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Egypt's Macroeconomic Overview (3Q FY22/23)

Including updates till Oct 2023

December 2023

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List of Acronyms

BoP	Balance of Payments
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CPI	Consumer Price Index
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOEIC	General Authority For Export and Import Control
IDSC	The Egyptian Cabinet's Information and Decision Support Center
MPC	Monetary Policy Committee
MPED	Ministry of Planning and Economic Development
NIR	Net International Reserves
PMI	Purchasing Managers' Index
VAT	Value Added Tax
YOY	Year on Year

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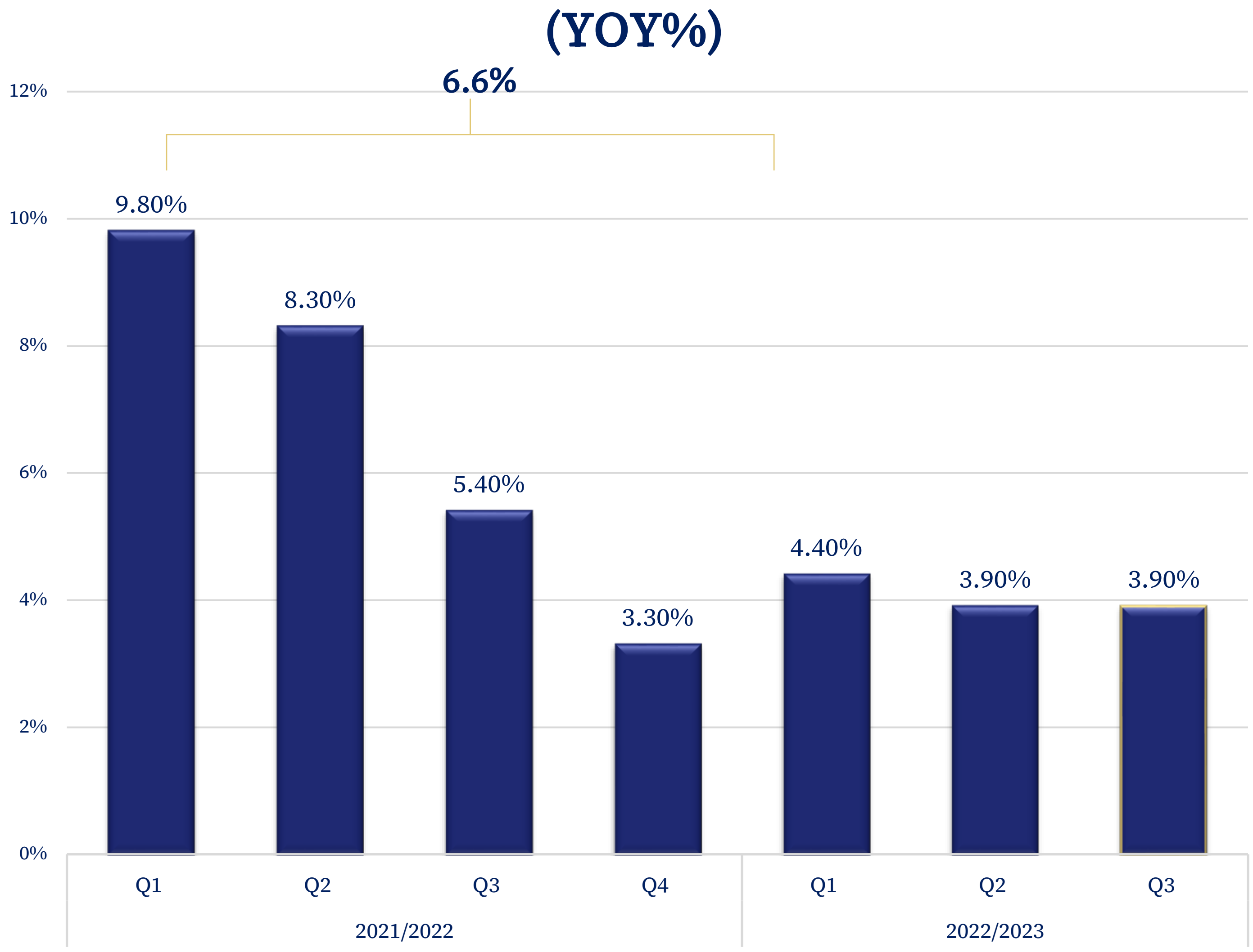
Real Sector

Real Growth Rate

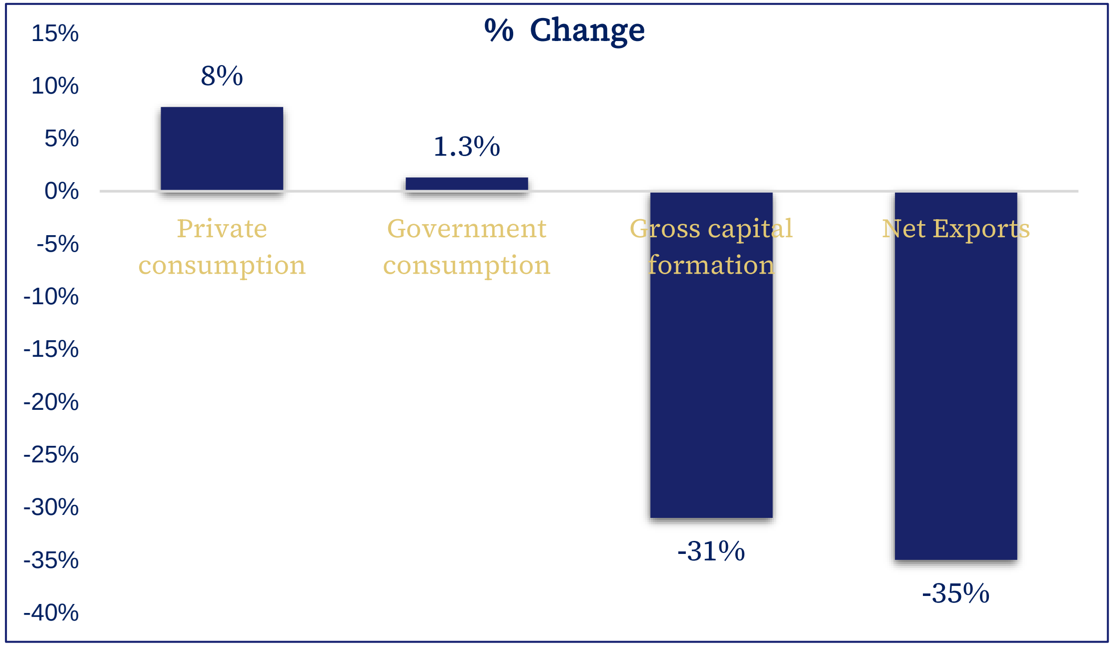
Real GDP at market price maintained its growth level at the same level of the previous quarter at 3.9% in 3Q FY22/23. This level is approximately 27.8% less than the 5.4% growth rate recorded in 3Q FY21/22.

The Ministry of Planning and Economic Development (MPED) announced on December 4, 2023, that the expected growth rate for FY23/24 is only 3.5%.

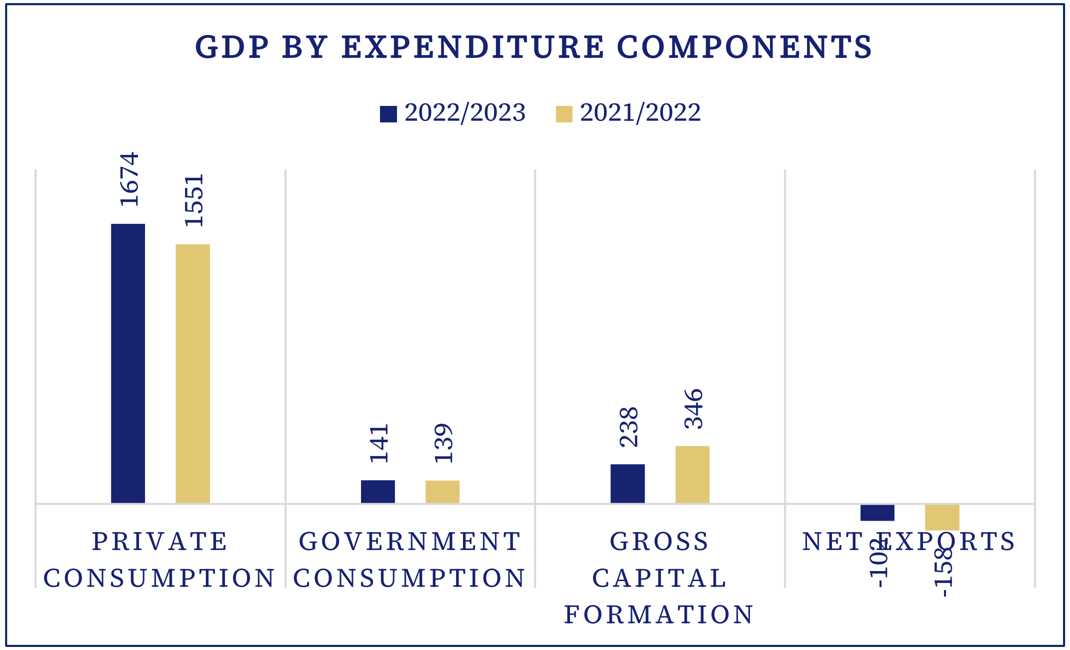


Source: MPED

GDP (By Expenditure)



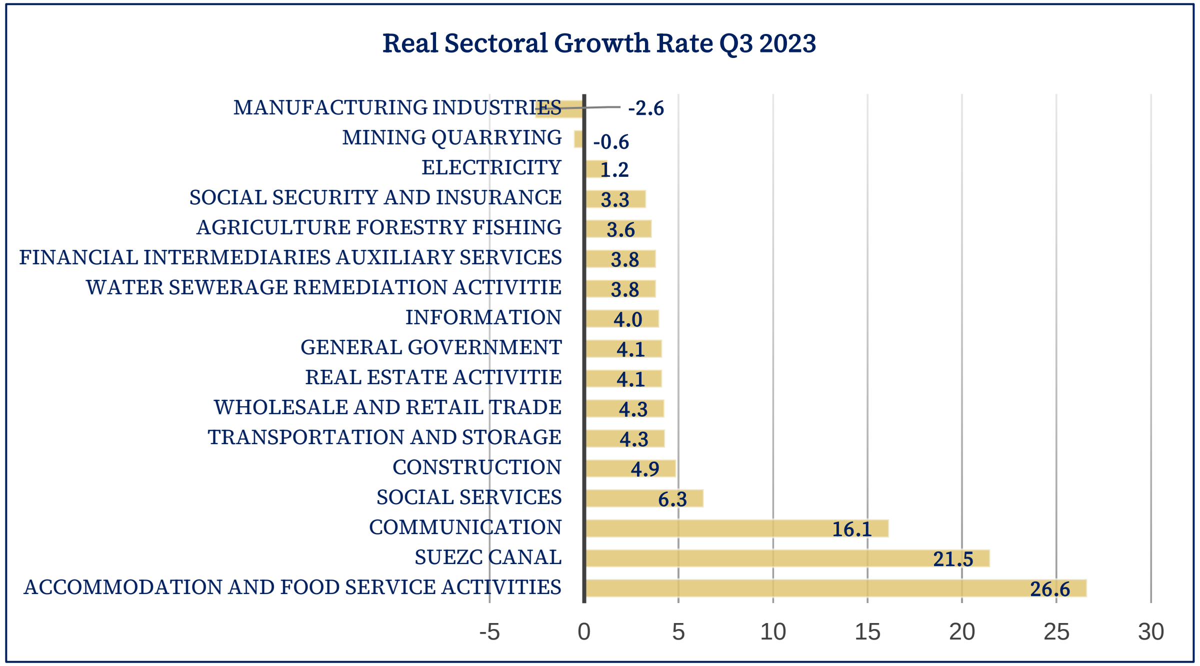
Source: Lynx, based on MPED figures



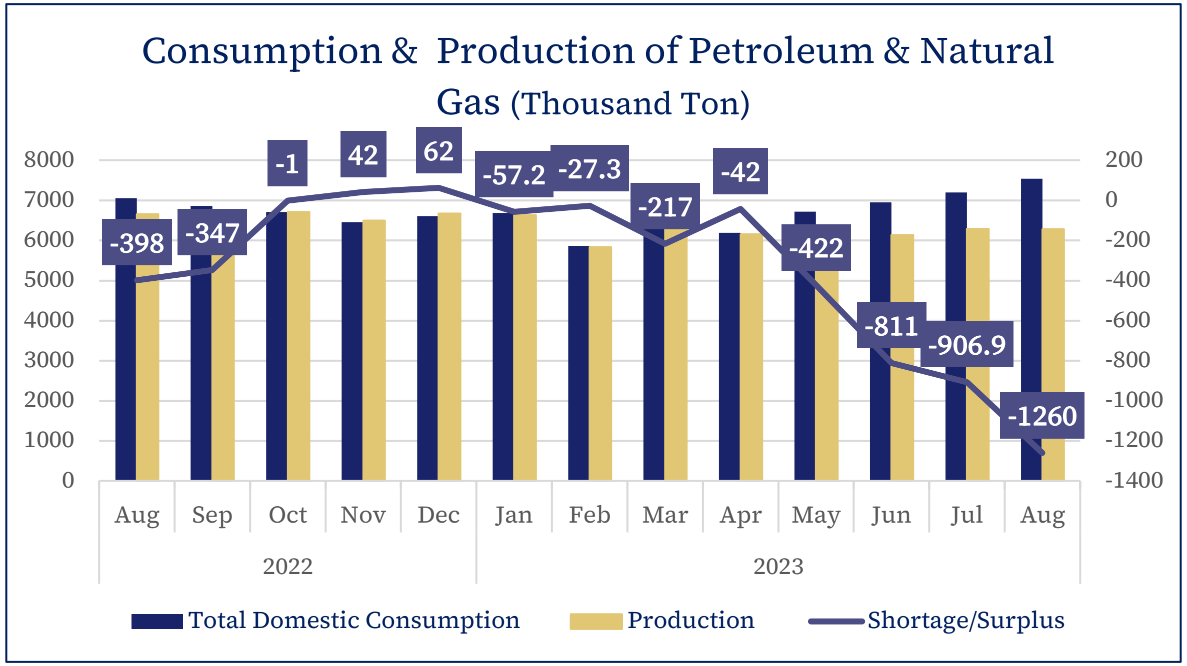
Source: MPED

Growth was primarily propelled by the impact of the growth of the private consumption (representing more than 80% of GDP) by 8%, the growth of government expenditure by 1% and finally the improvement in net exports (difference between exports and imports) which showed an improvement by 35 %. (This improvement is attributed mainly to the restrictions imposed by the CBE on imports). However, the investment rates (Gross Capital Formation) declined by 31%, reflecting the diminishing volume of the private sector.

