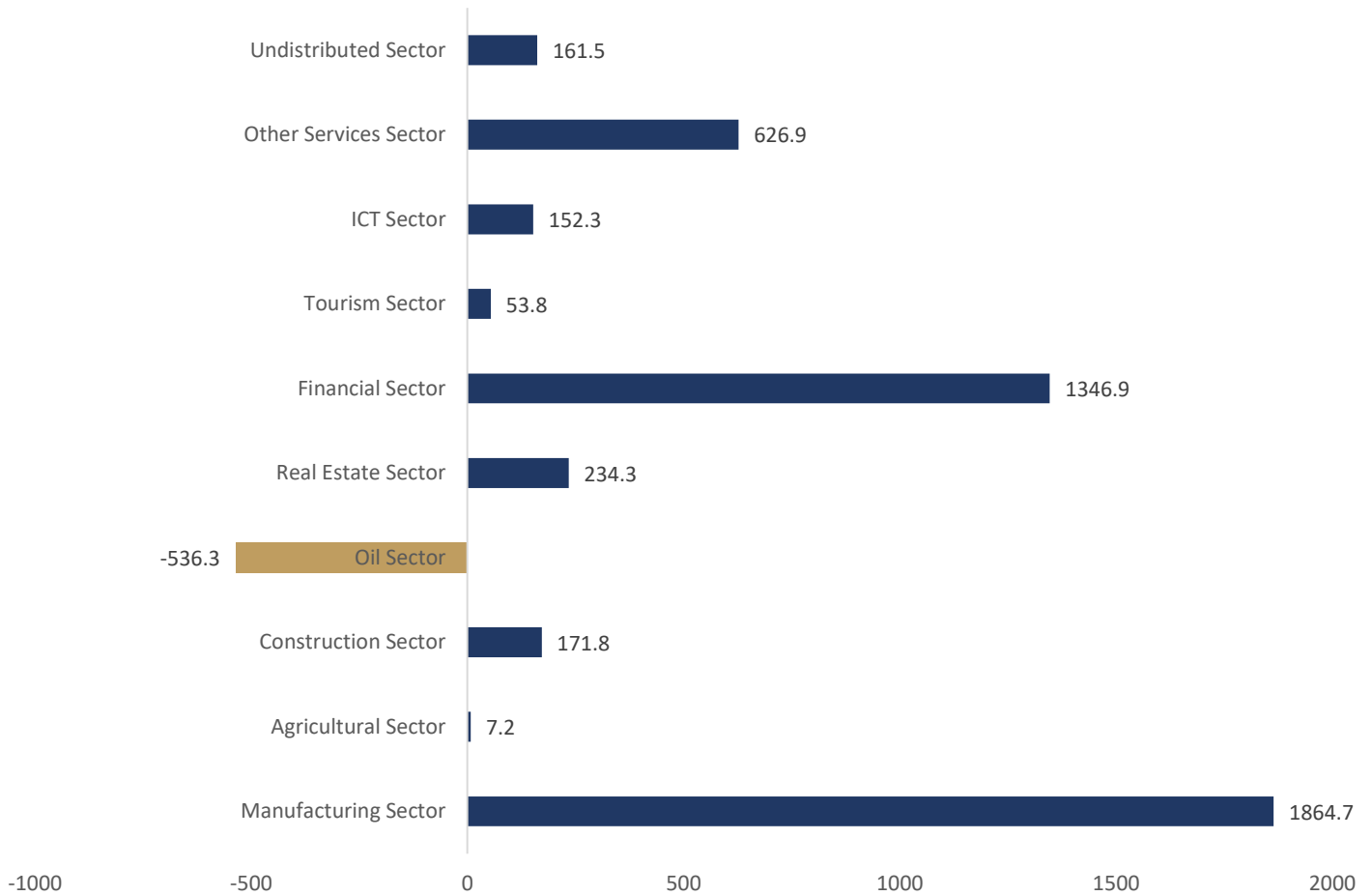
Source: The Central Bank of Egypt

■ Net FDI flows ■ Inflows ■ Outflows

During Q3 of FY 2021/2022, FDI in Egypt recorded a net inflow of USD 40.2 billion, compared to USD 16.5 billion in the previous quarter of the same year. The war in Ukraine drove investment outflows and spikes in interest rates which resulted in a net USD 36.6 billion exiting the country in Q3 of FY 2021/2022. Manufacturing sector recorded the highest net FDI: USD 1.7 billion, while oil sector registered a net outflow of USD 5.3 billion, compared to USD 1.1 billion in the previous quarter. Noteworthy that the government aims to attract USD 8 billion investments into the oil and gas sector in the FY 2022/2023, which would raise the proportion of foreign investment in the sector from 35% to 40%.

