



Egypt's Macroeconomic Overview

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Q2 FY21 /22

June 2022

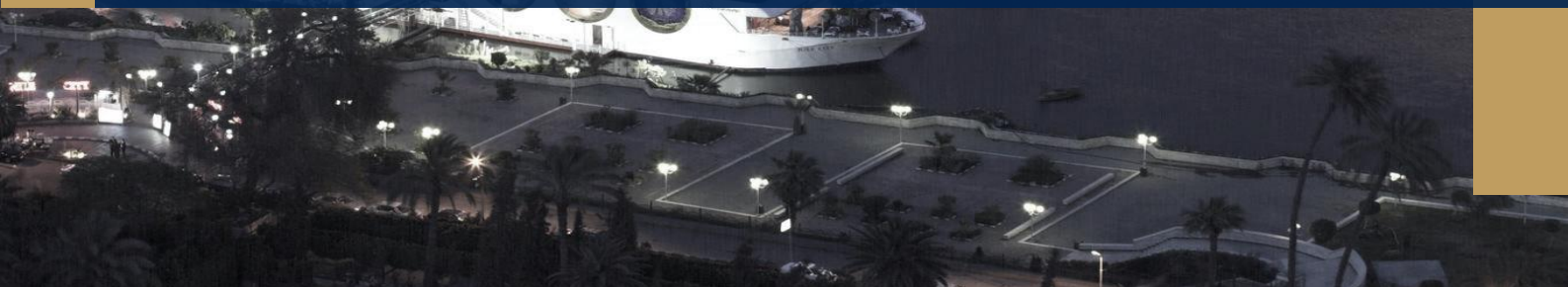


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Objective

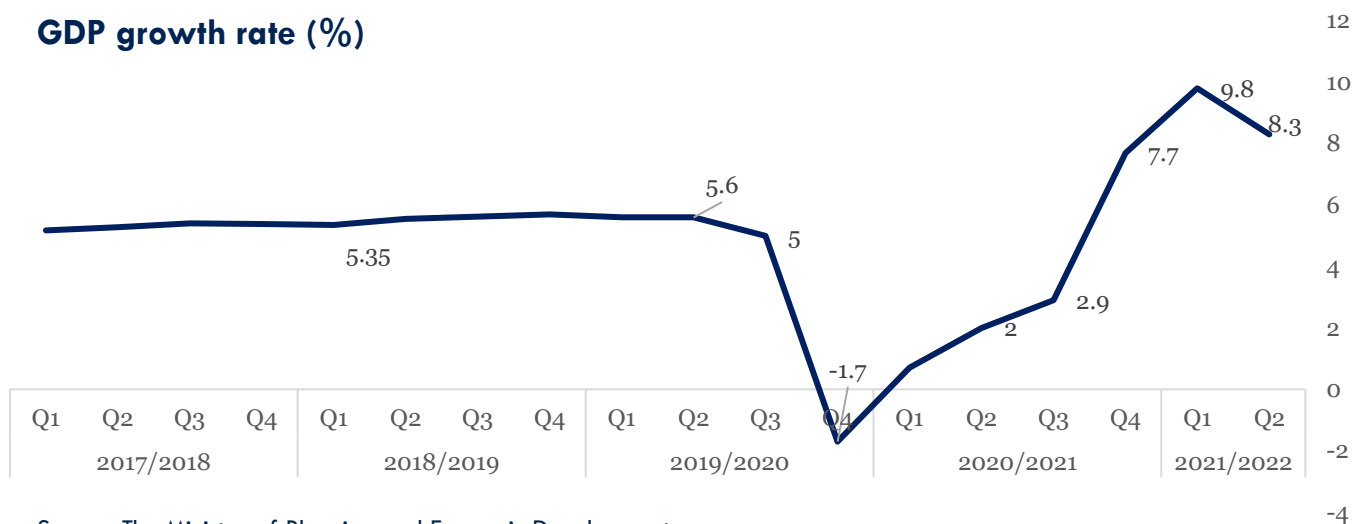
This report presents an overview of Egypt's macroeconomic indicators in the second quarter (Q2) of FY2021/2022 (September- December 2021). It depicts the performance of key sectors of the Egyptian economy by shedding light on the main operations in the real, monetary, fiscal and external sectors.

It is important to stress that the report intends to provide a snapshot of Egypt's economic activity prior to the outbreak of the war in Ukraine which had direct and severe repercussions on the Egyptian economy especially as both countries are major wheat and corn suppliers to Egypt and account for almost one-third of Egypt's tourism inflows. The economic impact of the Ukraine War and the spikes it drove in global commodity prices were discussed in several of our special reports and will be the subject of upcoming reports according to future events and based on data availability.

Executive Summary

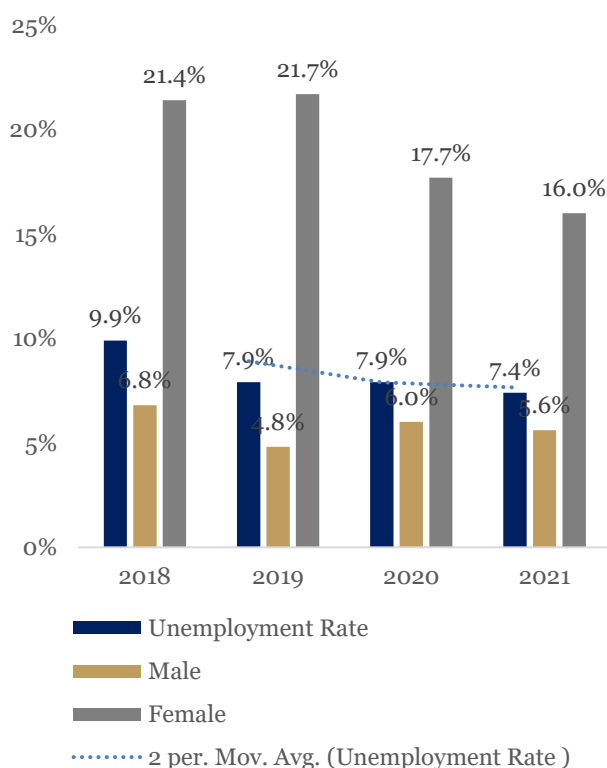
- The real GDP jumped by 8.3% y-o-y during Q2 of FY 2021/2022 (the second highest annual growth rate recorded since FY2017/2018). This increase was supported by a return of Russian tourists following the country's decision to lift a six-year ban on direct flights to Egypt. Nevertheless, the conflict in Ukraine is crushing hopes that the strong inflow of Russian tourists will persist.
- The unemployment rate moderated after the initial spike at the beginning of the COVID shock. Unemployment rate declined to 7.4% at the end of 2021, compared to 7.9% during the previous year. This decrease could be explained by the drop in (male) unemployment rates to 5.6% in 2021.
- Despite Egypt's sustained fiscal consolidation efforts, the country's overall deficit widened to record 370 billion EGP during the first 9 months of FY2021/2022 compared to a deficit of 316 during the same period of the previous year. However, the budget deficit-to-GDP ratio declined to 4.9% between July 2021 and February 2022, driven by tax and non-tax government revenues.
- External Debt increased to 145 billion USD in Q2 FY 2021/2022 from 137.4 billion USD in the previous quarter. This 6% increase is equivalent to 33.2% of GDP. According to the CBE, the debt "remains within manageable limits".
- Egypt's International Investment Position recorded net external liabilities of about 230.2 billion USD at end of December 2021 up by 5.9 %, compared to 217.4 billion USD at end of June 2021.
- During the first six months of FY 2021/2022, merchandise exports increased by 60.1% to 20.7 billion USD, while Merchandise imports increased by 32.0% to reach 42.4 billion USD.
- Tourism revenues increased by about 4.0 billion USD to record 5.8 billion USD in the first 9 months of FY2021/2022 against 1.8 billion USD a year earlier.
- Suez Canal receipts increased by 16.6% during the first half of FY2021/2022, reaching around 3.4 billion USD.
- Annual Headline Urban Inflation increased to record 2 years high of 8.8% in February 2022, compared to 7.3% a month earlier and 5.9% in December 2021.

GDP growth rate (%)



Egypt achieved a GDP growth rate of 8.3 % during the second quarter of FY 2021/2022, compared to a rate of 2 % during the same period of the previous year. According to the Ministry of Planning and Economic Development, the annual growth rate is expected to reach 5.7 % by the end of this year. Noteworthy is that Egypt has lowered its economic growth forecast for FY2021/2022 to 5.7%, from a previous forecast of 6.4% as a result of the repercussions of the Russian-Ukrainian war. This reduction comes in line with the World Bank projections of growth slow down to 5% in FY2022/2023 as economic the activity will be adversely affected by the repercussions of the war in Ukraine.