Growth Domestic Product



Source: MPED



Source: MPED

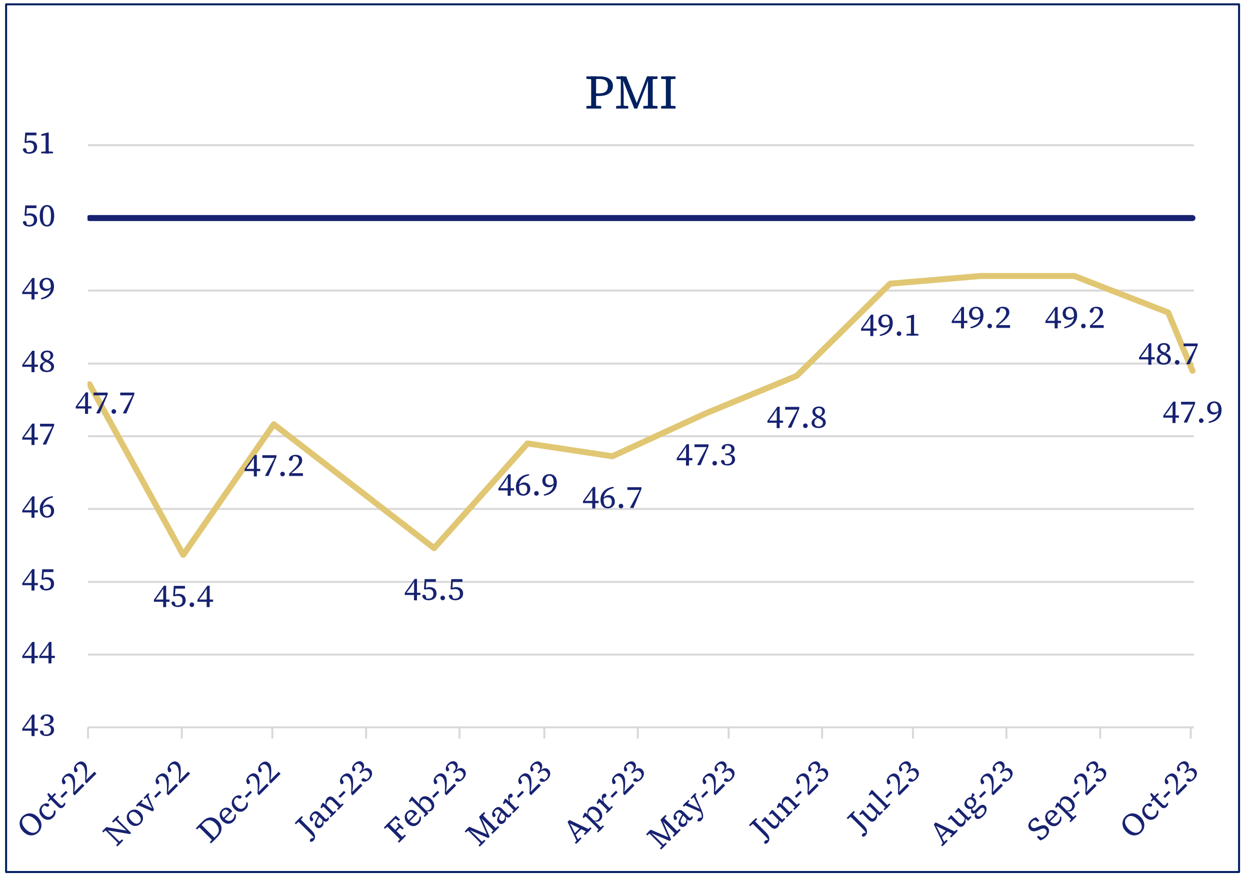
Accommodation and Food Service Activities, Suez Canal and Information and Communications Technology (ICT), as well as Social Services (Health and Education) achieved the highest real growth rates this quarter. The ICT sector's growth was attributed to improved digital exports recording USD 4.9 billion, a 22% increase in investments in emerging technology companies, and expanded data services. Furthermore, agricultural activity also achieved positive growth rates due to the expansion of contract farming and growing agri-food exports.

On the other hand, mining quarrying including oil and gas as well as other extractions and manufacturing industries achieved negative growth. In this regard, it's worth noting that the latest available data in CAPMAS revealed relative increase in the domestic consumption of petroleum and natural gas along with a decline in their production on both annual and monthly basis.

Production (Private Sector)

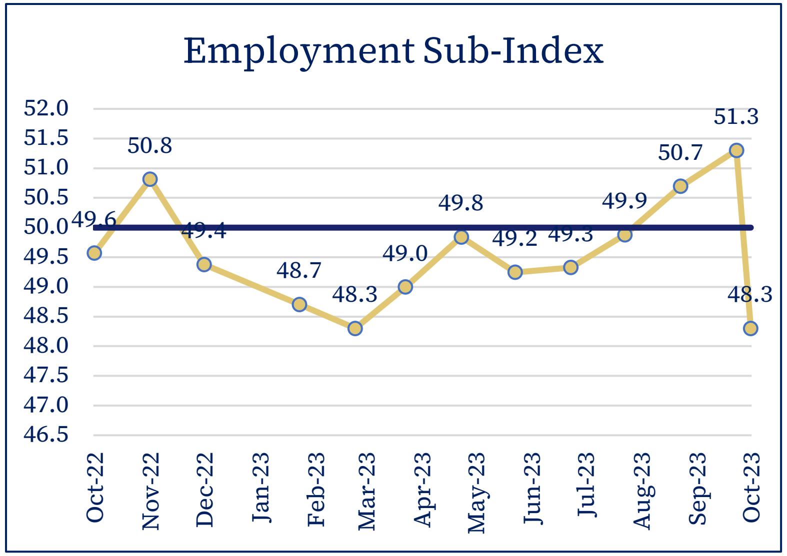
PMI tumbled to 47.9 in October 2023, marking the lowest reading in five months.

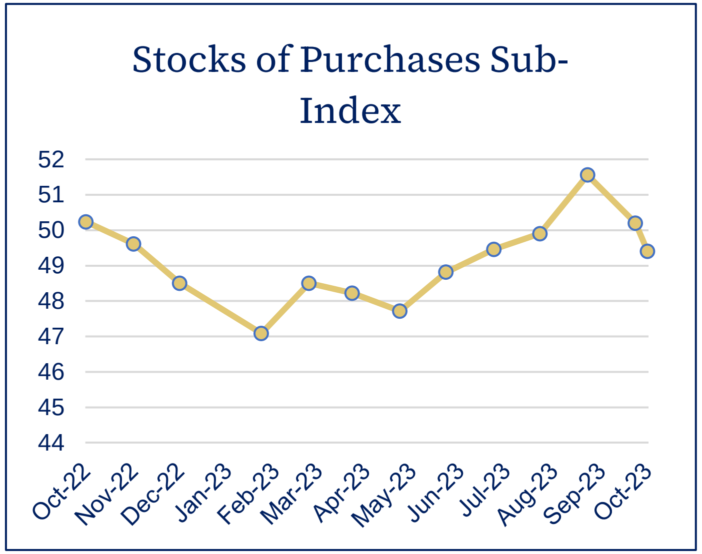
October 2023 witnessed a notable decline in the Purchasing Managers' Index (PMI), dipping to 47.9 points, the lowest level recorded in the past five months. This downturn reflects a deterioration in the performance of the non-oil private sector, predominantly driven by reduced sales levels due to a decline in domestic demand and subsequent production contraction. The root causes of this decline can be traced to the prevailing high prices, with headline and core inflation rates reaching 35.8% and 38.1%, respectively, coupled with the depreciation of the Egyptian pound against the US dollar, have eroded consumer purchasing power, leading to a decline in spending. This, in turn, has impacted non-oil private sector' sales.

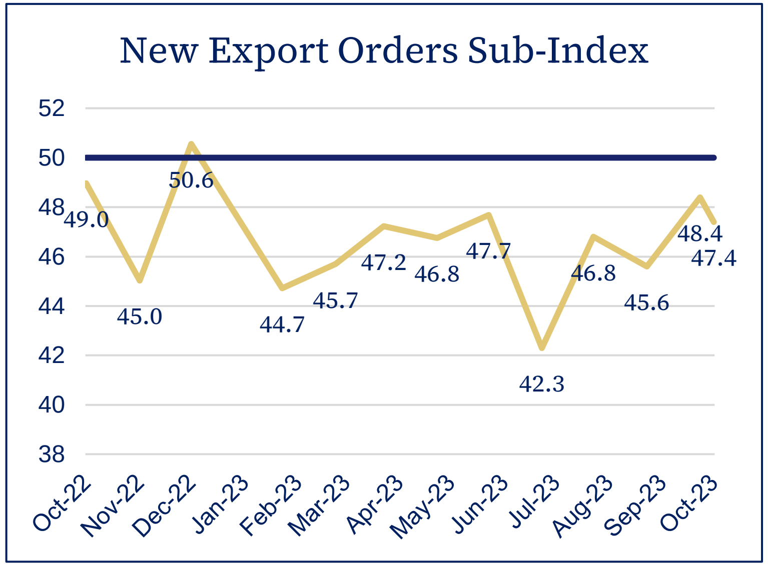


Source: IHS Markit

Production (Private Sector)



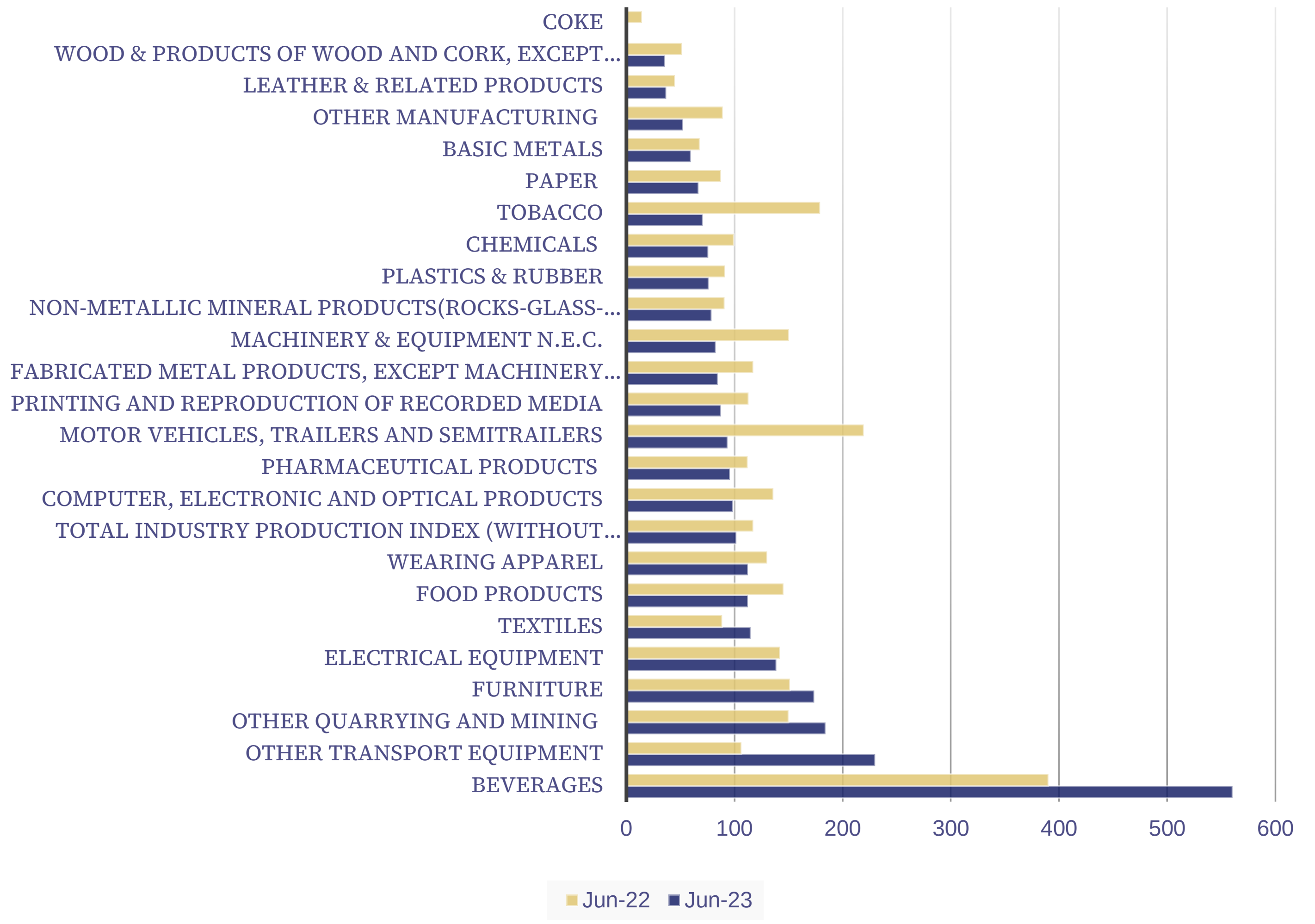




Source: IHS Markit- MPED

The downturn in PMI is compounded by a decrease in new export orders received by companies which decreased by 3.3% and 2.2% on annual and monthly basis respectively, coupled with supply challenges attributed to import difficulties and a scarcity of raw materials. The cumulative impact of these factors has resulted in a decline in business activity and non-oil private sector companies' purchases, consequently leading to a reduction in inventory levels. Additionally, the employment landscape has been affected, with a decrease in the employment subindex reaching 48.3 points in October 2023 down from 49.6 and 51.3 points on annual and monthly basis, respectively. The slowdown in production and commercial activity also contributed to a more subdued growth in the volume of backlogs of work. This indicates that the non-oil private sector is facing a period of contraction, with various factors impeding its ability to operate at full capacity.

Industrial Production Index By Economic Activity

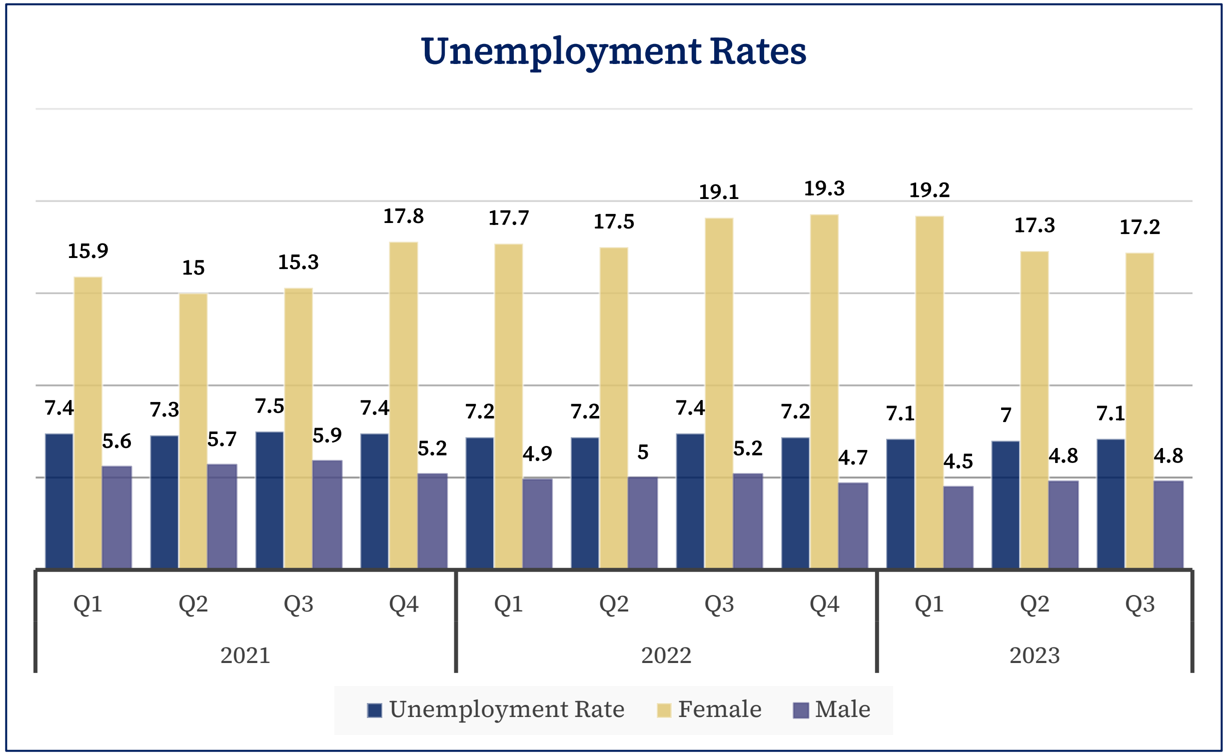


Source: CAPMAS

Manufacturing activities witnessed considerable decline between 2022 and 2023. The figure depicts the change as reported by CAPMAS which show that nearly all manufacturing activities are declining except for beverages, transportation, mining, furniture, and textile.