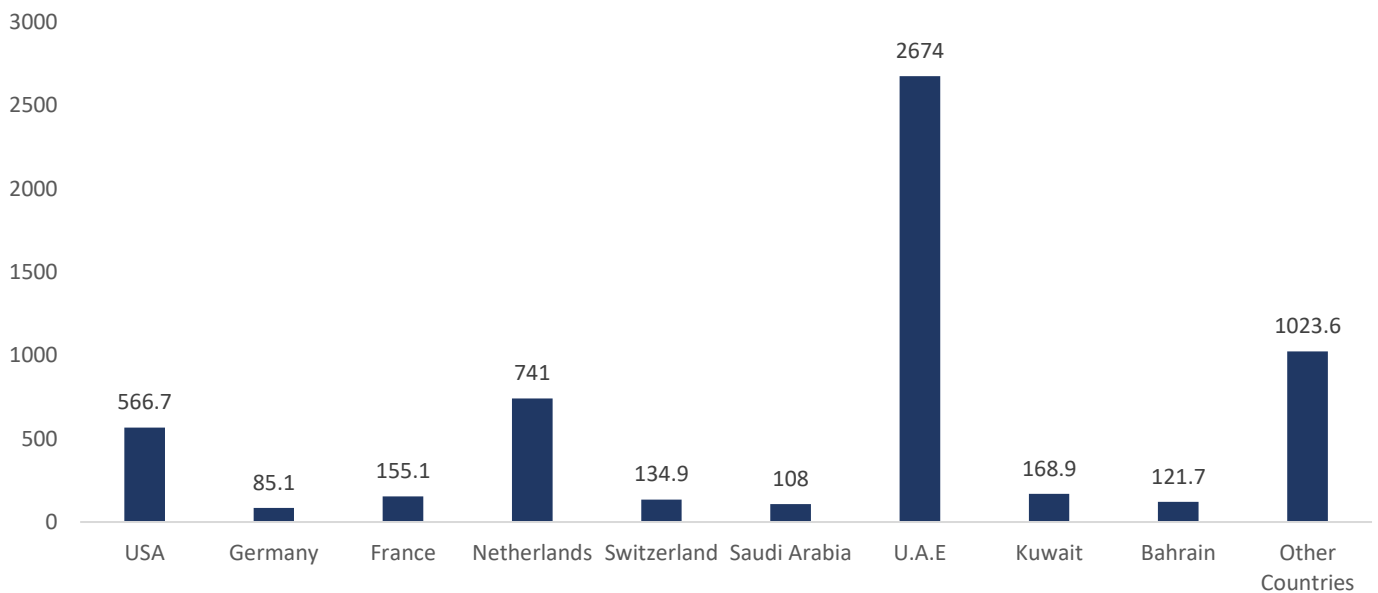
# Foreign Investment

## Foreign Direct Investment by Sector Jan-Mar FY21/22 (Mn USD)



Source: The Central Bank of Egypt

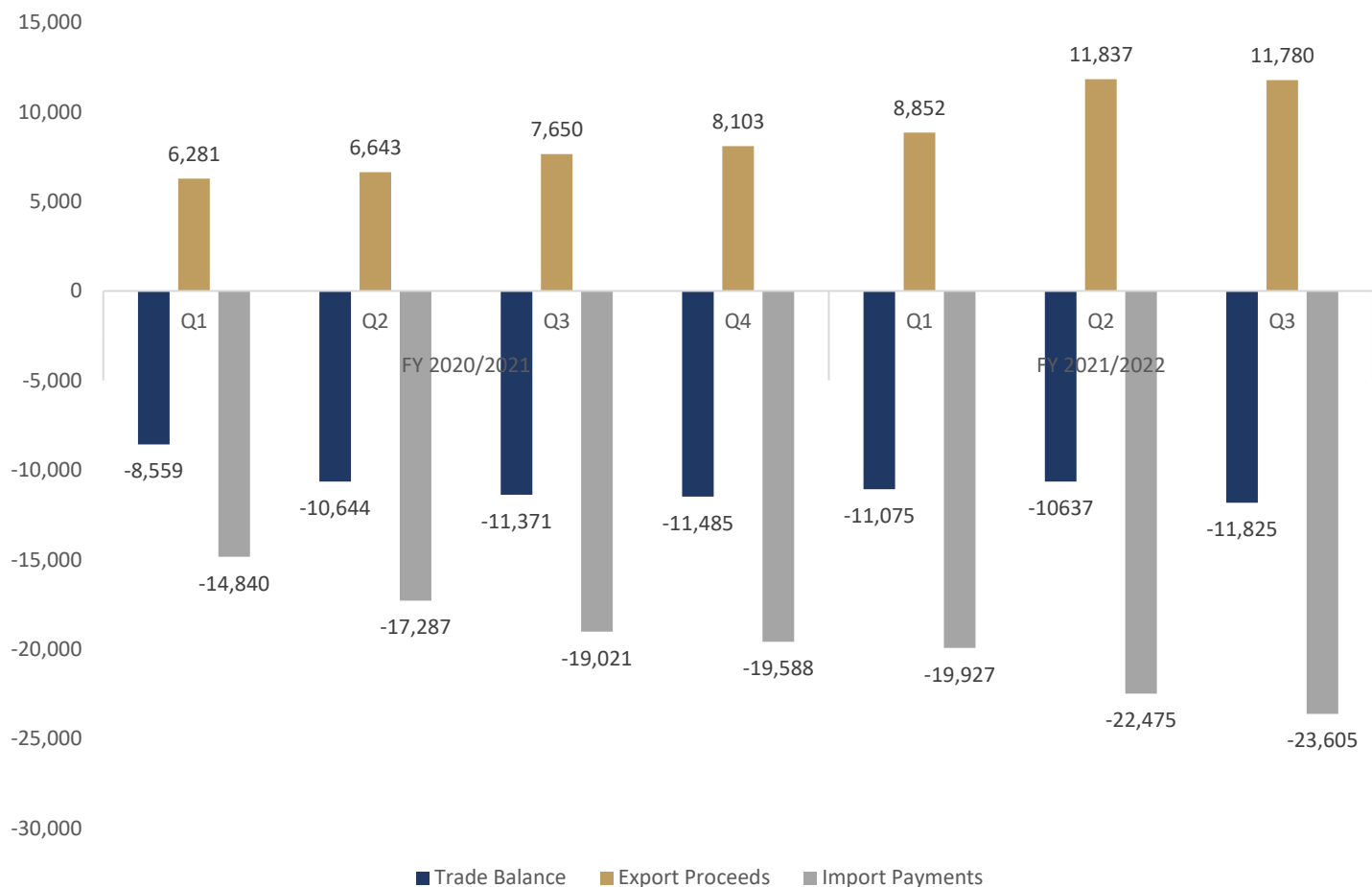
## Net Foreign Direct Investment by Country in Q3 FY21/22 (Mn USD)