Unemployment rate (%)



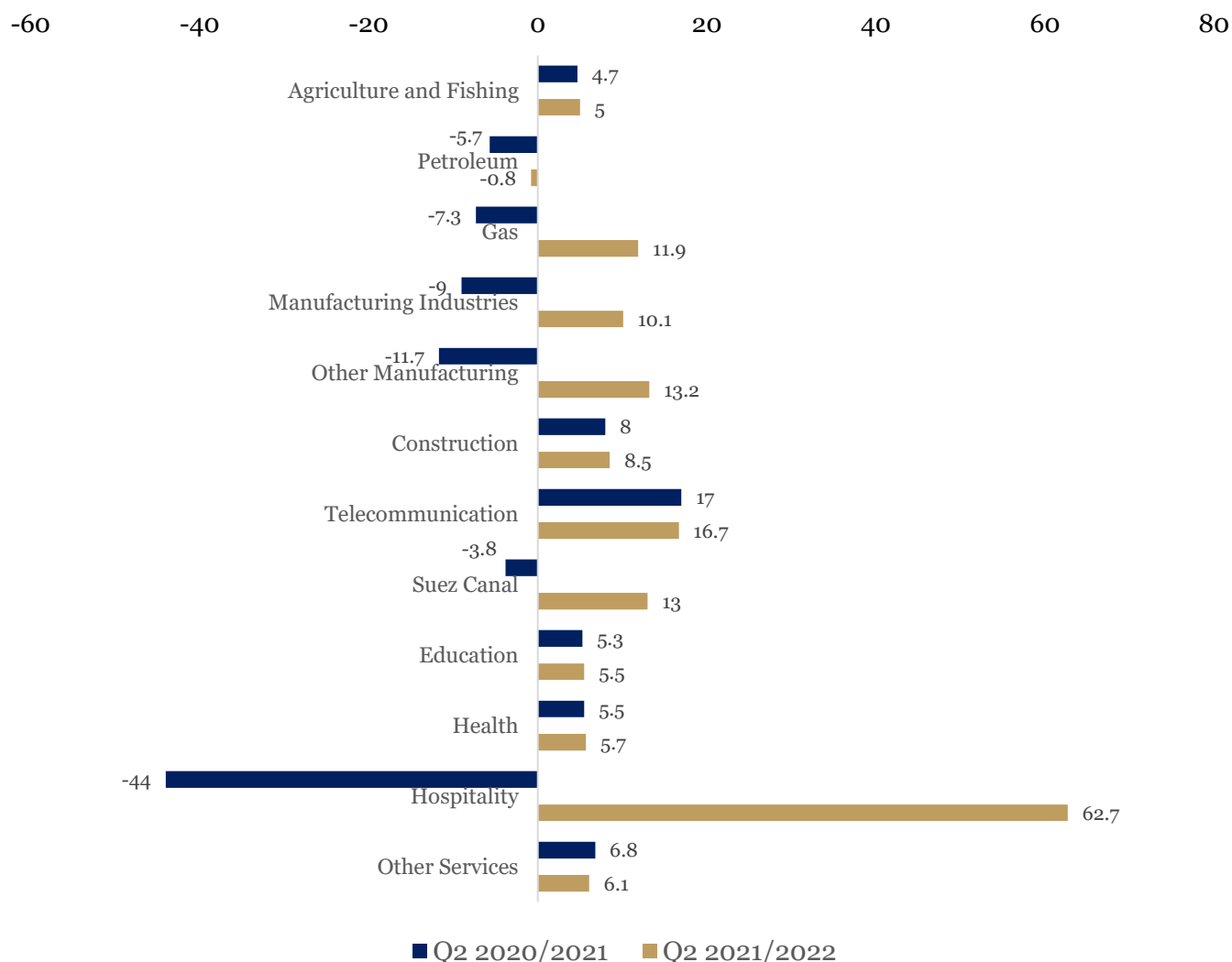
Source: CAPMAS

The unemployment rate moderated after the initial spike at the beginning of the COVID shock. Unemployment rate declined to 7.4% at the end of 2021, compared to 7.9% during the previous year. This decrease could be explained by the drop in male unemployment rates to 5.6% in 2021.

However, the pandemic continues to adversely affect employment (especially for women) and is aggravating long-standing structural challenges, according to Oxford's Country Economic Forecast on Egypt. Although female unemployment rates broadly moderated to reach 16% in 2021 compared to 22% in 2019, the decrease could be partially explained by withdrawals of women from the labor force.

According to the Central Authority for Public Mobilization and Statistics' (CAPMAS) Quarterly Labor Force Survey, the primary reasons for "loss of employment" were job-related challenges and labor market conditions, followed by family responsibilities more commonly reported by women.

Sectoral Performance (% growth)



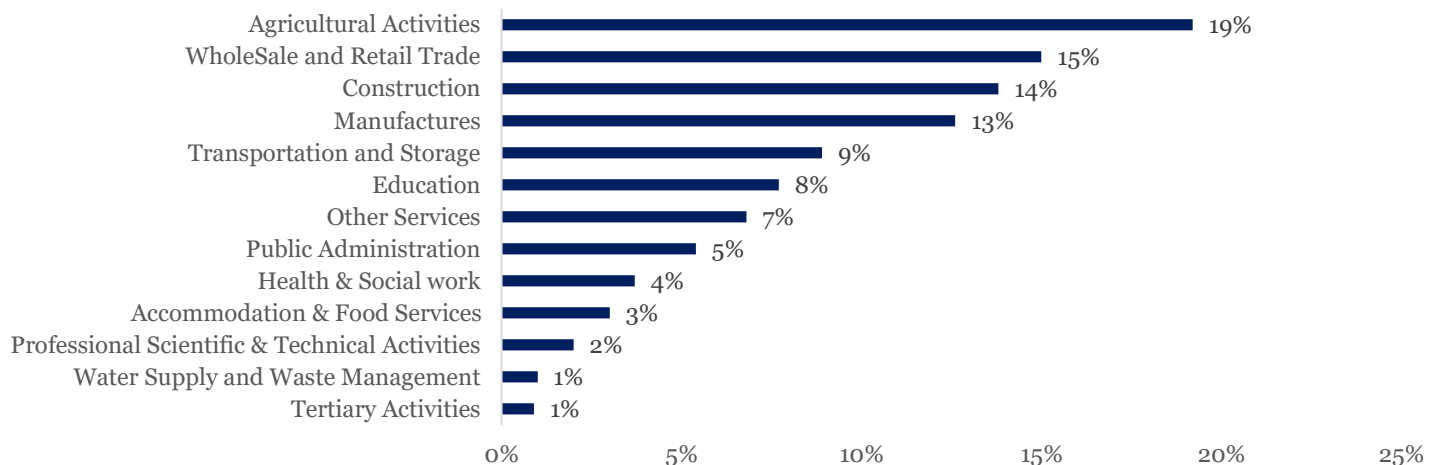
Source: The Ministry of Planning and Economic Development

All sectors recorded a positive performance during the period in study with the hospitality sector witnessing a growth rate of 63% compared to a rate of -44% during the same quarter of the previous year growing by almost 107% during the first half of FY 2021/2022. This is mainly due to the eased Covid 19 restrictions. The Telecommunications sector also reached a growth rate of 16.7%, the Suez Canal sector grew by 13%, and the Manufacturing Industries sector grew by 10%. The Construction, Health and Education Sectors grew by 10%, 5.7% and 5.5% respectively. Moreover, as per the Minister of Planning's statement, the Agriculture Sector broke the 5% barrier for the first time stressing that Egypt is aiming to expand the size of the real economy, i.e., Industry, Agriculture, Communications and Information Technology to reach 35% of the economy.

It is important to highlight that investment in the oil and gas sector had declined in FY 2020/21, as the Covid-19 pandemic led to a slowdown in investments from international oil companies worldwide. This also comes against a background of declining oil production since 2019. Gas-related activities, meanwhile, have picked up in FY2021/2022 in a context of rising global gas prices and policies targeted at promoting gas exploration especially as Europe has been looking to reduce dependence on Russian gas.

Real Sector

Share of Employment by Sector (%)

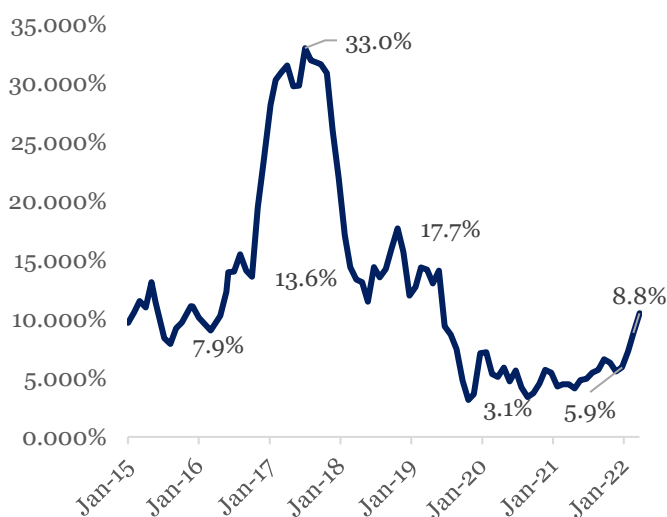


Source: CAPMAS

The agricultural sector employs around 19% of the Egyptian Labor Force, followed by the Trade and Retail and Construction sectors employing 15% and 14% respectively. Manufacturing Industries and Transportation and Storage came in 4th and 5th places employing 13% and 9% respectively.

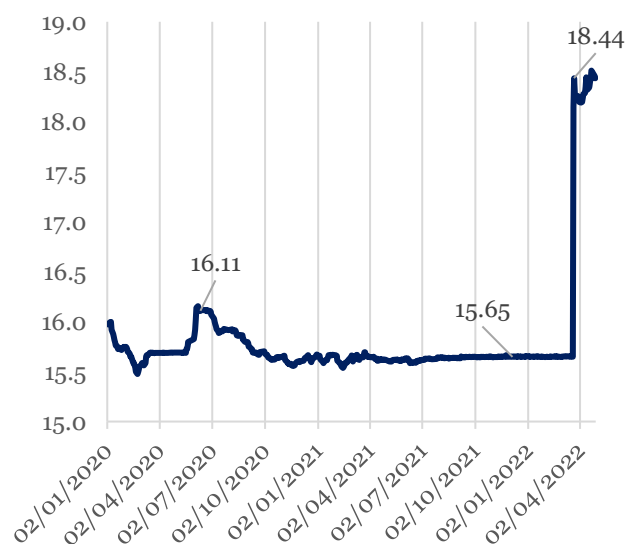
Monetary Sector

Headline Inflation (y-o-y % change)