Employment

The unemployment rate in Q3 2023 declined by 30 basis points compared to the same quarter in the previous year falling from 7.4% to 7.1%. This development can be attributed to the growth in the number of employed individuals, which expanded by 6% during the period, recording 31.9 million up from 30.2 million in the corresponding period in the previous year. The increase outweighed the 1% rise in the number of unemployed individuals, contributing to the overall improvement in the labor market year on year (YOY).

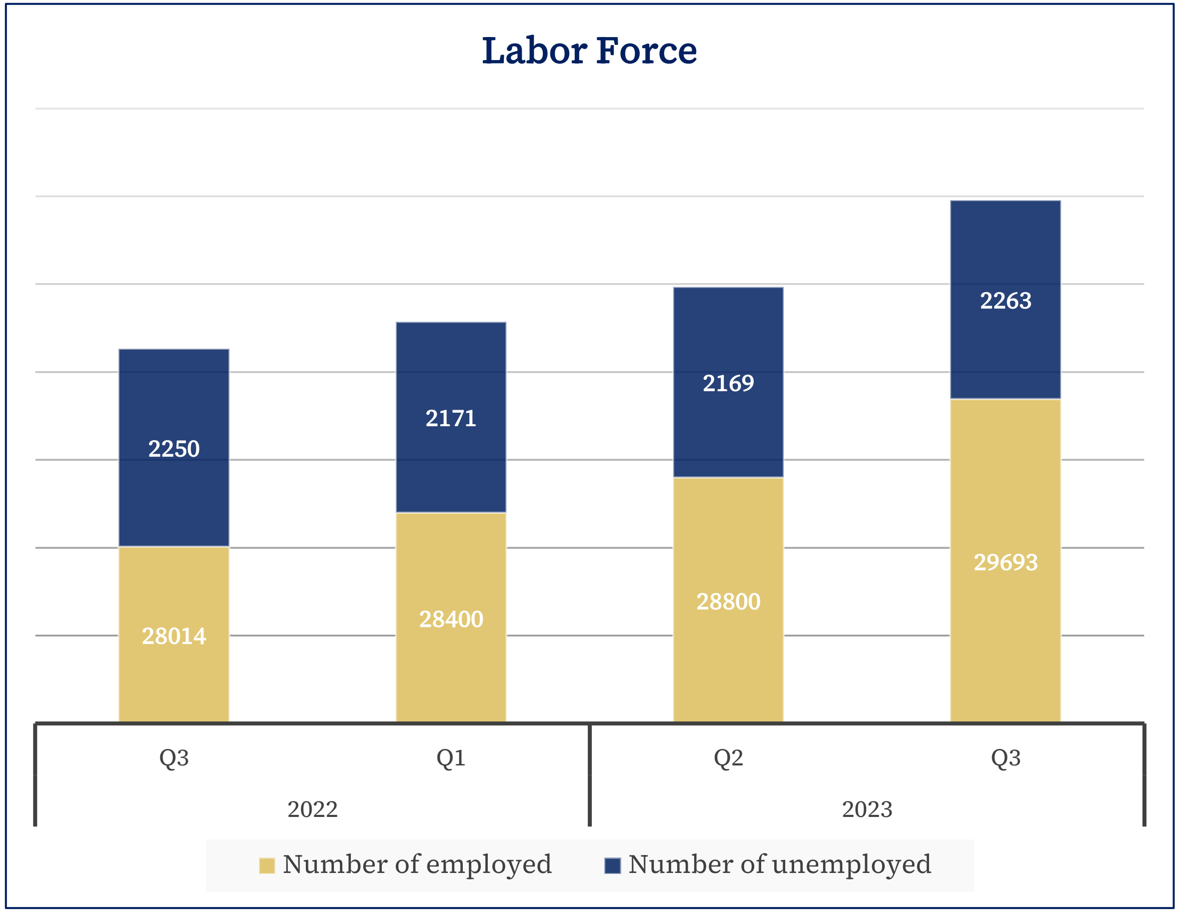


Source: CAPMAS

Employment

The labor force participation rate exhibited a notable improvement in the third quarter of 2023, reaching 44.6%. This represents an increase of 190 basis points compared to the corresponding quarter in 2022, when it stood at 42.7%. Furthermore, the participation rate displayed a quarter-on-quarter increase, rising from 43% in Q2 2023. This positive trend is particularly evident among women, whose participation rate reached 16.7% in Q3 2023, marking a significant improvement from 14.3% in the same quarter of the previous year. Additionally, it represents an increase from 15.5% in the preceding quarter.

Similarly, male participation rates also experienced growth, reaching 71.2% in Q3 2023. This represents an upward trajectory compared to both the corresponding quarter of 2022 (69.2%) and the previous quarter (69.6%). In a related context, it is worth noting that the economic sector that attracted the largest number of employees in the third quarter of 2023 was wholesale and retail, which witnessed an increase of approximately 500,000 workers.



Source: CAPMAS

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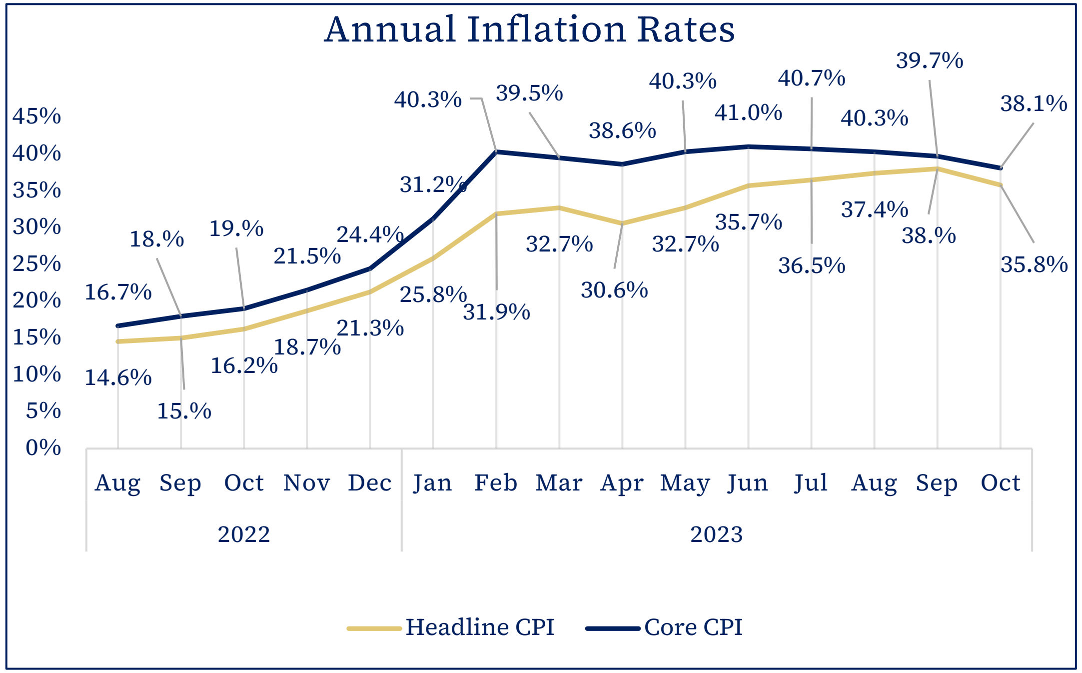
Monetary Sector

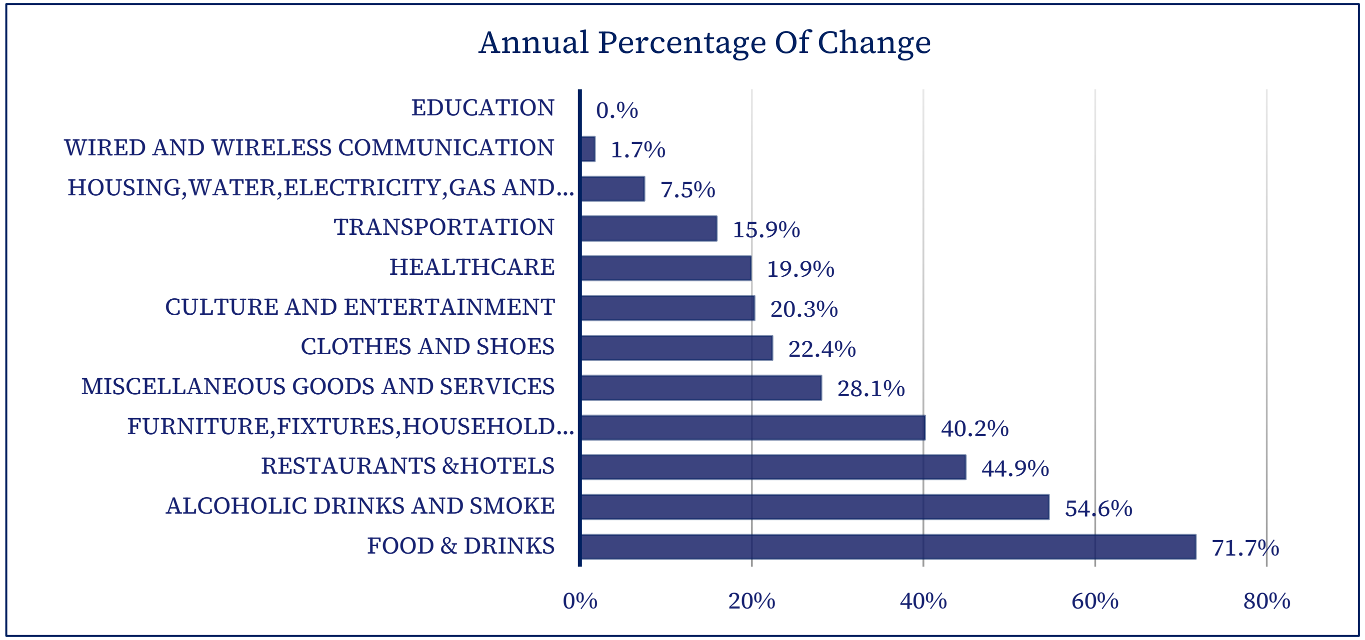
Inflation

In October 2023, annual urban inflation saw a significant deceleration, dropping from 38.0% in September to 35.8%. This dip was fueled by a widespread decrease in the annual contribution of both non-food and food items, along with robust favorable base effect. Whereas annual non-food inflation experienced a consecutive deceleration for the second month running, marking its lowest rate since April 2023 at 18.5 percent in October 2023. Similarly, annual food inflation exhibited a decline, recording 71.3% down from 73.6% in September 2023 supported partially by the government initiative launched in October 2023 in collaboration with private producers and retailers aimed at curbing prices of essential commodities by 15-25% for six months, resulting in a notable decline across various categories. Specifically, prices in the grain and bread group decreased by 0.6%, the fruit group by 2.9%, and the vegetable group by 2.5%. This was in line with the prevailing downward trend in global food prices, which have reached its lowest level this month as evidenced by FAO Food Price Index.

Whereas prices of education were usually reflected in the CPI during October of each year, CAPMAS announced that education prices would be reflected in February 2024 inflation instead of October 2023. This contributed to magnifying the impact of the favorable base effect on the annual rates.

It's worth noting that as a reflection of the slight slowdown in inflation rates, the input prices subindex of the Purchasing Managers' Index (PMI) also declined on both annual and monthly basis by 6% and 2.7% respectively.