Source: The Central Bank of Egypt

# International Trade

## Trade Balance (Mn USD)



Source: The Central Bank of Egypt

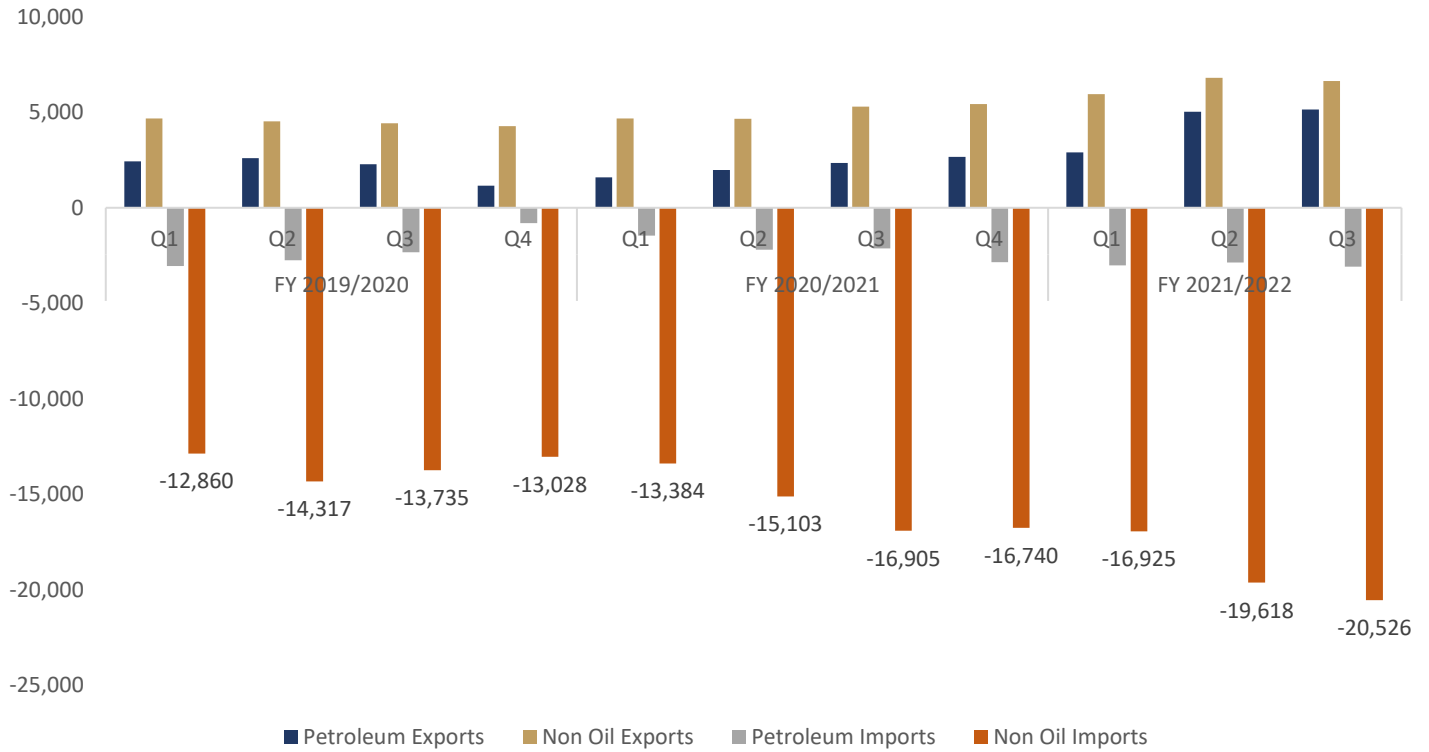
During the third quarter of FY 2021/2022, export proceeds increased to reach USD 11.8 billion, compared to USD 7.6 billion during Q3 of FY 2020/2021. The increase is driven by the increase in oil exports to reach USD 5.6 billion, and non-oil exports recorded almost USD 5.2 billion, mainly of raw cotton, textiles, organic and inorganic compounds and wires and cables.

Furthermore, merchandise imports recorded USD 23.6 billion during Q3 of FY 2021/2022. Oil imports contributed with USD 3181.1 million. Non-oil imports increase is mainly due to the increase in imports of wheat, durable goods, dairy products, and medicines.

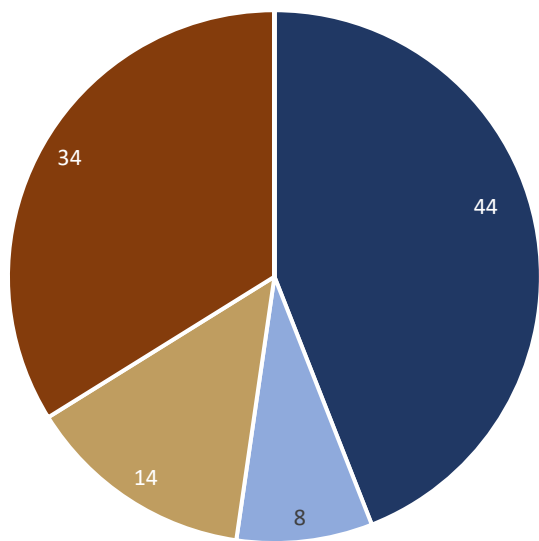
It is worth noting that new import rules were imposed in March 2022, which require Egyptian importers to use 'Letters of Credits' (LCs) instead of 'Cash against system'. Those letters worsened supply-chain issues, increased production costs, delayed imports of some necessity goods and kicked some companies out of the market due to their inability to fulfill their obligations.

# International Trade

## Trade Balance by Economic Activity (Mn USD)

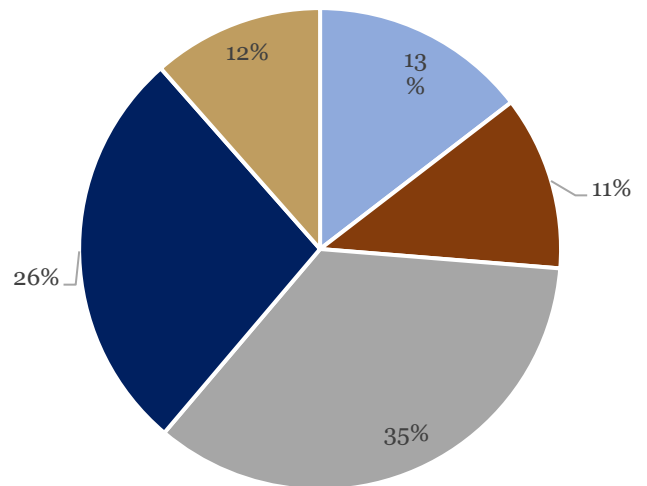


## Proceeds of Merchandise Exports (%)



- Fuel and Mineral Oil Products
- Raw Materials
- Semifinished Goods
- Finished Goods
- Others