Source: The Central Bank of Egypt

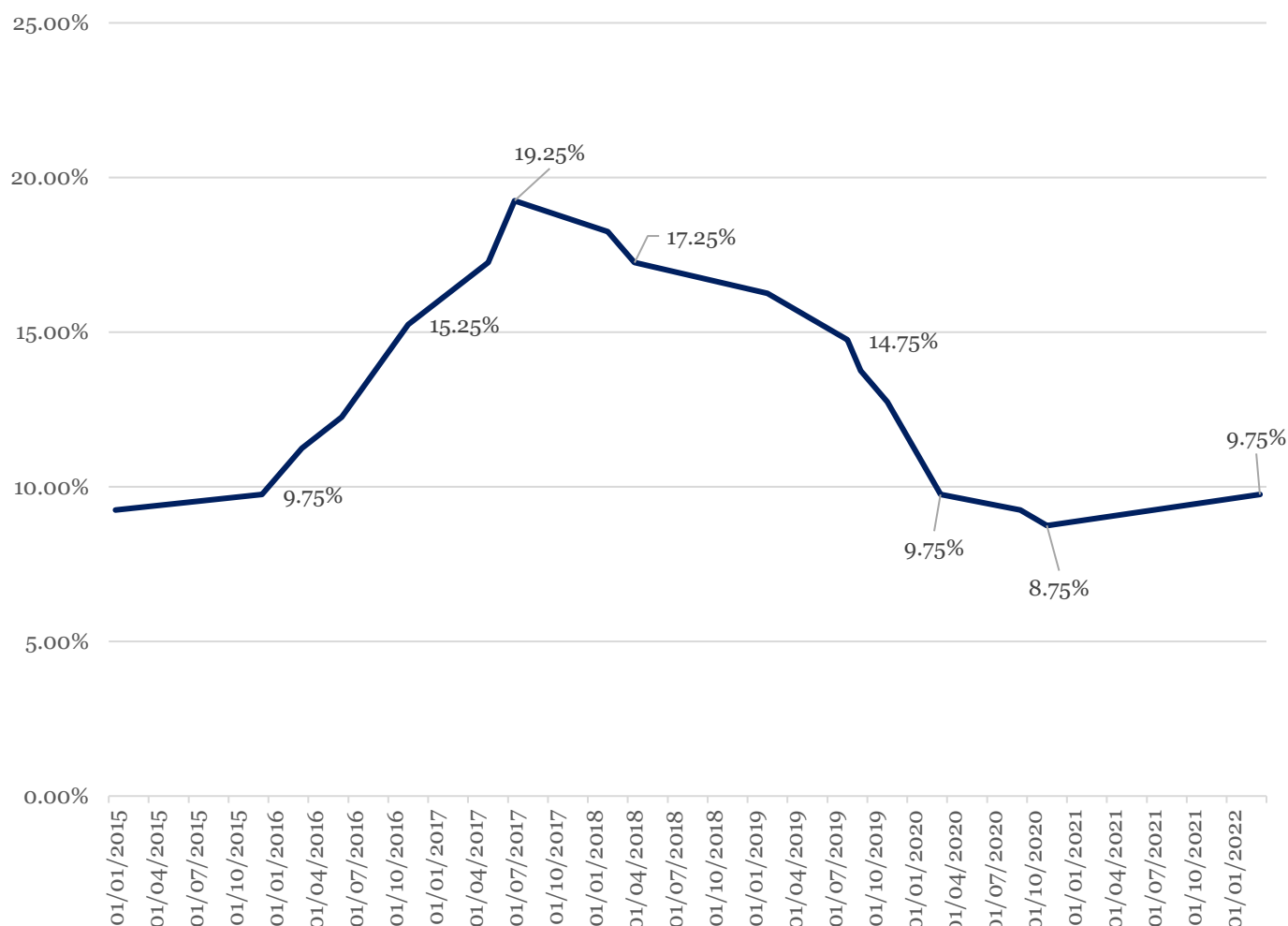
Exchange rate (EGP against USD)



Annual Headline Urban Inflation increased to record 2 years high of 8.8% in February 2022, compared to 7.3% a month earlier and 5.9% in December 2021. Although these figures are within the Central Bank of Egypt's (CBE) target range of (7 (+/-2) %), inflation is expected to continue to surpass this range through the remainder of FY2021/22. This is due to the impact of the EGP depreciation in March 2022, imported inflation and possible supply bottlenecks, and the continuation of upward adjustments to retail fuel prices.

Monetary Sector

Discount rate – CBE Main Operation (%)



Source: The Central Bank of Egypt

Up until December 2021, Discount rates of Main CBE operations were maintained at 8.75% whereas the Official exchange rate against USD was maintained at around 15.6 EGP. Nevertheless, the outbreak of the war in Ukraine has spiked the prices of main commodity and enlarged external financing gaps. This pushed the CBE to devalue the EGP and rise interest rates by 100 basis points to reach 9.75%.

Economists believe that for any country that has an open capital account, authorities can control only one of two variables: either interest rates or the exchange rate. This is what economists name the “Impossible Trinity” dilemma.

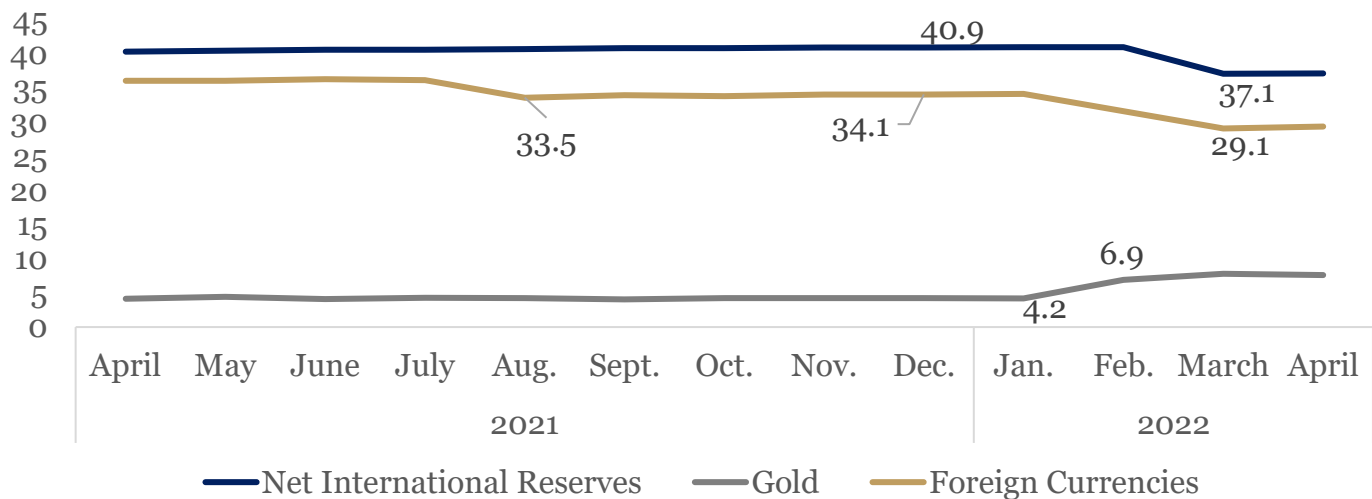
Given that Egypt has a managed currency peg with the US dollar, the CBE is forced to keep real interest rates much higher than necessary to attract foreign capital. The latter is needed to finance Egypt’s structural current account deficit and sustain the fixed currency regime.

Yet, while currency devaluation is politically undesirable because it will surge import costs especially food, raising rates will depress domestic demand and make the public debt dynamics unsustainable.

In the long run, many economists think that authorities will choose devaluation over higher interest rates. The reason is that high local rates will not only suppress domestic income growth and weigh on government revenues but will also increase the cost of debt servicing. Local currency borrowing makes up 80% of total public debt and higher domestic borrowing costs will severely worsen public debt dynamics.

Monetary Sector

International Reserves (Bn USD)

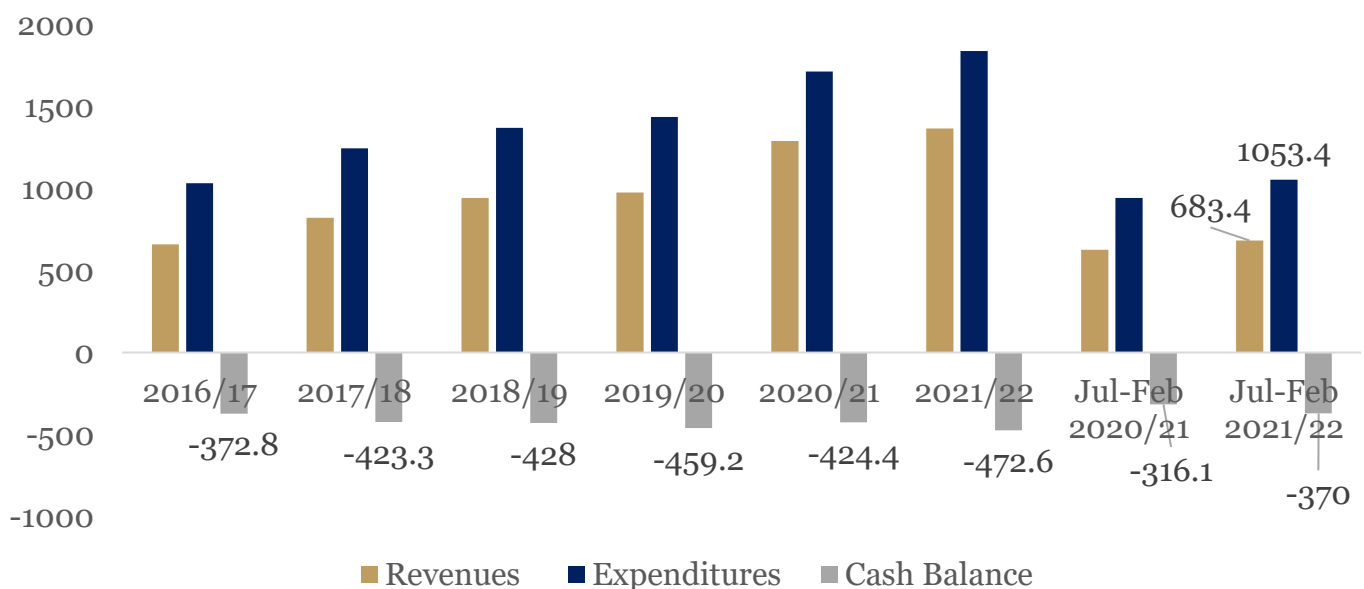


Source: The Central Bank of Egypt

In Q2 of FY 2021/2022, foreign reserves recorded a value of 40.9 billion USD. Although below the pre-pandemic peak of 45.5 billion USD at end-February 2020, covering 7 months of merchandise imports.