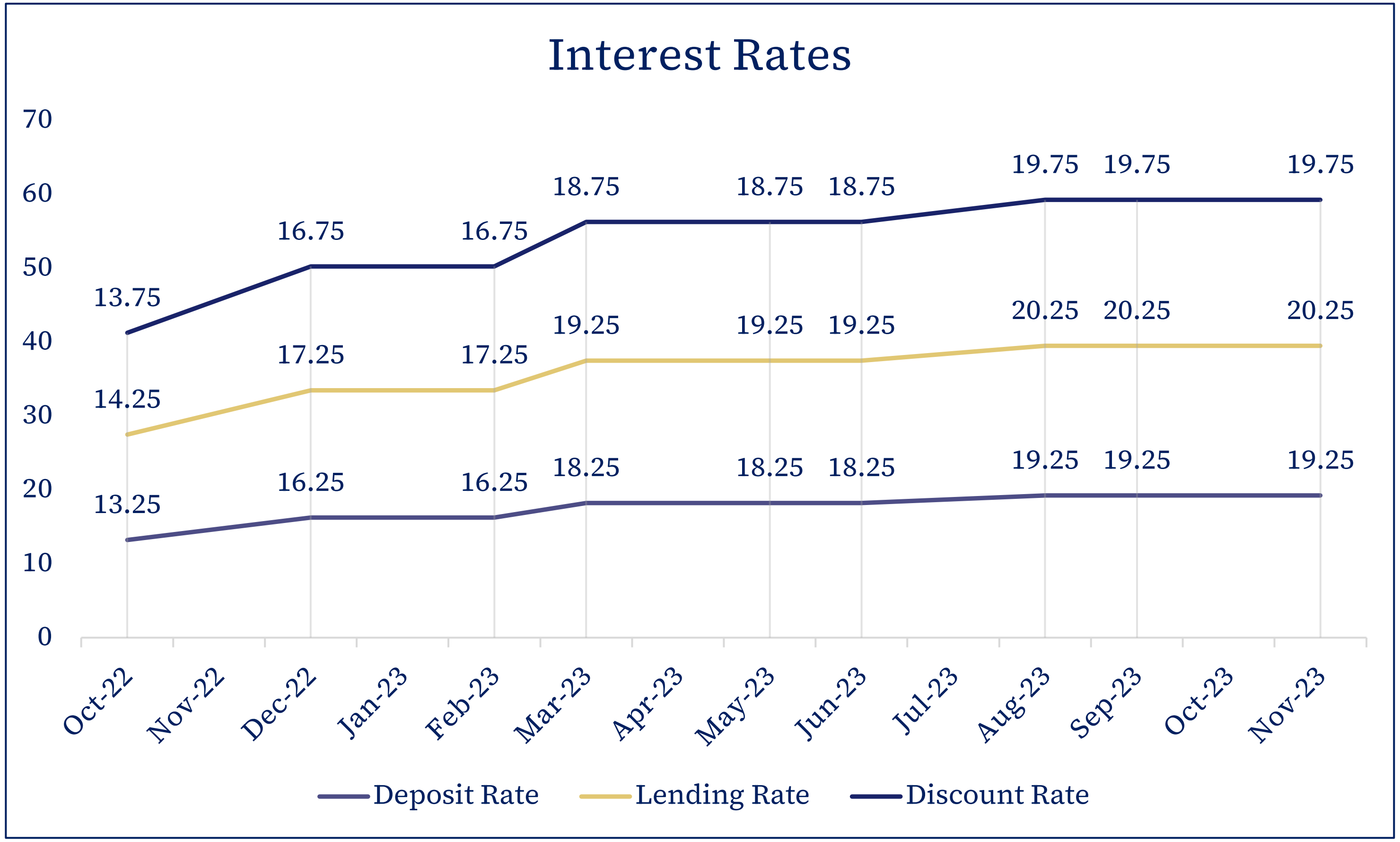


Source: CBE

Interest Rate

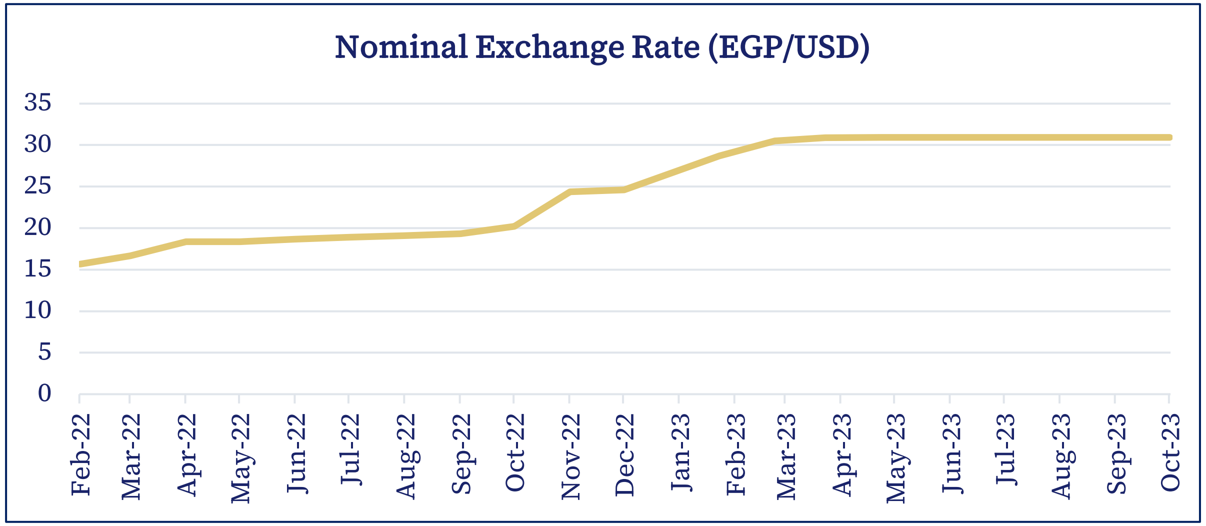
In response to persistent inflationary trends, the CBE's Monetary Policy Committee (MPC) raised key interest rates twice since the beginning of 2023, with the latest adjustment occurred in August of the same year. This decision marked a cumulative increase of 11 percentage points in the key interest rate since March 2022. Whereas deposit rates reached 19.25%, while lending rate, main operations rate, and discount rates reached 20.25% and 19.75%, respectively. However, in subsequent MPC meetings in September and November, the committee opted to keep the rates unchanged.

This was based on the monetary policy forecasts for the slowing down monthly inflation rates during September and October and at the same time waiting for the anticipated devaluation that would entail a significant raise in the interest rate.

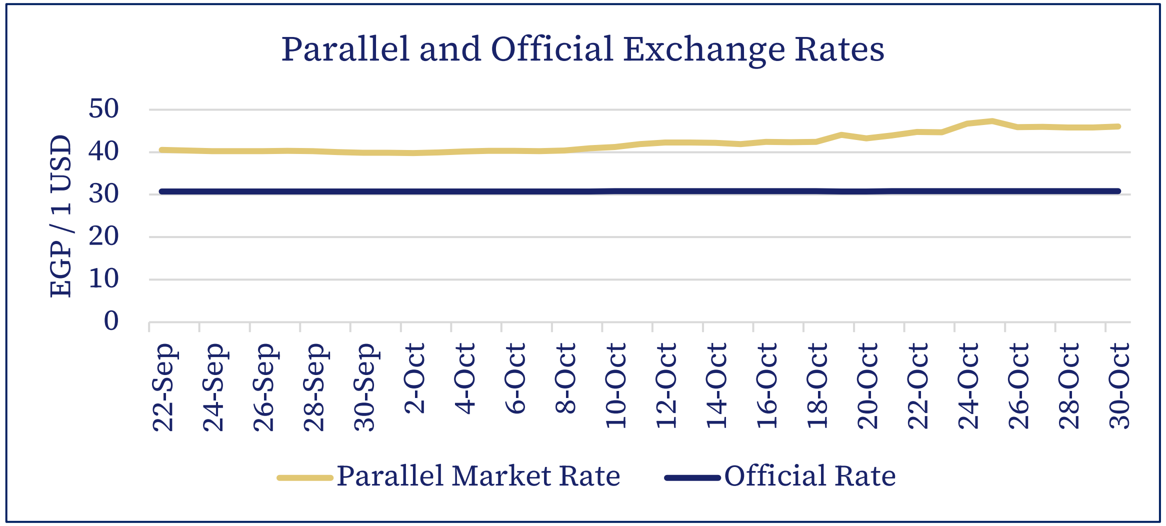


Source: CBE

Exchange Rate



Source: CBE



Source: CBE, EgCurrency

The Egyptian Pound (EGP) has undergone three devaluations since March 2022. Subsequently, starting from April 2023, the official exchange rate stabilized at approximately 30.9 against the US Dollar. However, in the parallel market, the Egyptian Pound experienced aggressive depreciation, reaching 46.08 against the US Dollar as of the end of October 2023. This indicates a staggering gap of over 49% when compared to the official exchange rate, emphasizing the severe shortage of foreign currency and the liquidity challenges prevailing in the official market.

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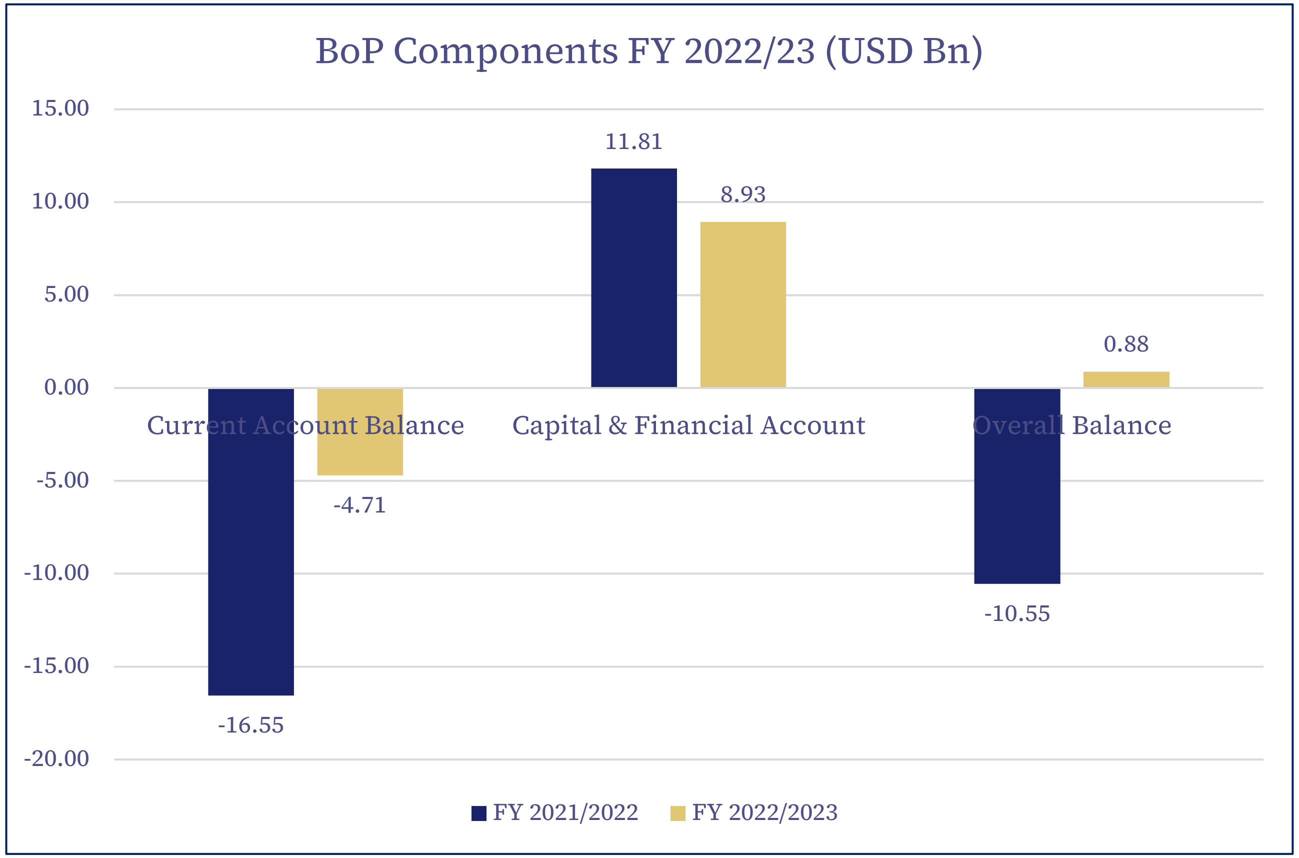
External Sector

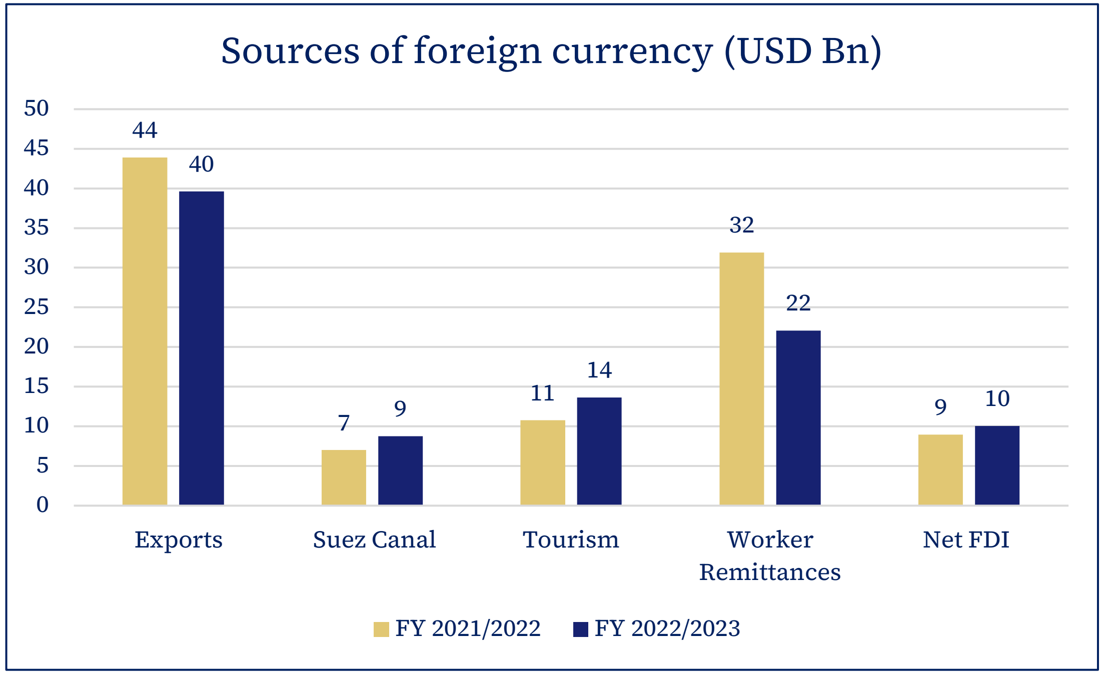
Balance of Payments (BoP)

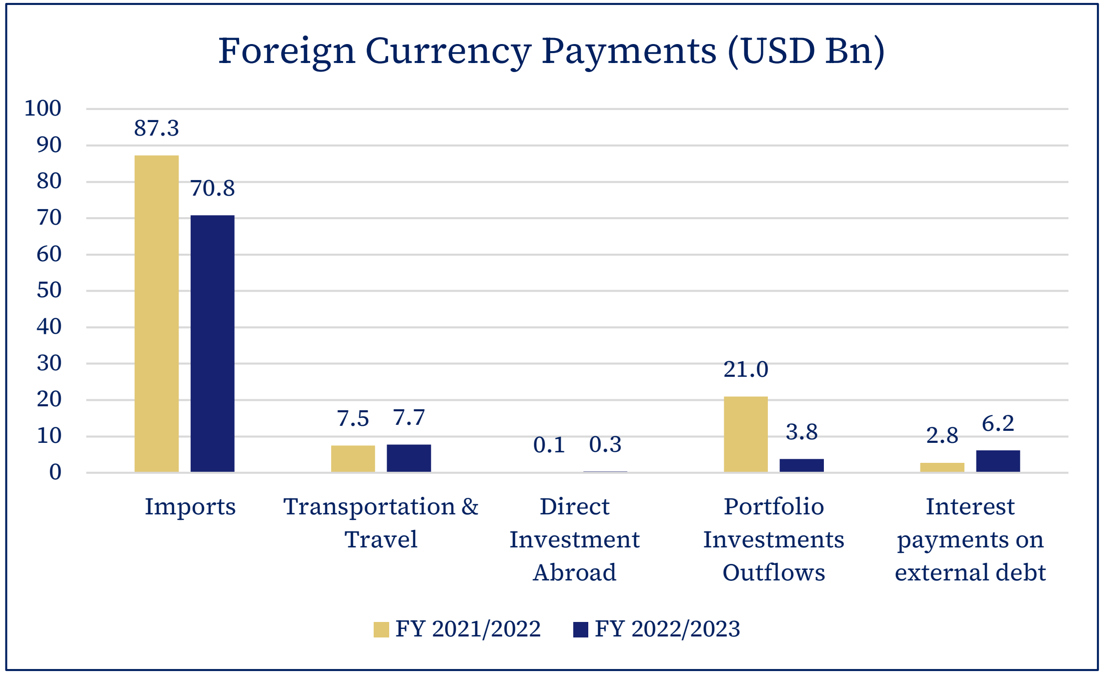
By the end of FY 22/23, the Balance of Payments (BoP) transactions exhibited a substantial turnaround, yielding an overall surplus of USD 882.4 million, a notable improvement from the preceding fiscal year's deficit of USD 10.5 billion. Whereas the deficit of the current account contracted by 71.5% to reach USD 4.7 billion, a marked improvement from the previous year's USD 16.6 billion. This positive shift was primarily propelled by a significant 28.2% reduction in the trade deficit, now standing at USD 31.2 billion. Further contributing to the favorable BoP position, the services balance surplus doubled, registering USD 21.9 billion.