## Payments of Merchandise Imports (%)

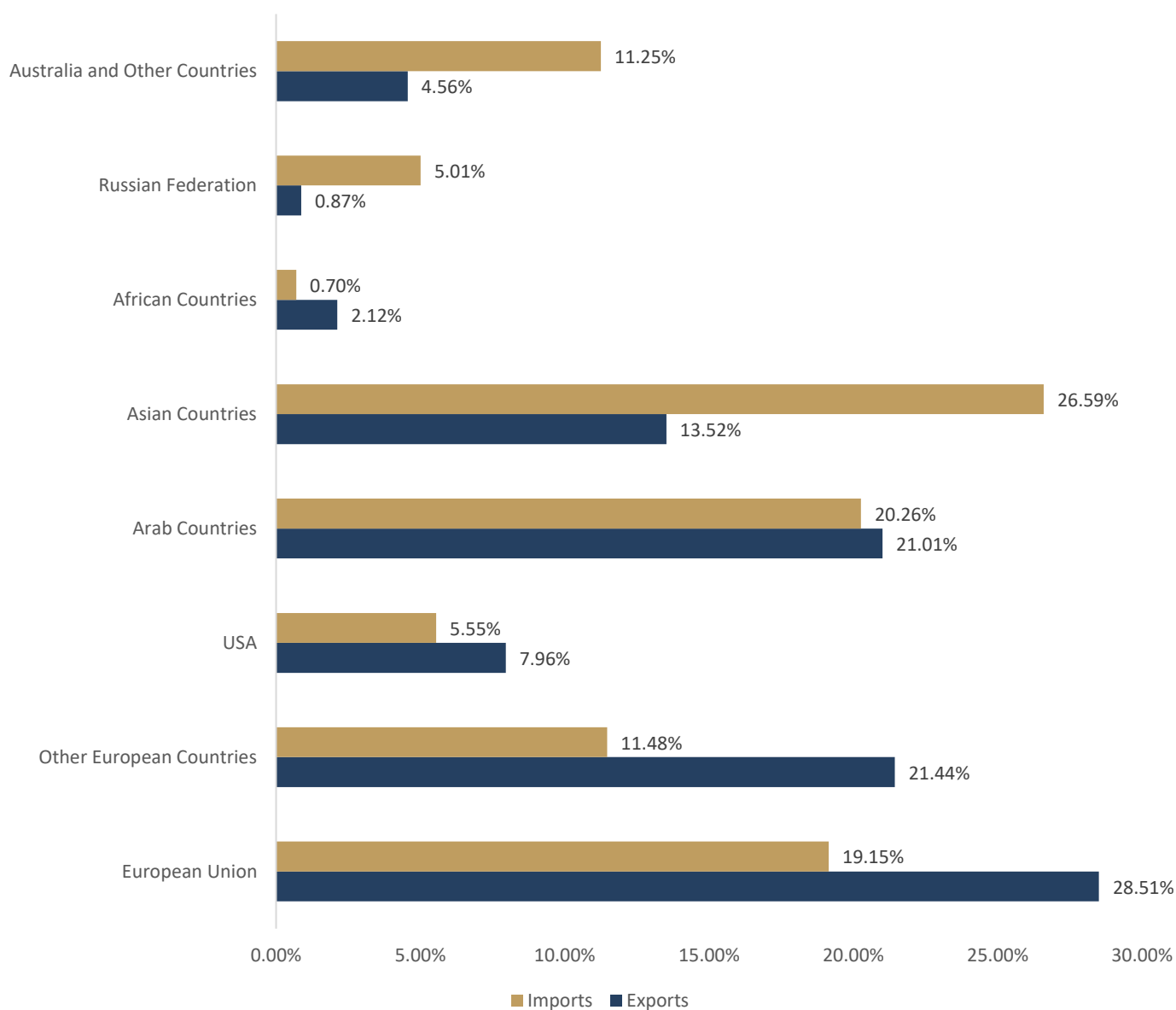


- Fuel and Mineral Oil Products
- Raw Materials
- Intermediate Goods
- Consumer Goods
- Investment Goods