Fiscal Sector

Budget Overview (Bn EGP)

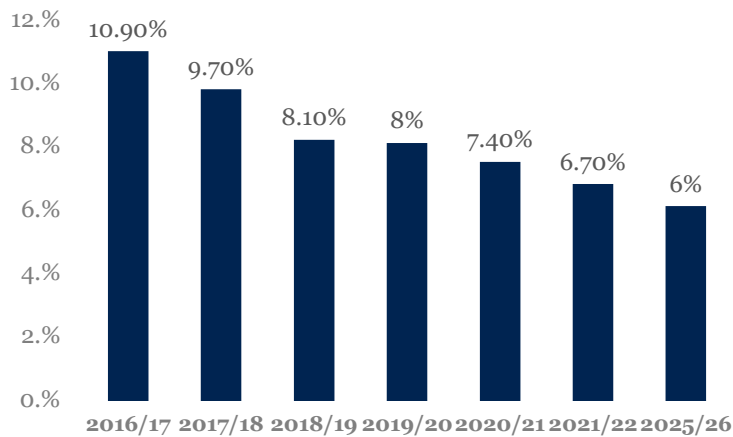


Source: The Ministry of Finance

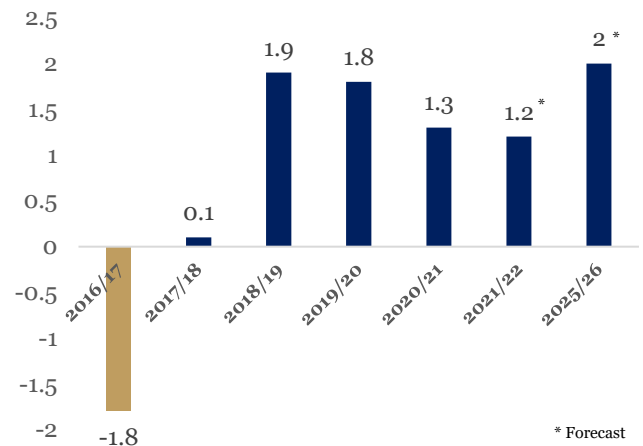
Despite Egypt's sustained fiscal consolidation efforts, the country's overall deficit widened to record 370 billion EGP during the first 9 months of FY2021/2022 compared to a deficit of 316 during the same period of the previous year. However, the budget deficit-to-GDP ratio declined to 4.9% between July 2021 and February 2022, driven by tax and non-tax government revenues.

Fiscal Sector

Overall Deficit (% GDP)

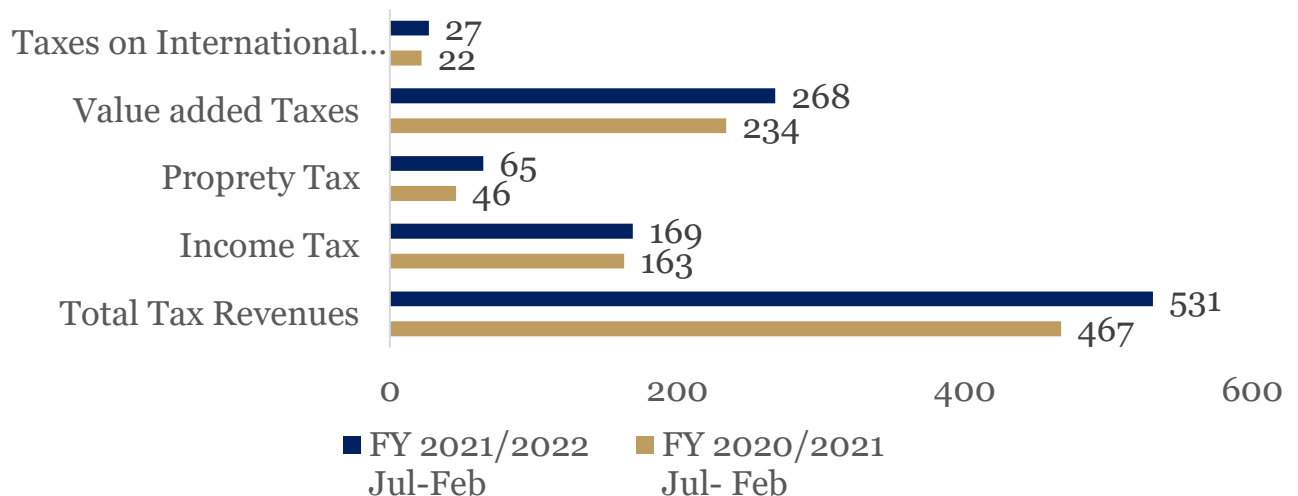


Primary Balance (% GDP)



Source: The Ministry of Finance

Sources of Revenue (Bn EGP)



Source: The Central Bank of Egypt

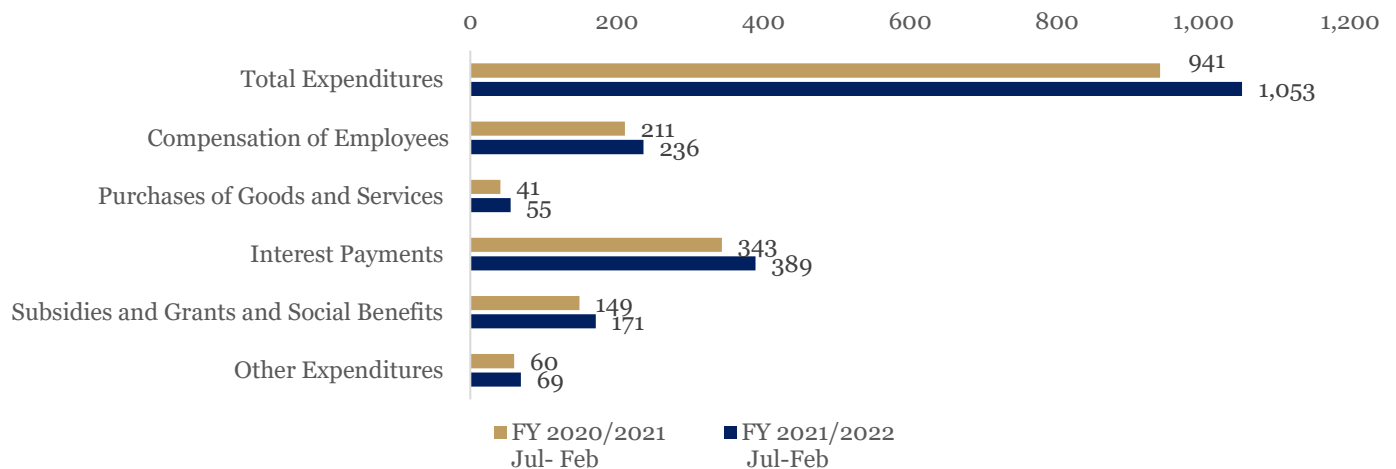
During the first half of 2021/2022, the general budget achieved a primary surplus of 3.2 billion EGP with a target of achieving 1.2% primary surplus by the end of the fiscal year.

Government revenues improved, although remaining subdued, as the long-standing informality problem, and tax policy and administration challenges continue to hinder revenue-mobilization. Tax receipts constitute around 77.8% of total revenues amounting to 531.4 billion EGP. The improvement in revenues was primarily driven by the rise in VAT revenues by 15% to reach 268 billion EGP as a result of the relatively strong growth in private consumption during FY2021/2022.

Also, income tax receipts rose by 5.6 billion EGP to reach 170 billion EGP during the first 9 months of FY2021-2022. This slight pick-up in income taxes partly reflect the phase-out of the leniency measures (in the form of delays in tax filing and payment) that were introduced at the beginning of the Covid-19 pandemic. Moreover, receipts from property taxes rose by around 40% to reach 65.7 billion EGP during FY2021/2022, compared to 47 billion EGP during the same period of the previous year.

Fiscal Sector

Types of Expenditure (Bn EGP)



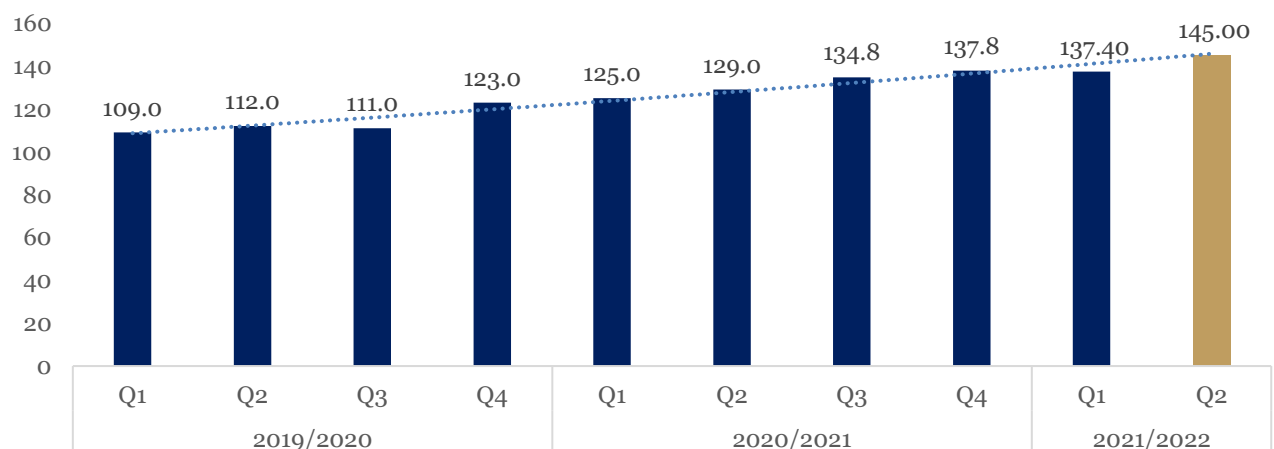
Source: The Central Bank of Egypt

Total expenditures increased by 11.9% to reach 1054 billion EGP during the first 9 months of FY2021/2022, compared to the same period last year. Most expenditures are spent in Interest Payments which rose by 46 billion EGP to reach 389 billion EGP during the period of study. Compensation of Employees rose by 24.9 billion EGP (11.8% growth) to reach 236 billion EGP during the period of study. Noteworthy is that the GoE continues to reprioritize spending towards social protection, investment in human capital and better distribution of services. Accordingly, spending on social security benefits including Takaful& Karama cash transfer programs rose by 2.6 billion EGP to reach 14.4 billion EGP during the period in study.