Source: CBE

Balance of Payments (BoP)



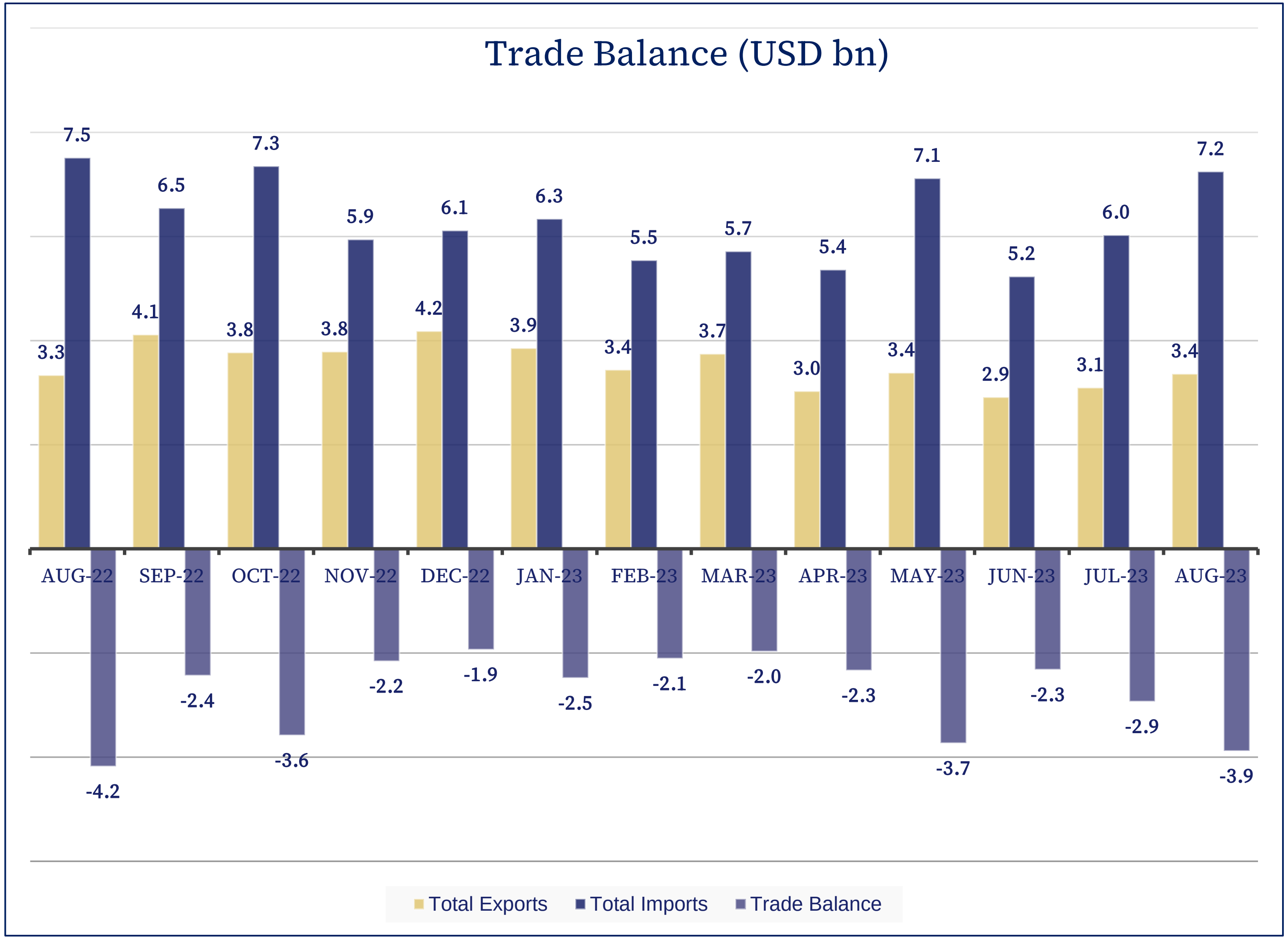


Source: CBE

The surge in the BoP was driven by a substantial increase in tourism revenues, soaring by 26.8% to USD 13.6 billion, resulting from a 27.6% increase in tourist nights to reach 146.1 million nights, and a 35.6% rise in tourist arrivals, totaling 13.9 million tourists. Additionally, Suez Canal transit receipts increased by 25.2% to USD 8.8 billion, propelled by a 15.6% rise in the net tonnage of vessels, reaching 1526.8 million tons. Despite of that, interest payments on external debt more than doubled by the end of FY2022/23.

Trade Deficit Narrows YOY, Widens On Monthly Basis

The trade deficit narrowed by 7% year-on-year, reaching USD 3.9 billion in August 2023, down from USD 4.2 billion in the same month last year. This improvement is attributed to a 1% increase in exports and a 4% decline in imports. Further analysis reveals that the relative recovery on an annual basis is primarily driven by a 27% decrease in the non-petroleum trade balance deficit, which outweighs the negative impact of a 4% increase in the petroleum trade balance deficit. However, despite the positive year-on-year trend, the trade deficit widened by 32% month-on-month from USD 2.9 billion in July 2023 to USD -3.9 billion in August. This widening is induced by a 20% increase in imports, which surpassed the 9% increase in exports. It is noteworthy that this monthly increase in the deficit is driven by widening deficits in both petroleum and non-petroleum trade balances, with increases of around 46% and 30%, respectively.

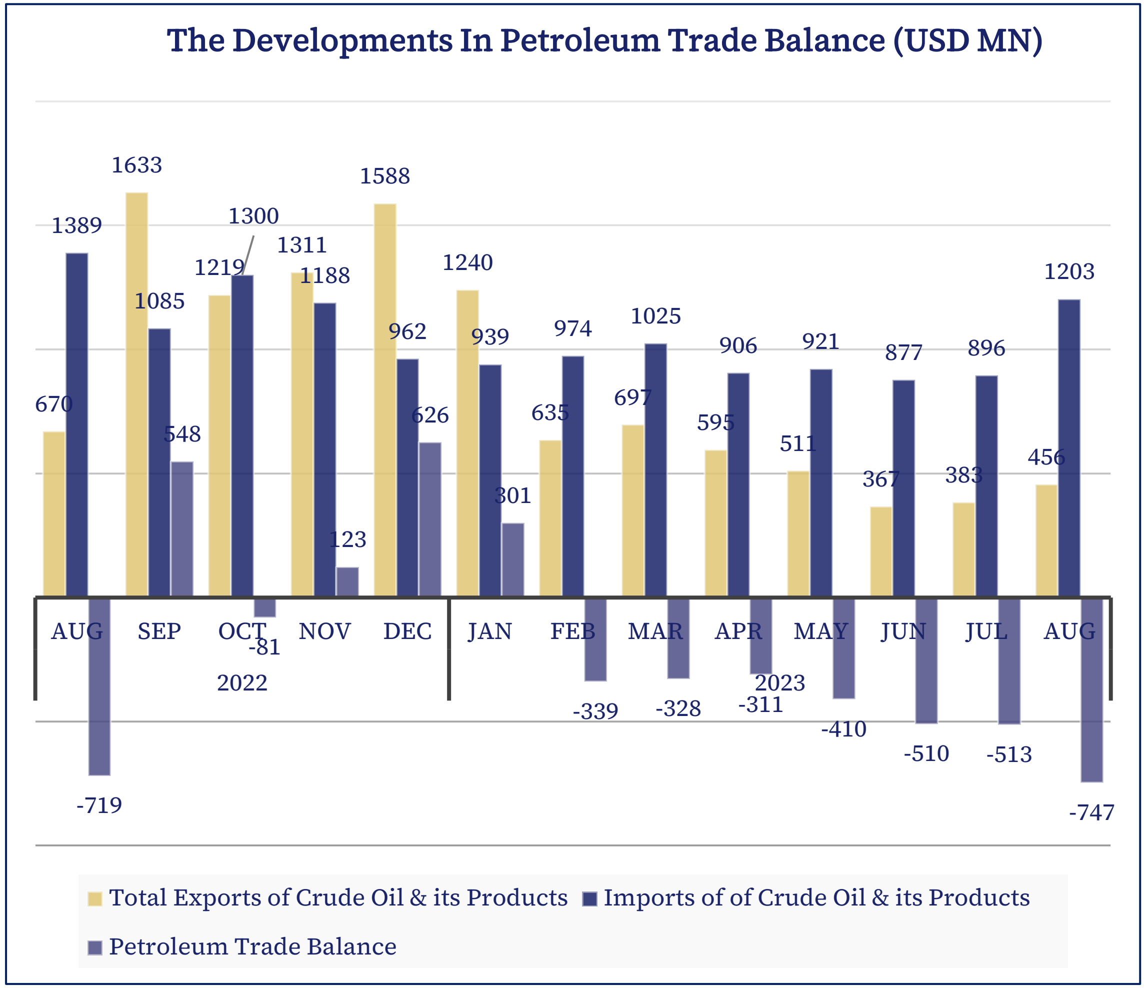


Source: CAPMAS & GOEIC

Non-Petroleum Trade Deficit Continues Its Downward Trend

Egypt's non-petroleum trade deficit experienced a notable decline of 11% during the second quarter of 2023, reaching USD 7.5 billion down from USD 8.4 billion in the corresponding period of 2022. This reduction stems from a decrease in both non-petroleum imports and exports. Whereas non-petroleum imports amounted to USD 15.9 billion in Q2 2023, marking a 10% decline compared to USD 17.6 billion in the same quarter of 2022. Concurrently, non-petroleum exports witnessed a 9% decrease, dropping to USD 8.4 billion in Q2 2023 down from USD 9.2 billion in the corresponding period of 2022.

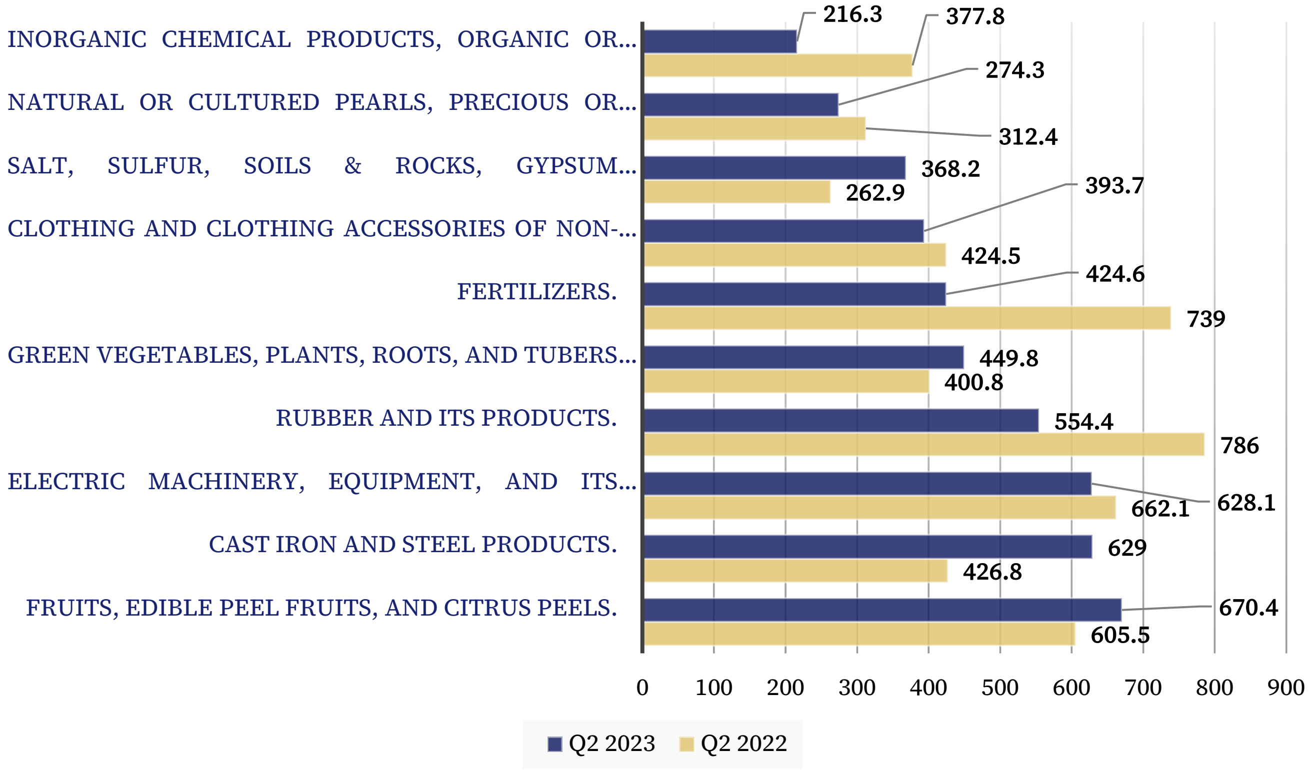
According to the latest available data from CAPMAS, the non-petroleum trade deficit contracted by 27% year-on-year, reaching USD -3136 million in August 2023, driven by the favorable impact of increasing exports by 9% and decreasing imports by 14%. While Despite the positive annual trend, non-petroleum trade deficit widened by 30% month-on-month, which can be attributed to the surge in imports by 18% reaching USD 6039 million in August 2023 up from USD 5130 million registered in the previous month. that offset the favorable impact of the 7% increase in non-petroleum exports reaching USD 2903 million was not able to fully offset the increase in imports.



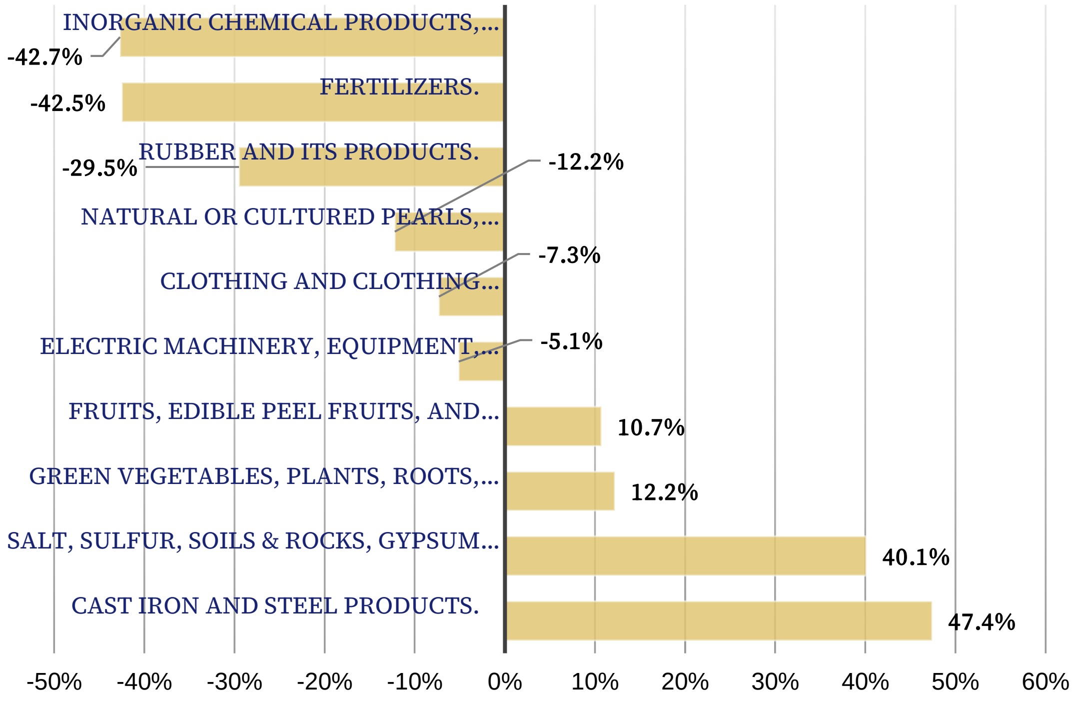
Source : IDSC & GOEIC

Non-Petroleum Trade Balance

Top 10 Non-petroleum exports (USD mn)



Top 10 Non-Petroleum Exports (% Change)



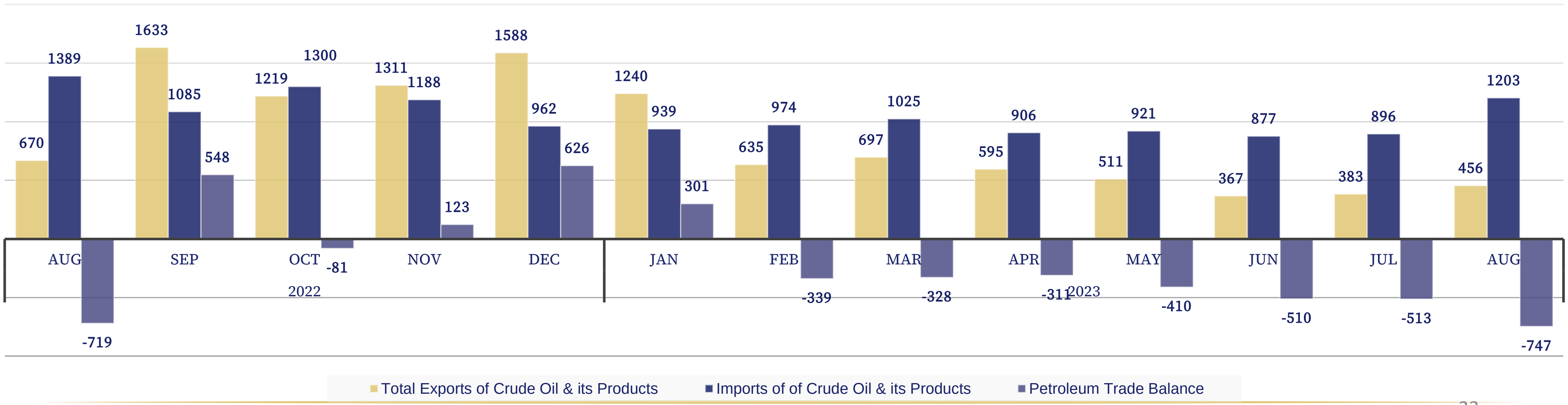
Source : IDSC & GOEIC

Fruits and edible peel fruits emerged as the top non-petroleum export commodity in terms of value during Q2 2023, generating approximately USD 670.4 million, an increase of about 11% compared to USD 605.5 million in the same period of 2022. Cast iron and steel products ranked second, reaching around USD 629 million in Q2 2023, marking a substantial 47.4% growth from USD 426.8 million in the same period of 2022. This represents the highest percentage change in the value of non-petroleum commodity exports among the top 10 commodities during Q2 2023 compared to the corresponding period of 2022.