Source: The Central Bank of Egypt



## Trade by Geographical Distribution in Jul-Dec FY21/22



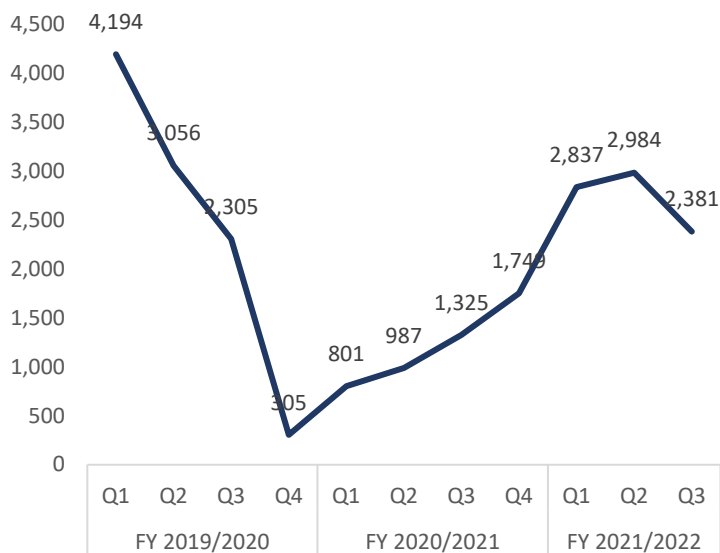
Source: The Central Bank of Egypt

Egypt's total exports recorded USD 11.7 billion in Q3 of FY 2021/2022. Most of Egyptian exports during the third quarter of FY 2021/2022, were directed to the European Union countries and Arab countries, with a total of 28.5% and 21% respectively. Exports to the African countries slightly increased to record 2.1% in Q3 of FY 2021/2022, compared to 2% during the previous quarter.

As for imports, Asian countries accounted for 26.6% of Egypt's total imports during Q3 of FY 2021/2022, compared to 26% during the previous quarter. China ranked the first in terms of being the most important trading partners with Egypt, with a trade exchange volume of USD 8.6 billion, USD 7.6 billion of which are imports.