External Sector

External Debt increased to 145 billion USD in Q2 FY 2021/2022 from 137.4 billion USD in the previous quarter. This 6% increase is equivalent to 33.2% of GDP. According to the CBE, the debt “remains within manageable limits” stressing that Egypt has a lower debt-to-GDP ratio compared to an average of 51.8% for Latin America and the Caribbean region and 42.4% for the Middle East and Central Asia region.

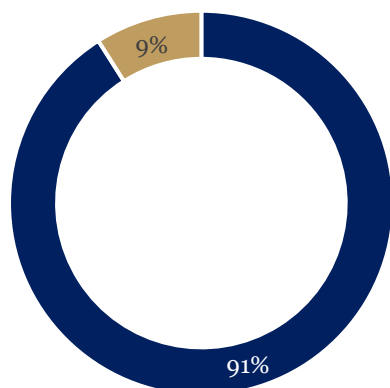
External Debt (Bn USD)



Source: The Central Bank of Egypt

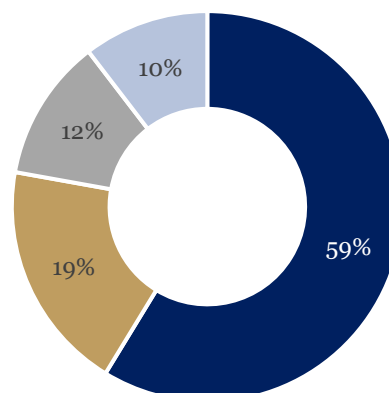
External Sector

External Debt in Q2 FY21/22



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

Debtor Share in Total Debt (%)

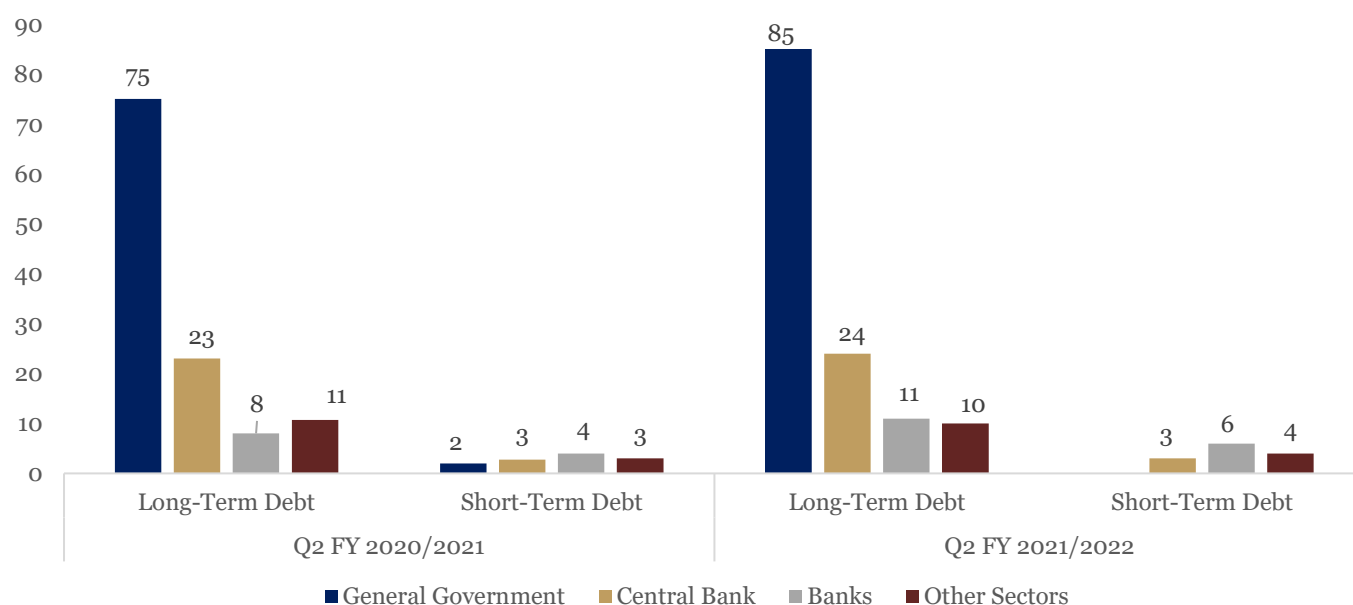


- General Government
- Central Bank
- Banks
- Other Sectors

Source: The Central Bank of Egypt

During this quarter, external debt reaffirmed its pattern of long-term debt predominance holding a share of 91% of Egypt's total external debt whereas short-term debt accounted for 8.8%. The General Government remains the main Debtor, with a share of around 59% of external debt whereas the CBE is responsible for around 20%. Banks and Other sectors are both liable for a total of 22% of Egypt's external debt.

External Debt Structure by Debtor and Maturity (Bn USD)

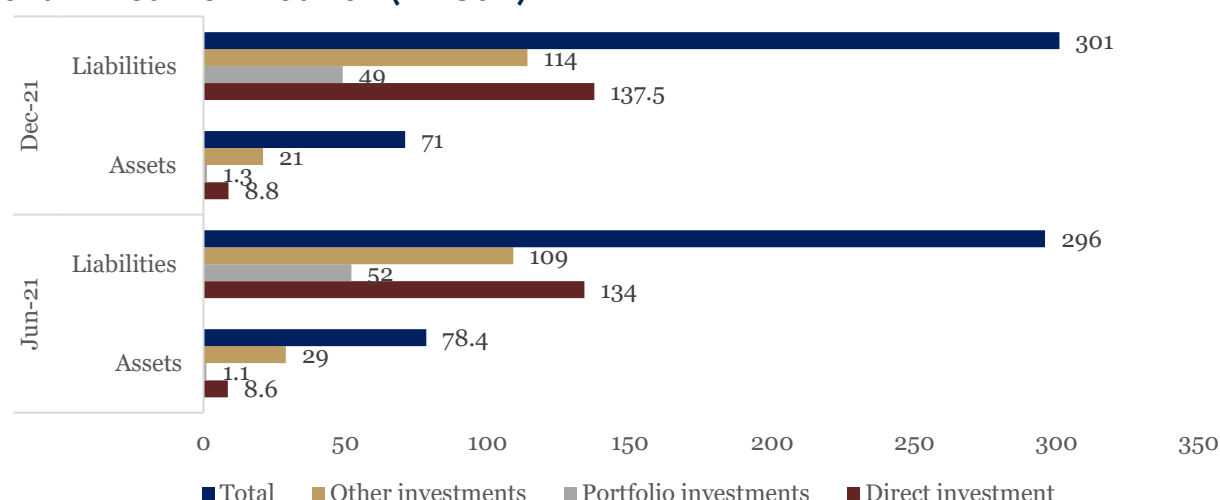


Source: The Central Bank of Egypt

The General Government's debt rose to 85 billion USD in Q2 FY2021/2022 from 75 billion USD the same quarter of the previous year. The CBE's external debt increased to 27 billion USD (24 billion USD in long term debt and 3 billion USD in short term debt), as a result of the new SDR allocation by the IMF to Egypt in August 2021. Banks and Other Sectors' external debt increased to 17 and 14 billion USD respectively.

External Sector

International Investment Position (Bn USD)

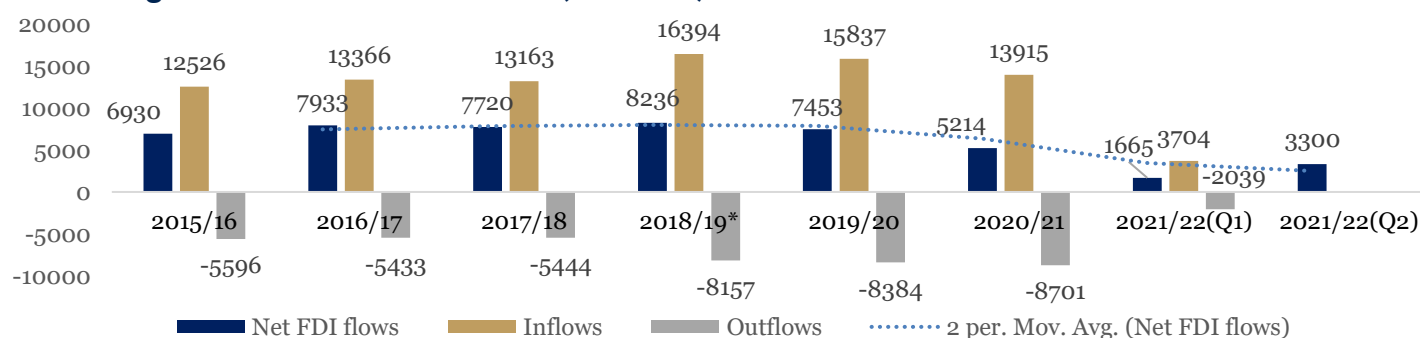


Source: The Central Bank of Egypt

Egypt's International Investment Position recorded net external liabilities of about 230.2 billion USD at end of December 2021 up by 5.9 %, compared to 217.4 billion USD at end of June 2021. Assets decreased by about 7.5 billion USD, to reach about 71 billion USD at end of December 2021, compared to end of June 2021. This decrease in assets was driven by the decline in other investments' assets by about 8.3 billion USD to reach about 20.9 billion USD. Meanwhile, the other components kept showing a positive increase. Liabilities increased by 5.3 billion USD to about 301.1 billion USD at end of December 2021, compared to end of June 2021. This increase mostly reflects the rise in other investments liabilities to 114.0 billion USD on the back of the IMF's additional allocation of SDR equivalent to 2.8 billion USD. It also depicts the increase in foreign direct investment in Egypt by about 3.3 billion USD. On the other hand, portfolio investments in Egypt decreased by 2.8 billion USD to about 49 billion USD at end of December 2021.