Oil & Gas Trade Deficit Widens On Annual And Monthly Basis

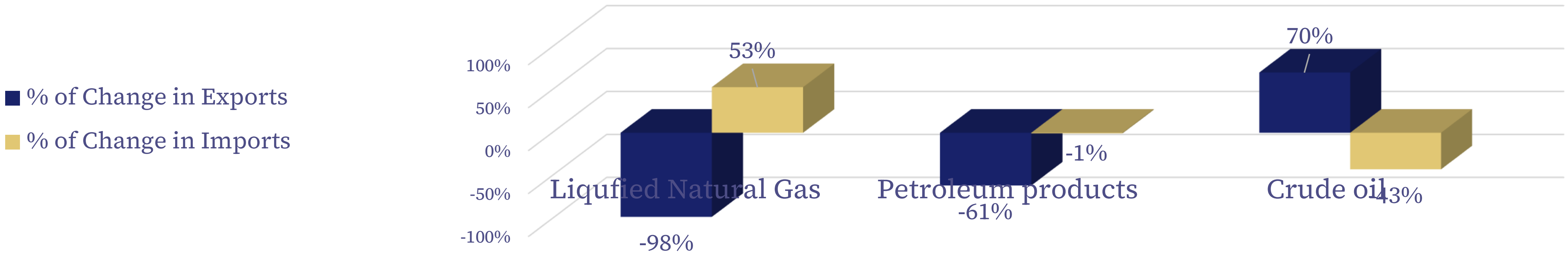
Oil and gas trade deficit is widening on both annual and monthly basis, whereas on annual basis compared to August 2022, petroleum trade deficit increased by 4% which was driven mainly by reduction in exports by around 32% which outweigh the 13% reduction in imports which was mainly driven by a 43% reduction in crude oil imports. This can be attributed to the sharp decline in the exports of liquified natural gas and petroleum products by 98% and 61% respectively. Furthermore, on a monthly basis the deficit recorded a sharp hike of about 46% fostered mainly by a 34% increase in imports which outweighs the 19% increase in exports.

Oil & Gas Trade Balance (USD Mn)



Source: CAPMAS

Oil & Gas Trade Balance



	AUGUST 2022			AUGUST 2023		
	Production	Consumption	Difference (%)	Production	Consumption	Difference (%)
Natural Gas	4207	4238	-0.73	3761	4253	-11.57
Crude Oil, condensates, and butane	2449	2816	-13.03	2523	3291	-23.34

Source: CAPMAS

Analysis reveals that on an annual basis, there's relative increase in the domestic consumption of petroleum and natural gas coupled with decline in their production on both annual and monthly basis. Whereas on an annual basis in August 2023, consumption increased by 7%. This coincided with a 6% reduction in production of petroleum and natural gas. Whereas the production of natural gas declined by around 11%. Moreover, the domestic consumption of crude oil, condensates and butane increased by about 17% in the same period.

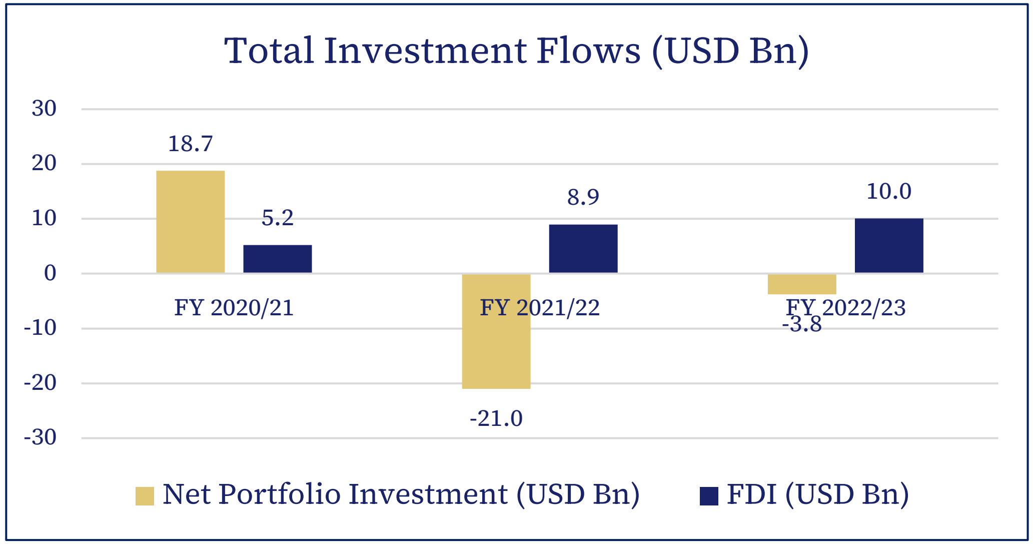
Investments

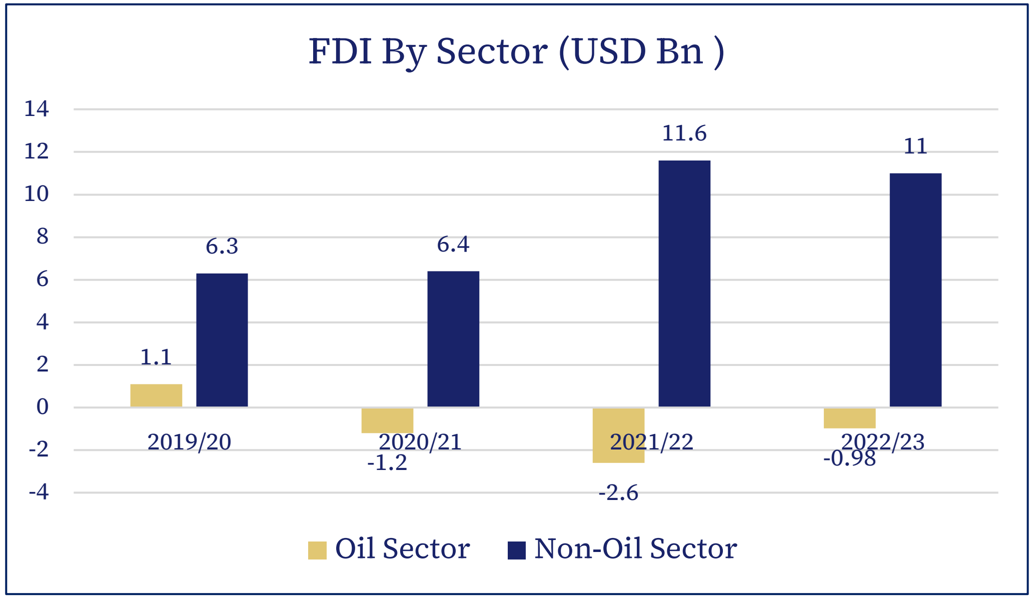
FDIs recorded a strong growth of about 12.3% increase in the net inflow of foreign direct investment (FDI) in Egypt, reaching USD 10.0 billion.

FDI in non-oil sectors achieved a net inflow of USD 11.0 billion, with a notable uptick in net greenfield investments and capital increases of existing companies. Furthermore, net retained earnings increased to USD 4.8 billion. Conversely, there was a decline in net proceeds from selling local entities to non-residents and net investment inflows for real estate purchases by non-residents.

In the oil sector, FDI recorded a net outflow of USD 1 billion. whereas total inflows, reached USD 5.6 billion representing new investments of foreign oil companies, while total outflows recorded USD 6.6 billion representing the cost recovery for exploration, development and operations previously incurred by foreign partners.

Portfolio investments in Egypt continued to witness a net outflow, albeit significantly reduced to USD 3.8 billion from USD 21.0 billion.





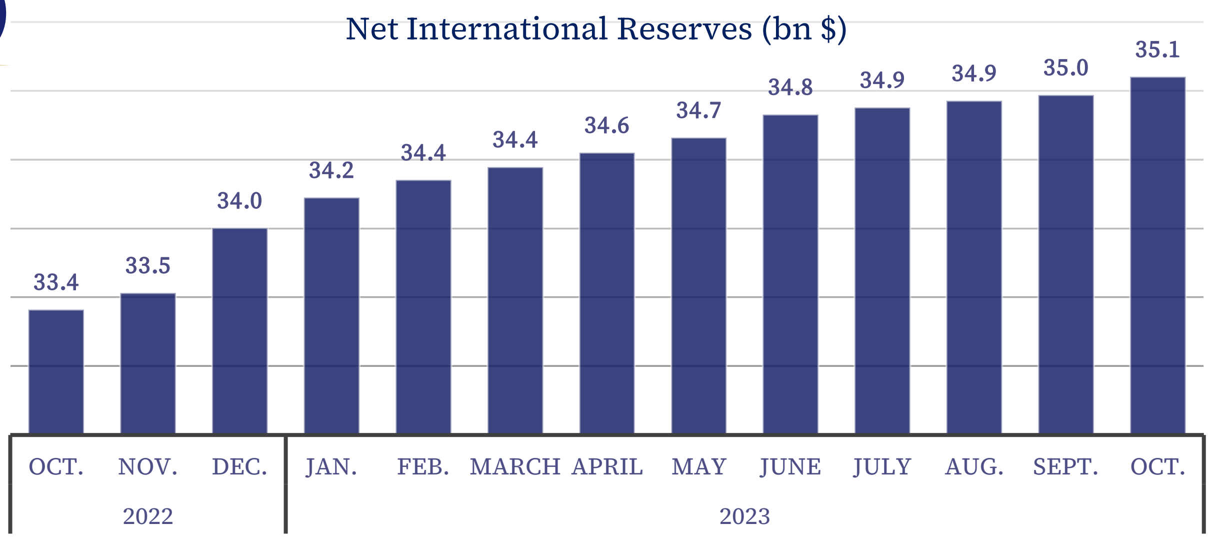
Source: CBE

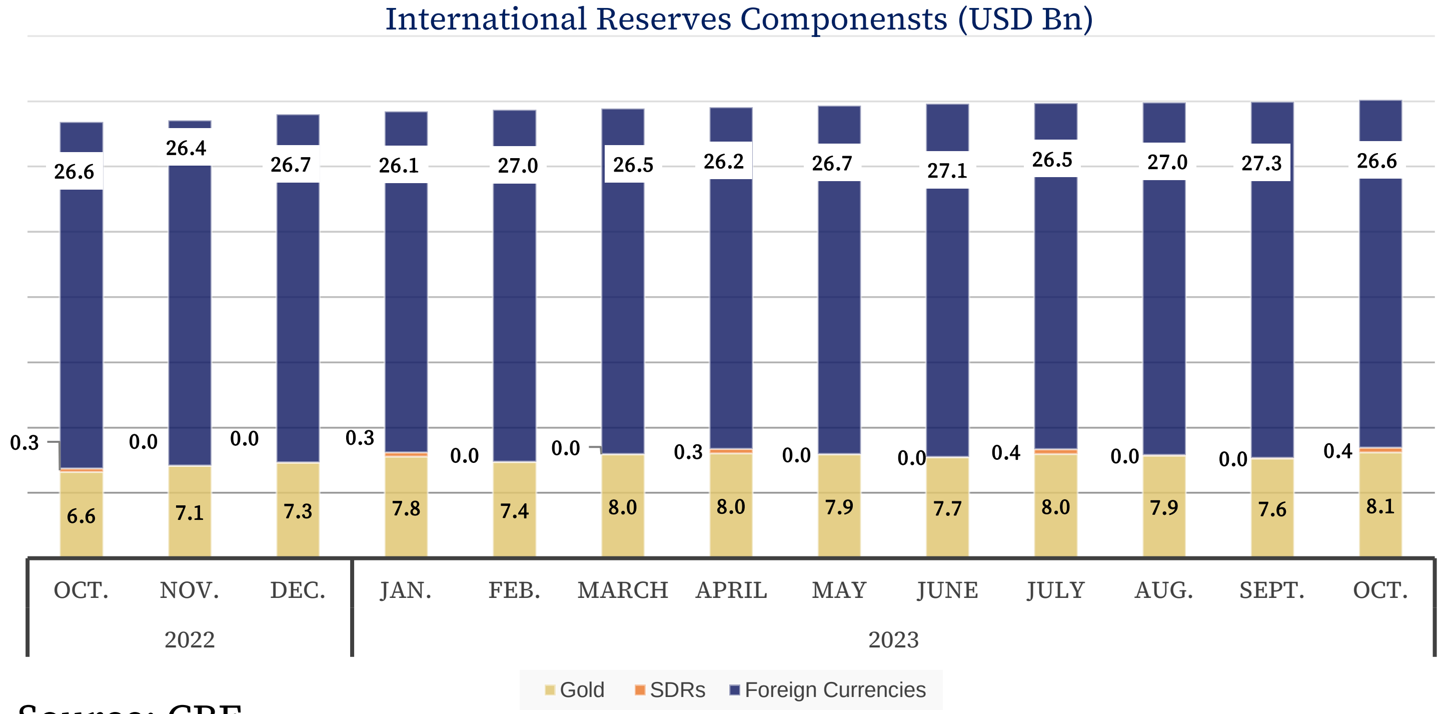
Net International Reserves (NIR)

Net foreign reserves continued their upward trajectory in October 2023 on both annual and monthly basis. Whereas on annual basis, NIR registered an increase of $1.69 billion, or approximately 5%, compared to the same month in the previous year. This surge propelled the total net foreign reserves to $35.10 billion in October 2023 up from $33.41 billion recorded in October 2022.

A closer examination of the NIR components reveals that the overall increase is primarily driven by a surge in the value of all components. However, gold stands out as the key contributor to this upswing, accounting for approximately $1.49 billion of the total increase. This notable rise is attributed to an increase in the quantity of gold holdings by approximately 21,445.35 ounces, Reaching 126.14 tons in October 2023, compared to 125.47 tons in the same month of the preceding year. This increase occurred despite a decline in gold prices during October 2023, which reached levels below $1,825 per ounce.

On a monthly basis, NIR also experienced an increase of USD 132 million, primarily driven by a 6% appreciation in the value of gold reserves. This increase effectively offset the unfavorable impact of a 2% decline in the value of foreign currency reserves. It is noteworthy that the rise in gold reserves was also quantity-driven, with the quantity of gold increasing by 5,369.17 ounces.