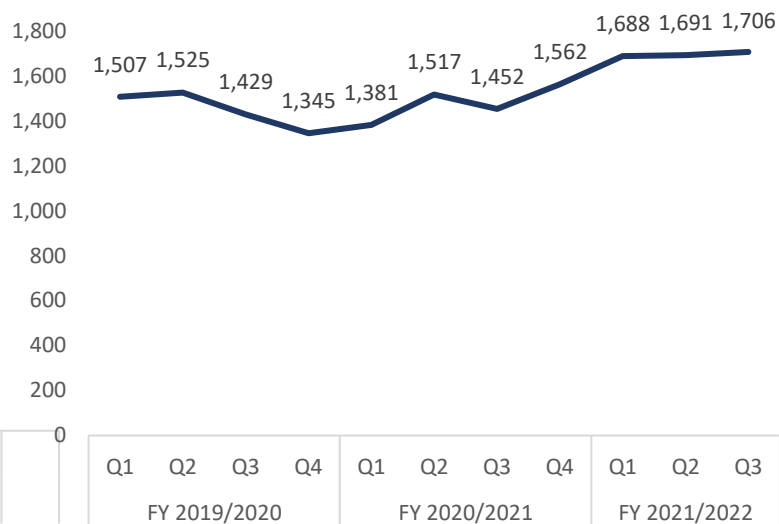
# International Trade

## Tourism Receipts (Mn USD)



Source: The Central Bank of Egypt

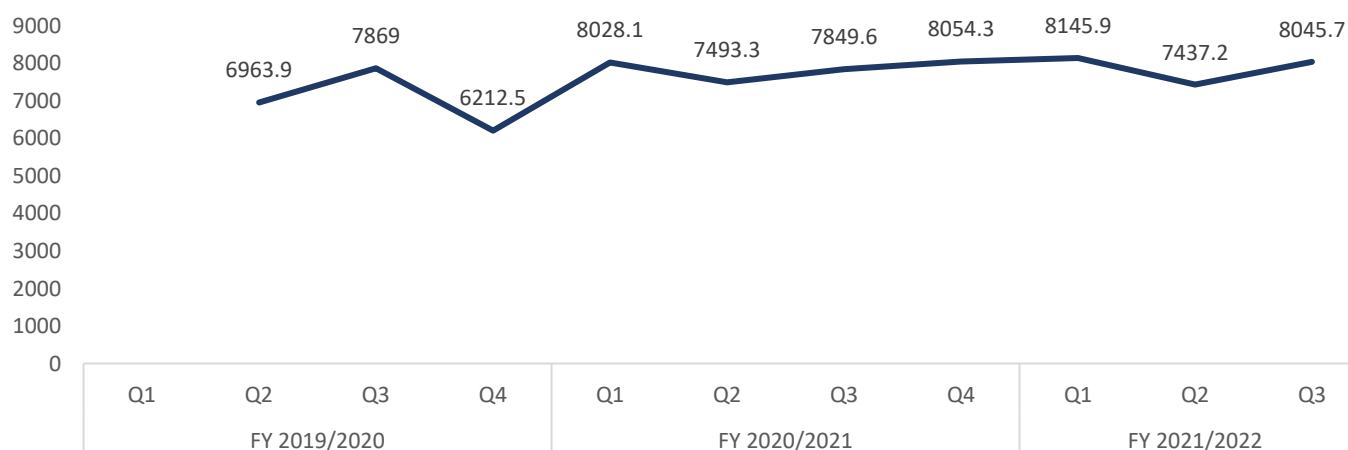
## Suez Canal Receipts (Mn USD)



Tourism revenues increased in Q3 of FY 2021/2022 to record USD 2.3 billion, compared to USD 1.3 billion in Q3 FY 2020/2021. However, compared to the previous quarter of FY 2021/2022, tourism revenues declined by about 25%. According to the European Bank for Reconstruction and Development (EBRD), weakness in the tourism sector was worldwide resulting from economic turbulence. Nevertheless, Tourism Chamber predicted