Foreign Investment

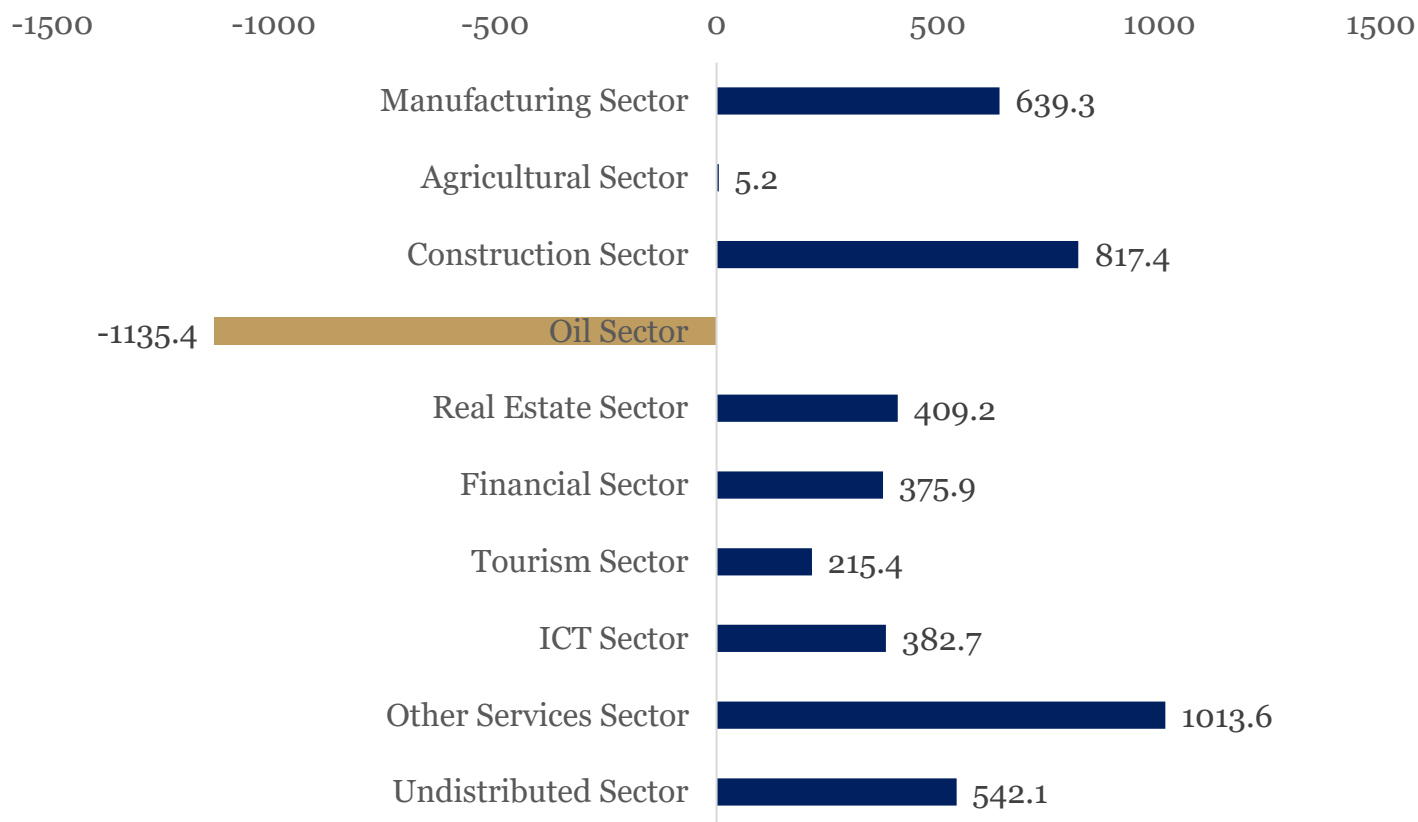
Net Foreign Direct Investment Flows (Mn USD)



Source: The Central Bank of Egypt

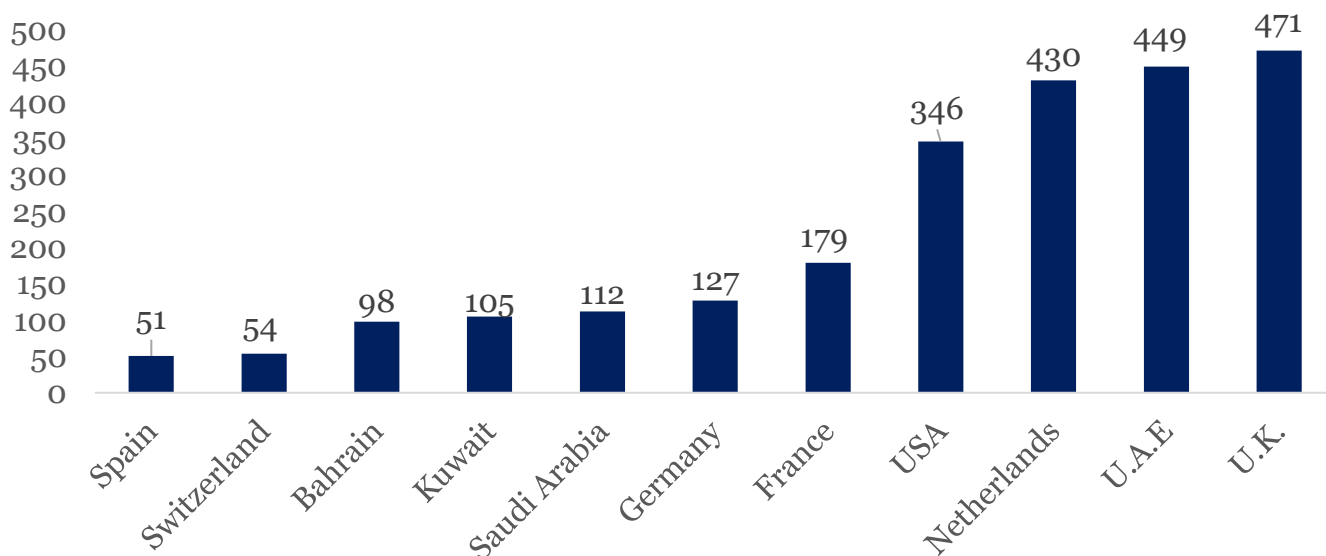
FDI in Egypt recorded a net inflow of 3.3 billion USD. FDI in non-oil sectors increased by 1.2 billion USD, to record a net inflow of 4.4 billion USD while FDI in the oil sector registered a net outflow of 1.1 billion USD. Net outflows in the oil sector could be attributed on one hand to the rise in losses representing cost recovery for the exploration, development and operations previously incurred by foreign partners. On the other hand, it results from the decline in total inflows representing new investments of foreign oil contractors.

Foreign Direct Investment by Sector July-Dec FY21/22 (Mn USD)



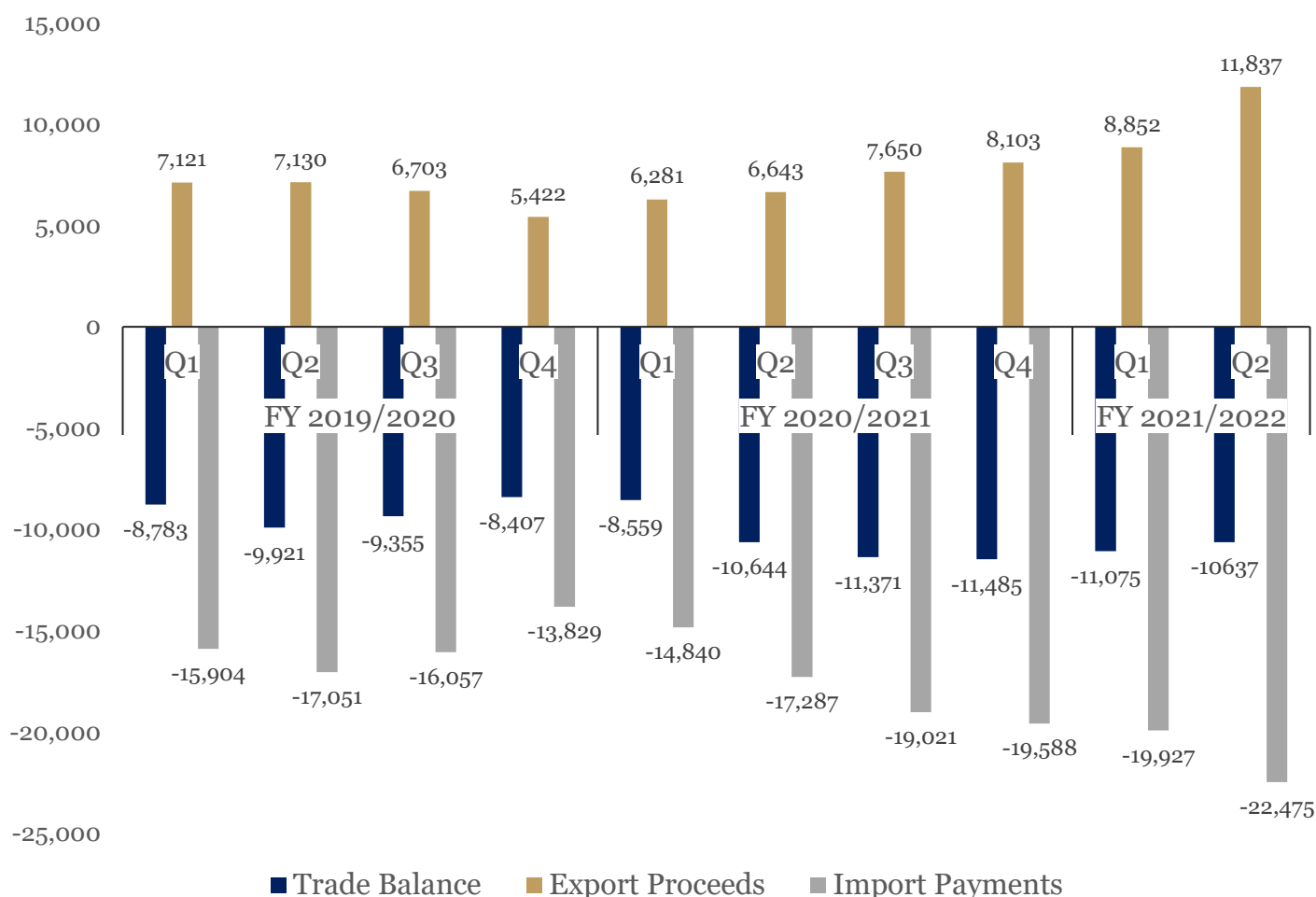
Source: The Central Bank of Egypt

Net Foreign Direct Investment by Country in Q1 FY21/22 (Mn USD)