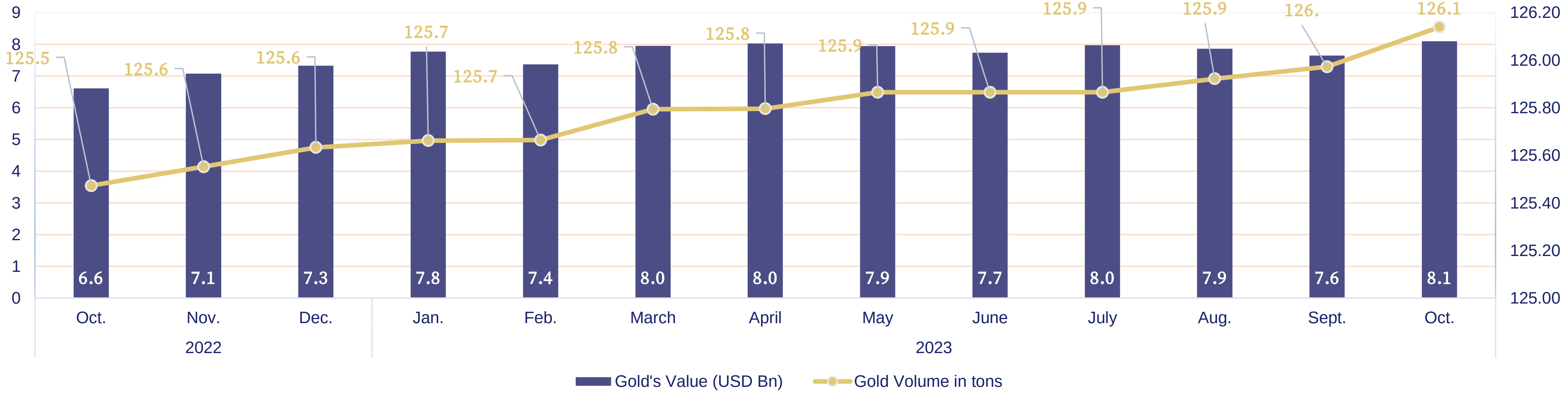




Source: CBE

Source: www.goldprice.org

Gold Reserves

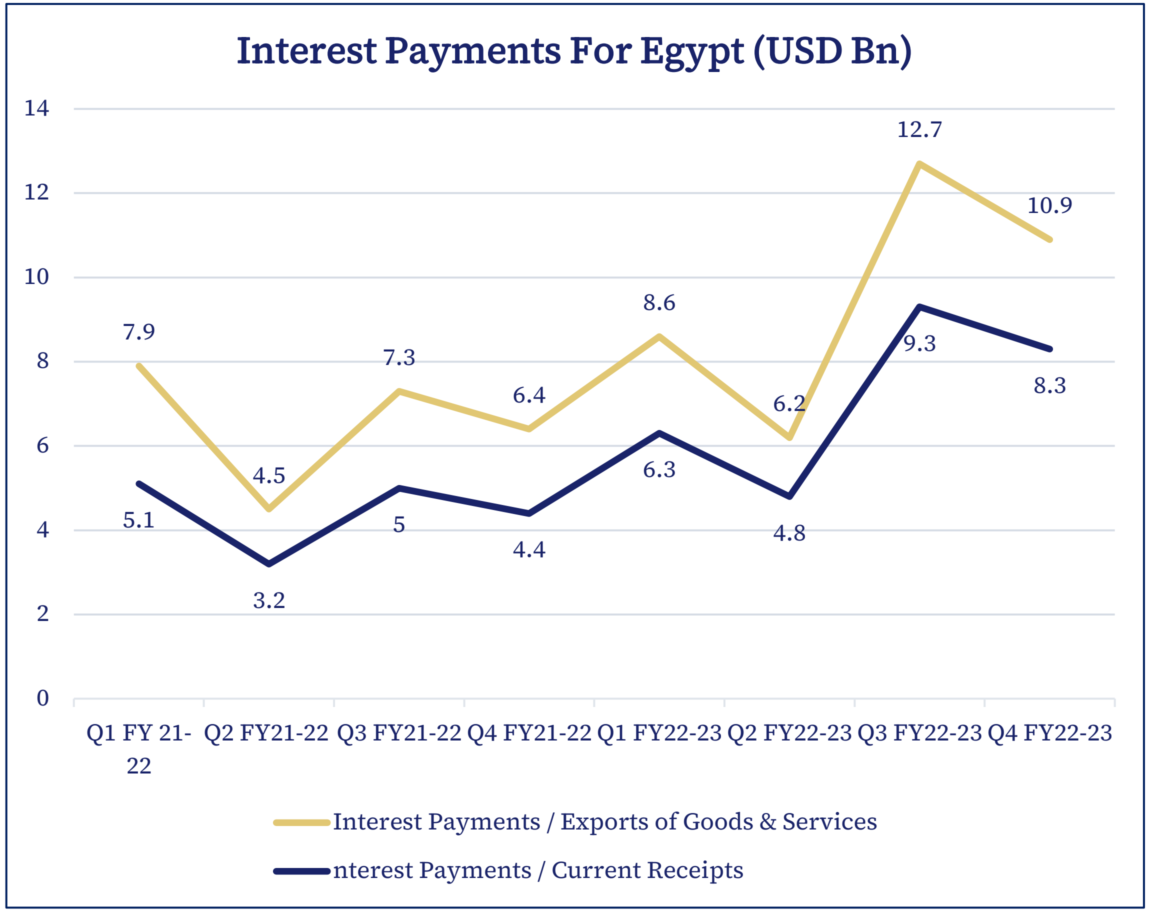


Source: CBE

Debt

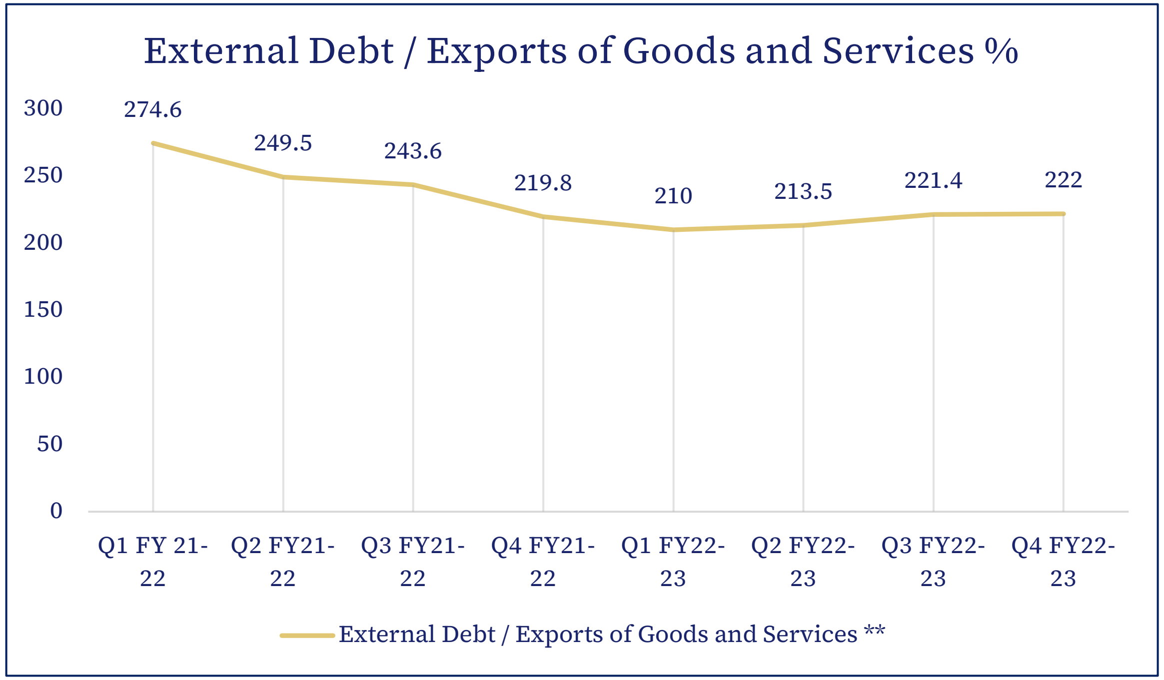
S&P estimate that the Egyptian government allocates over two-fifths of all revenue collected for interest payments on its high stock of debt. Most of these payments service domestic debt rather than external obligations. It also elaborates that Egypt's high external funding needs cannot be sustained.

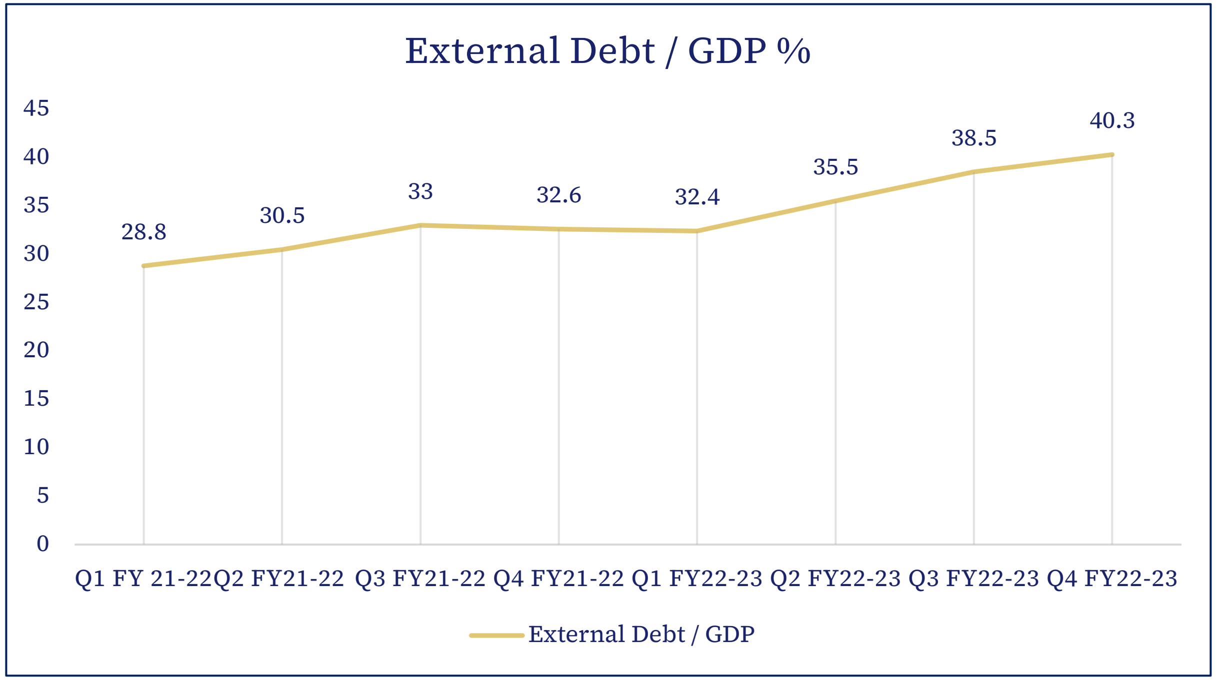
As shown on the figure, interest payments kept increasing during the FY 2023-2023 reaching its peak in Q3. Thus, the government needs to obtain extra sources of revenue to sustain its level of interest payment that keeps increasing.



Source: CBE

Debt





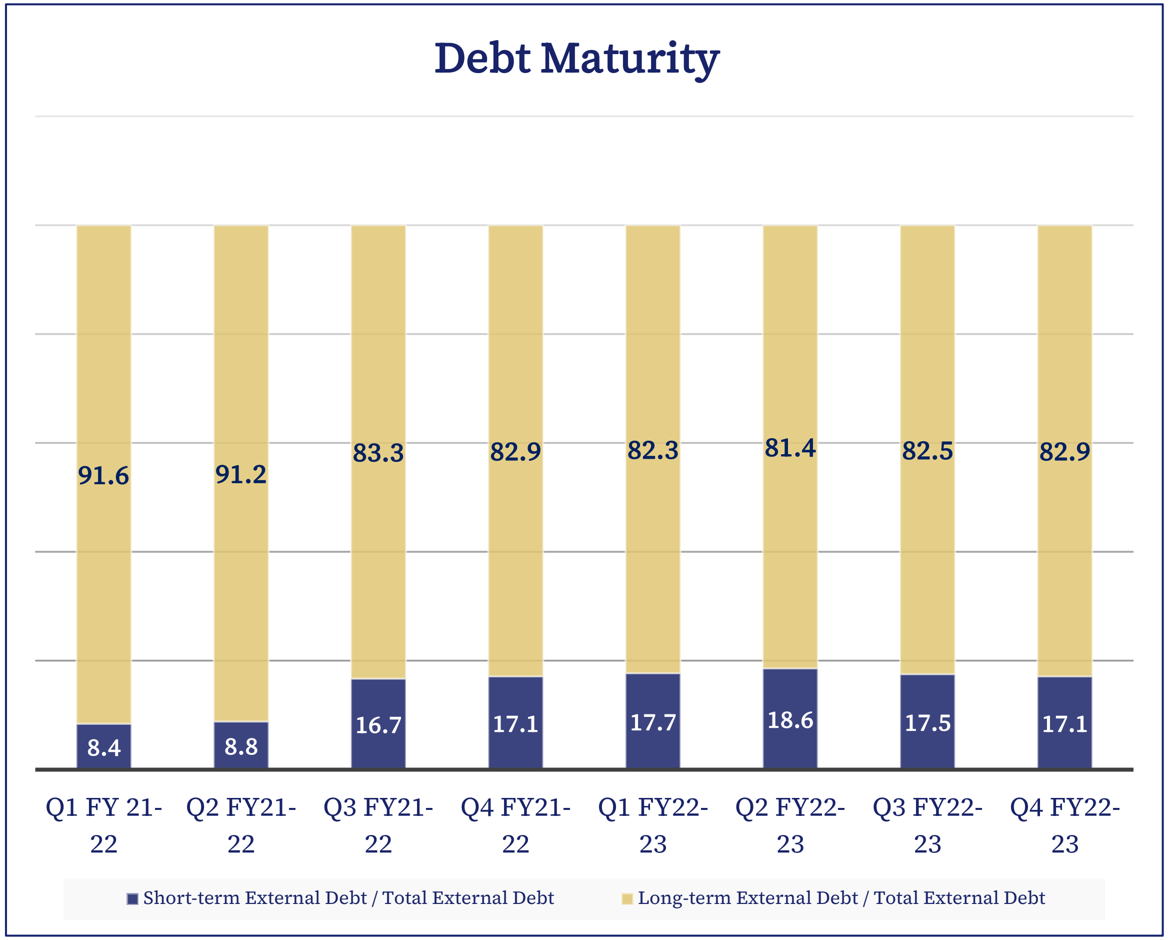
Source: CBE

The ratio of external debt to exports continue its upward trend, climbing from 219.8 in Q4 FY 21/22 till it reached 222 in Q4 FY2022-23. This is driven by both the sharp rises in the external debt figures as well as the failure to boost exports relative to external debt growth.

As portrayed in the figure, Egypt's external debt is hiking through the period under study. according to the IMF country report, debt was assessed as sustainable but not with a high probability (IMF, 2016 and 2021). Since then, rather than improving, debt sustainability deteriorated. High allocations and revenues tied to debt in the draft budget for the next fiscal year are causing concern at home and abroad. Egypt's increasing reliance on debt is raising growing concern both at home and abroad about the impending repayment schedule and Cairo's struggle to secure external funds.