that tourism sector will recover over the upcoming period due to private sector's efforts to attract tourists, and the decision of banning European tourists from heading to Russia, which would attract tourists to Egypt.

Suez Canal revenues rose by 15% to record USD 1.7 million in Q3 of FY 2021/2022, compared to USD 1.4 during Q3 of FY 2020/2021. The General Authority of Suez Canal anticipated previously that revenues of the canal will increase within next year due to the new expansion, which is due to be completed in 2023.

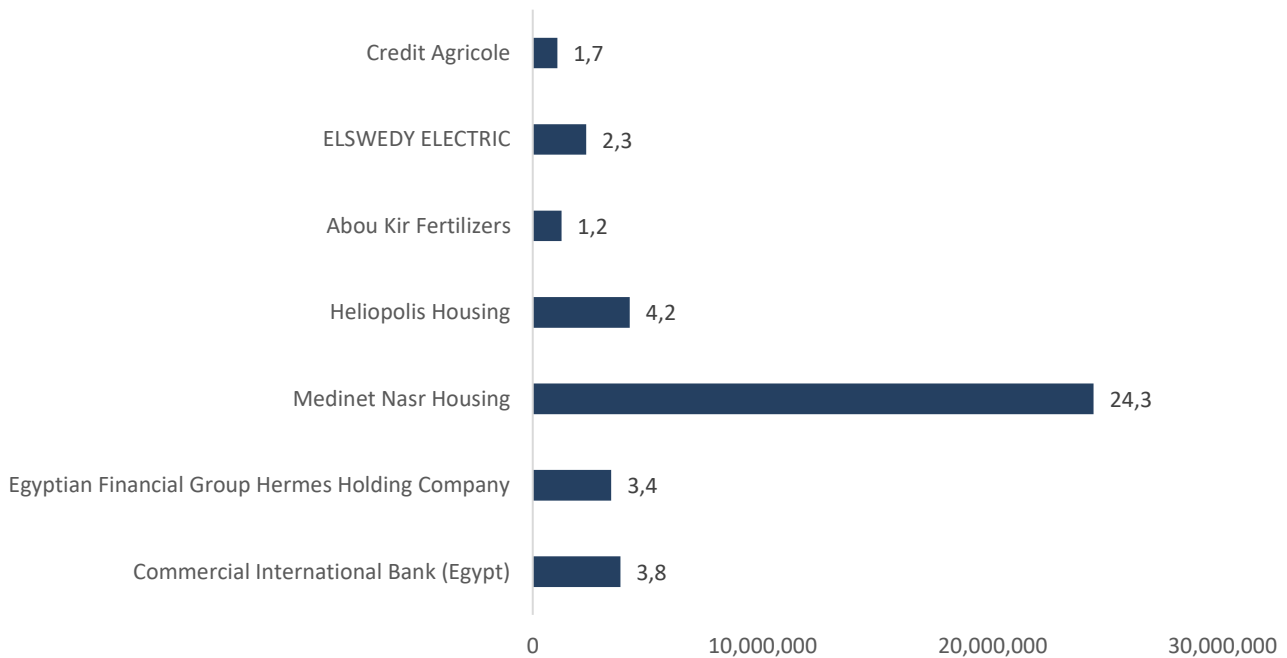
## Remittances from Egyptians Abroad (Mn USD)