Source: The Central Bank of Egypt

Trade Balance (Mn USD)



Source: The Central Bank of Egypt

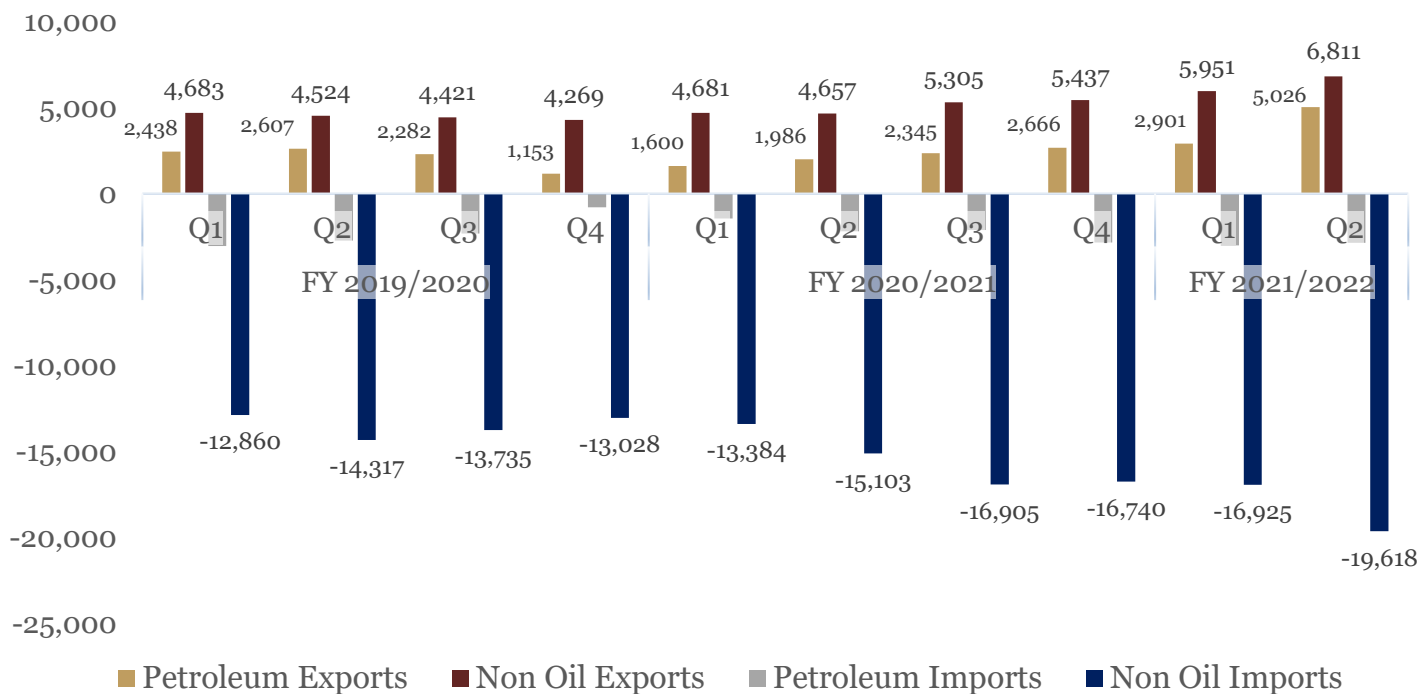
During the first six months of FY 2021/2022, merchandise exports increased by 60.1% to 20.7 billion USD, reflecting the increase in both oil exports to 7.9 billion USD and in non-oil exports to 12.8 billion USD mainly of organic and inorganic compounds, phosphate, mineral fertilizers, wires and cables.

Merchandise imports increased by 32.% to reach 42.4 billion USD. The increase is on one hand due to the increase in oil imports to 5.9 billion USD and in non-oil imports by 28.3% to 36.5 billion USD on the other hand. The increase in non-oil imports is mainly due to the increase in imports of pharmaceutical, gauze pads, and vaccines (considering efforts to combat Covid-19), as well as increased imports of soyabeans, cost iron and wheat.

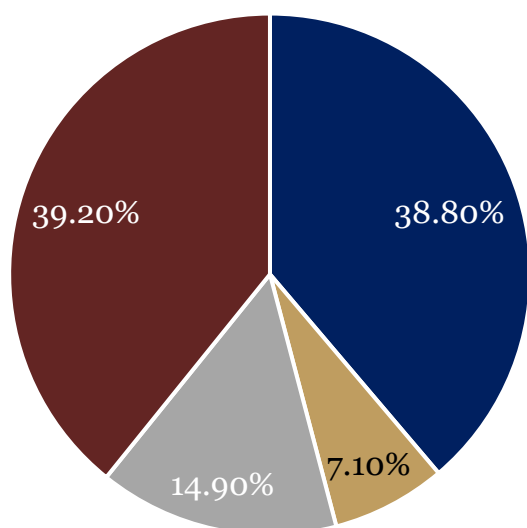
Noteworthy is that new import rules which require importers to use 'Letters of Credit' (LCs) were introduced in March 2022. These letters, which are to be acquired from local banks, provide exporters in trade partner countries with a guarantee that payment will be received. Prior to the introduction of LCs, Egypt had a 'cash against system' in which a shipment document is issued by a foreign exporter's bank following full advance payment of the shipment by the importer. Some Egyptian traders say that the new requirements will worsen supply-chain issues, increase production costs, and delay imports of some necessity goods.

International Trade

Trade Balance by Economic Activity (Mn USD)