Debt

The short-term debt to total external debt ratio is vital for evaluating external debt sustainability, especially given the heightened risks associated with short-term obligations repaid within a year. Notably, short-term debt has consistently increased, reaching its peak in Q2 of 2023. Despite this, the stability of long-term debt, comprising a minimum of 82.9% of total external debt in the fourth quarter FY 2022-23, reflecting a secure financial condition. The positive perception of long-term debt is attributed to its allocation to productive projects, generating returns for both loan repayment and contributing to gross domestic product (GDP) growth. This contrasts with the challenges posed by persistent high levels of short-term debt, emphasizing the crucial need for adept management of debt dynamics for enduring economic stability.



Source: CBE

LYNX STRATEGIC BUSINESS ADVISORS

Fiscal Sector

Government Budget

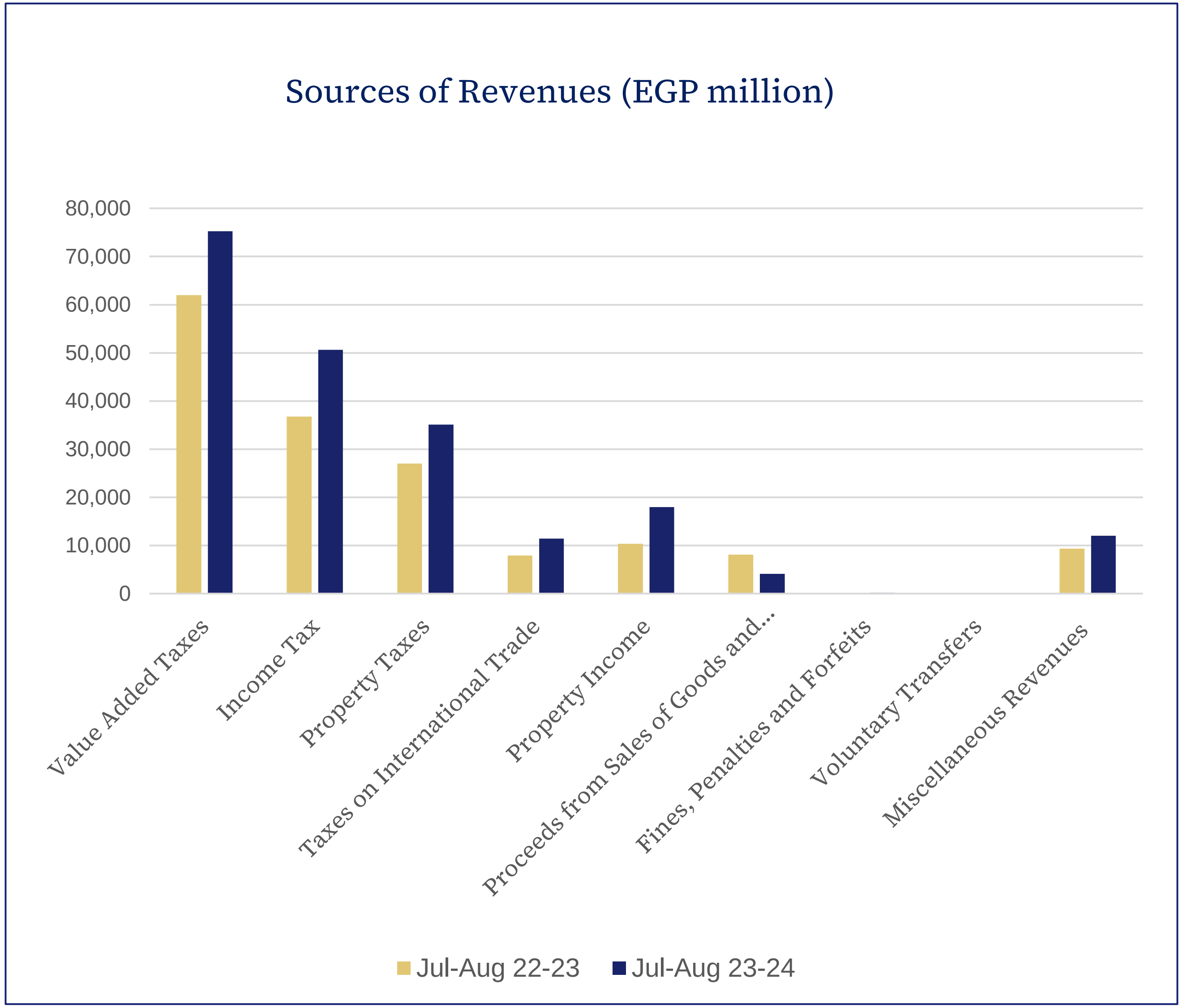
	Jul-Aug 2023 (EGP Billion)	Jul-Aug 2022 (EGP Billion)
Revenues	**206,880**	**161,647**
Taxes	172,457	133,695
Grants	12	4
Other Revenues	34,411	27,948
Expenditure	**590,725**	**307,413**
Wages and compensation to employees	79,999	66,115
Purchases of goods and services	13,463	12,320
Interest Payments	391,773	149,921
Subsidies, Grants, and Social Benefits	60,331	49,637
Other expenditure	19,850	18,367
Purchases of non-financial assets (investments)	25,309	11,053
Cash balance	**-383,845**	**-145,766**
Net acquisition of financial assets	**-792**	**-873**
Overall budget balance	**-383,053**	**-144,893**
Budget primary surplus or deficit (% GDP)	**0.07%**	**0.0%**
Budget overall balance (% GDP)	**-3.2%**	**-1.4%**

Source: MOF

Government Budget

During the first two months of FY 23/24, the government revenues increased by almost 28% reaching EGP 206,880 billion, up from EGP 161,647 billion in the same period in the previous year. Likewise, the government expenditure surged by 92%, recording EGP 590,725 billion, compared to EGP 307,413 billion in the same period in the previous year. Accordingly, the budget deficit hiked by 164% recording EGP -383,845 billion.

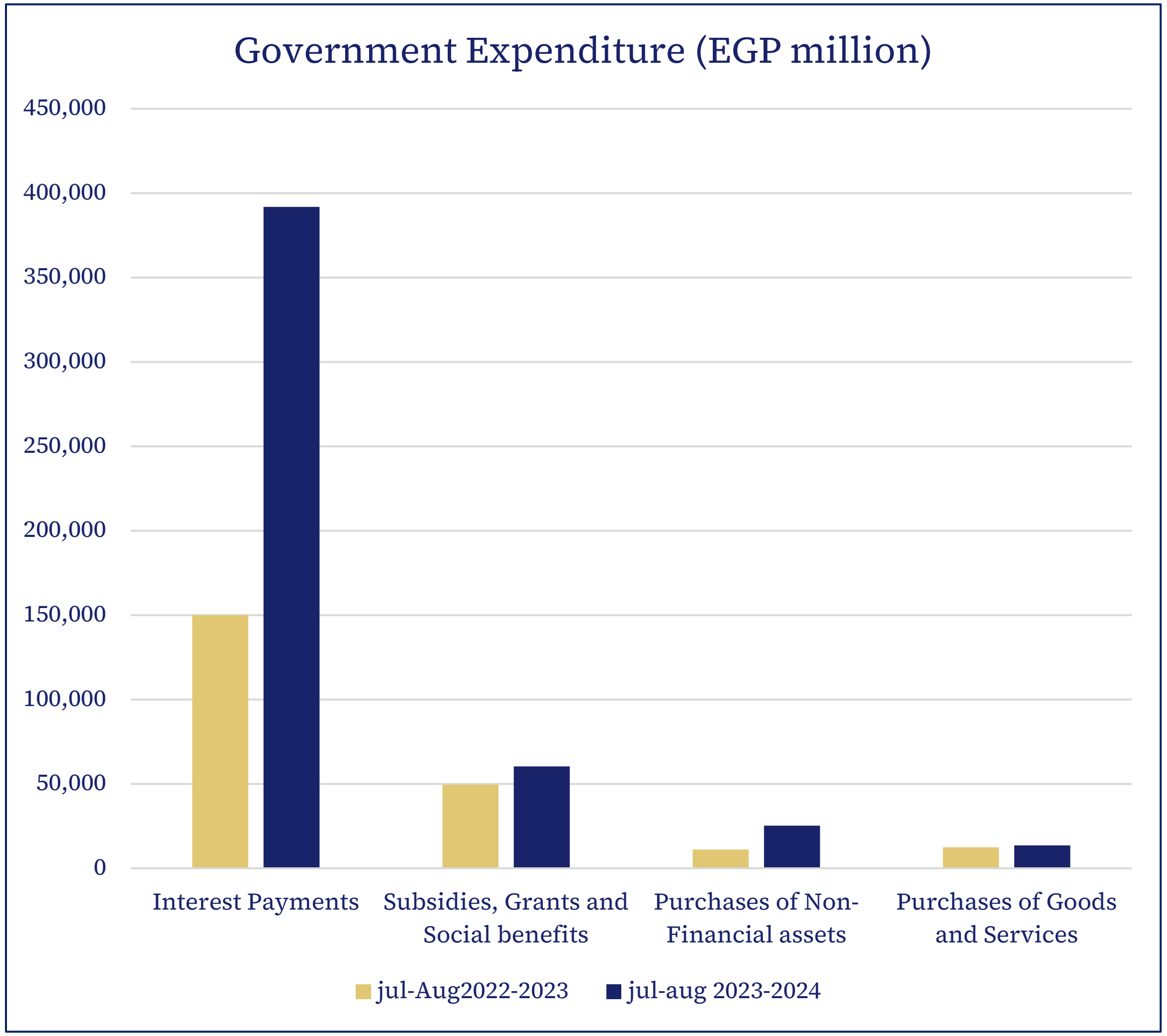
Tax Revenues Represent 83% of the government revenues. It is shown also that total revenues increased for the first two months of FY 23/24 compared to the previous year, and this increase is due to the increase in total tax revenues in addition to the increase in all other sources of revenues. Furthermore, it's worth noting that VAT constructed the highest percentage of tax revenues by a percentage of 43%, followed by income tax which represents 29% of tax revenues. The government is seriously pursuing its effort to enhance collection rates to boost revenues.



Source: MOF

Government Budget

As shown on the figure, most of government expenditure was allocated to interest payments representing 66.3% of total expenditure. Secondly, spending on subsidies, grants and social benefits ranked the second in government spending by a percentage of 10.2% in the first two months of FY 23/24, whereas one of the government goals is to reprioritize public spending in a way that can provide appropriate support for social welfare programs, and enhancing human development, such as health and education, and raising the efficiency of infrastructure. As one example, expenditure on healthcare experienced a notable increase, amounting to EGP 21.4 billion, marking a significant growth of 34.7% in comparison to the previous year's figure of EGP 15.9 billion within the study period. Secondly, expenditure allocated to the education sector exhibited significant growth, amounting to EGP 40.8 billion, marking a notable increase of 24.3 percent in comparison to the corresponding period in the previous year, which recorded EGP 32.9 billion. However, the percentage of subsidies, grants, and social benefits form total expenditure fell in FY 23/24 representing only 10.2% compared to 16% in FY 22/23.

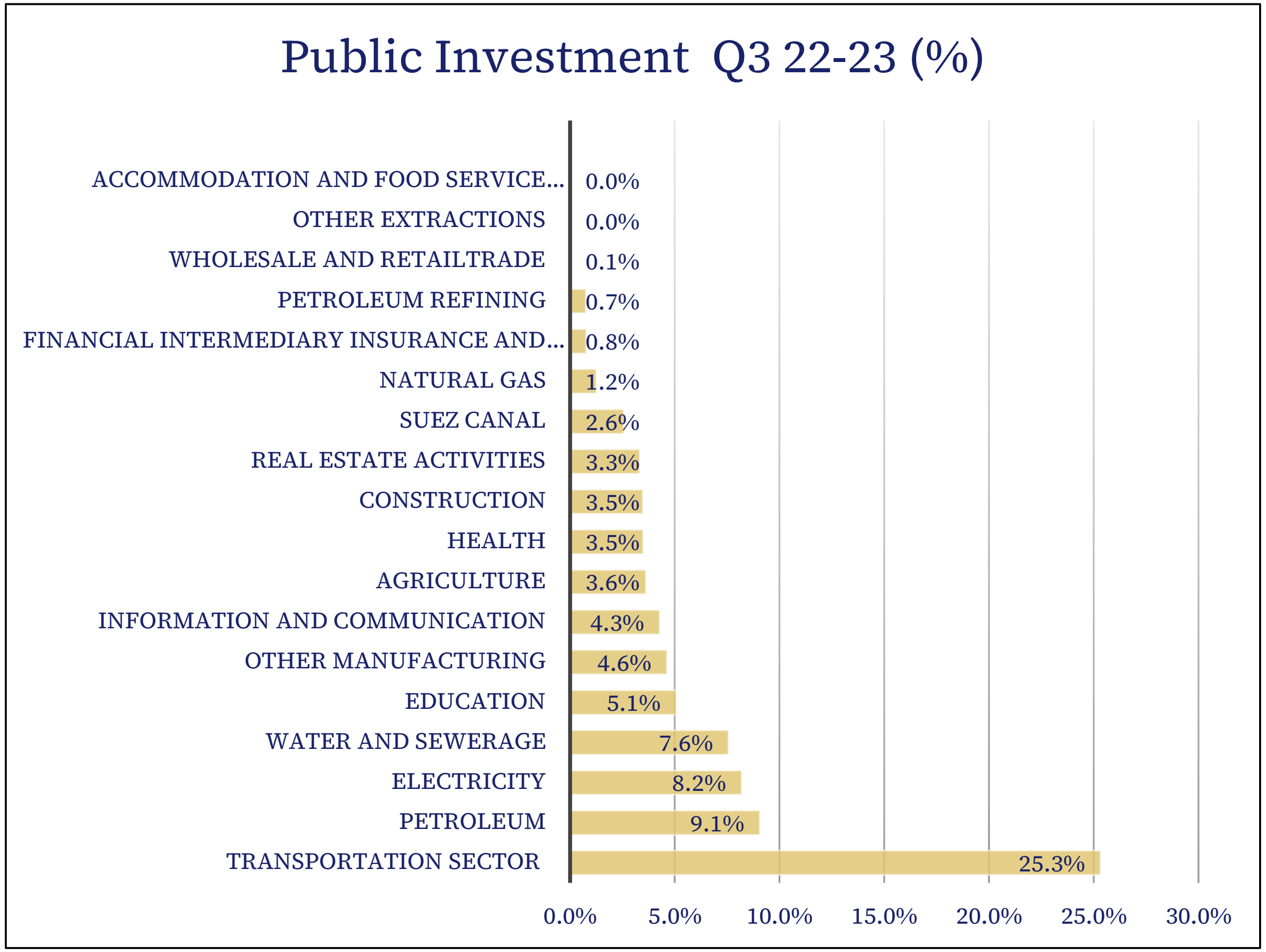


Source: MOF

Government Budget

Purchases of non-financial assets (public investments) increased as a percentage of total expenditure from 3.5% in FY 22/23, to 4.2% in the first two months of FY 23/24. Whereas Purchases of non-financial assets rose by EGP 14.3 billion to reach EGP 25.3 billion in 2023-2024, up from EGP 11 billion. by having a deeper look, Spending on fixed assets increased by LE 13.8 billion to record LE around LE 24.1 billion in FY 23/24. This escalation can be attributed to heightened investments in dwelling, construction, and equipment.

As shown in the figure, public investment in transportation sector represents the highest percentage. Also, health and education represent notably high percentages after (petroleum, electricity, water).



Source: MPED

Thank You.

info@lynxegypt.com
www.lynxegypt.com

4 Latin America Street, Garden City, Cairo

(+2) 0227944331