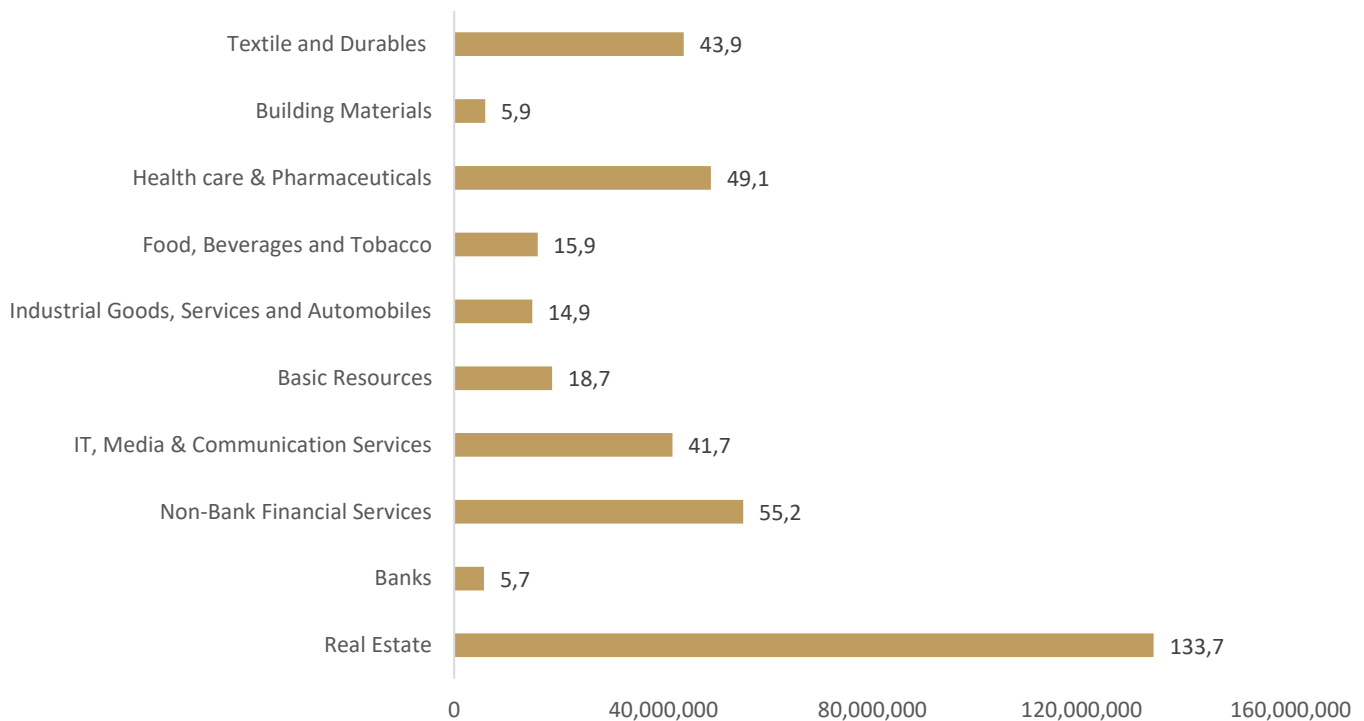
Source: The Central Bank of Egypt

Remittances in Egypt decreased to USD 8045 million in Q3 of FY 2021/2022, compared to USD 8054.3 in Q3 of FY 2020/2021, a decline of about 0.1%. However, compared to the previous quarter of FY 2021/2022, remittances increased by 8.3%.

## The 10 Most Active Companies in Terms of Volume Traded - 01/11/2022 (Mn EGP)



## The 10 Most Active Sectors in Terms of Volume Traded – 01/11/2022 (Mn Shares)



Source: The Egyptian Exchange (EGX)

According to the latest data of November 1st, the real estate sector was the top gainer sector in the Egyptian Exchange (EGX) with a trading value of EGP 253.4 million and a trading volume of 133.7 million shares. The banking sector came ranked the last with a trading volume of 5.7 million shares.



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