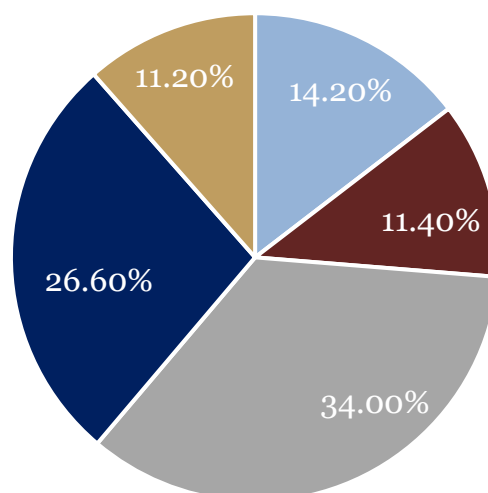


Proceeds of Mechandise Exports



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

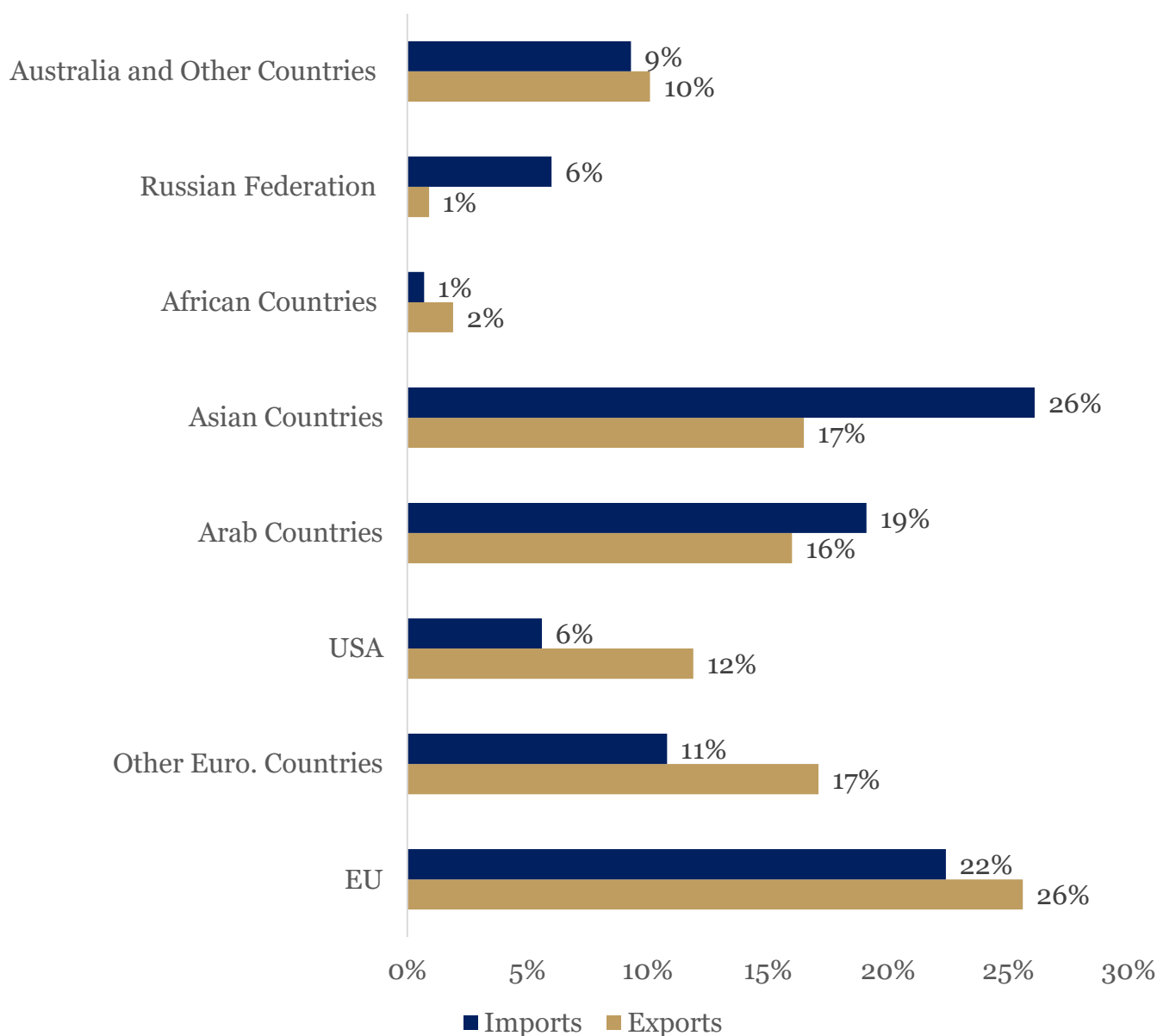
Payments of Mechandise Imports



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

Source: The Central Bank of Egypt

Trade by Geographical Distribution in July-Dec FY21/22



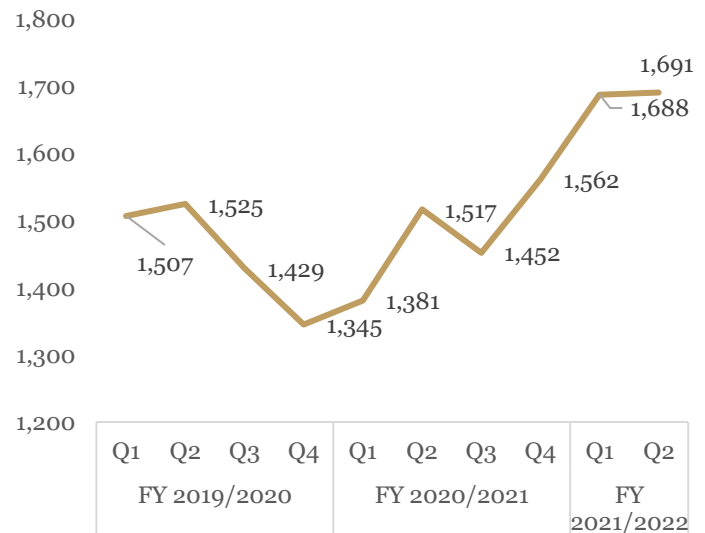
Source: The Central Bank of Egypt

Egypt's main trade partners in terms of exports are the USA, Turkey, UK, India, UAE, Italy, Germany, Saudi Arabia, and Switzerland. These countries combined accounted for some 53.4% of total exports. Most of Egypt's exports in the first six months of FY 2021/2022 went to the EU and other European Countries. As for imports, Egypt's trade partners were China, Saudi Arabia, UAE, USA, Germany, Turkey, Russia, Switzerland, Italy, and India. These countries combined, accounted for some 54.8% of total imports. During the studied period. Egypt imported the most from Asian countries followed by the EU. It is important to stress that external accounts are expected to deteriorate by the end of FY2021/22 due to the widened current account deficit and portfolio outflows. The current account deficit-to-GDP ratio is expected to widen due to the higher imports bill, as well as the adverse impact of the Ukraine war on tourism and on demand for nonoil exports notably by Europe, being one of Egypt's main trade partners.

Tourism Receipts (Mn USD)



Suez Canal Receipts (Mn USD)

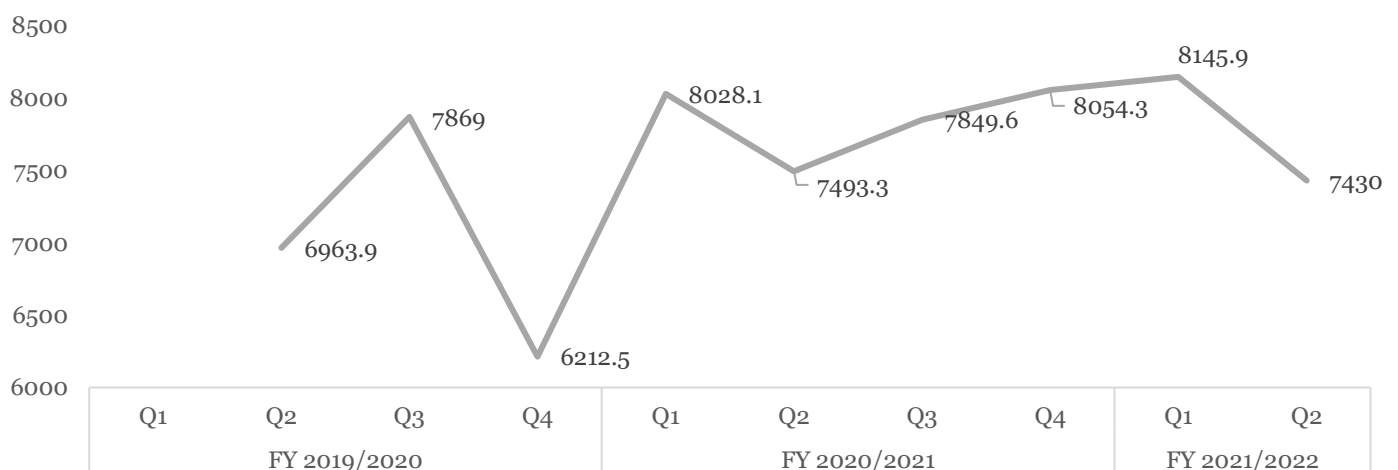


Source: The Central Bank of Egypt

Tourism revenues increased by about 4.0 billion USD to record 5.8 billion USD in the first 9 months of FY2021/2022 against 1.8 billion USD a year earlier. The increase is driven by the rise in the number of tourist nights to 61.7 million nights. The rebound in the tourism sector follows Russia's decision to resume all direct flights to Egypt, including the Red Sea area. Prior to the ban, Russian tourists accounted for over a third of tourist arrivals to Egypt. Nevertheless, the Russian Ukrainian war is lowering hopes that the return of Russian tourists to Egypt will be sustained.

Suez Canal receipts increased by 16.6% during the first half of FY2021/2022 reaching around 3.4 billion USD. The Canal is expected to see revenues of around 7 billion USD by the end of the current fiscal year, up from last year's record of 5.5 billion USD.

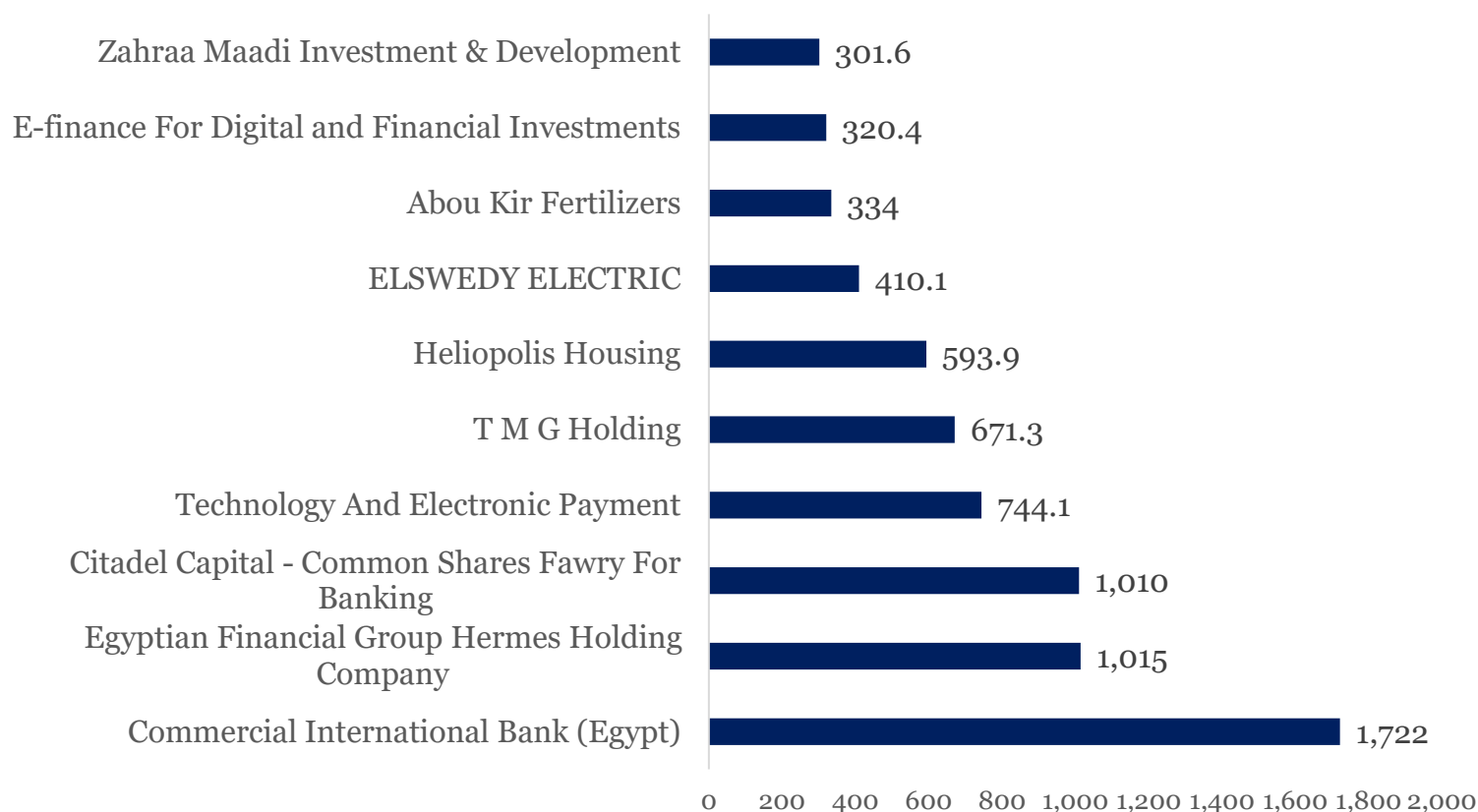
Remittances from Egyptians Abroad (Mn USD)



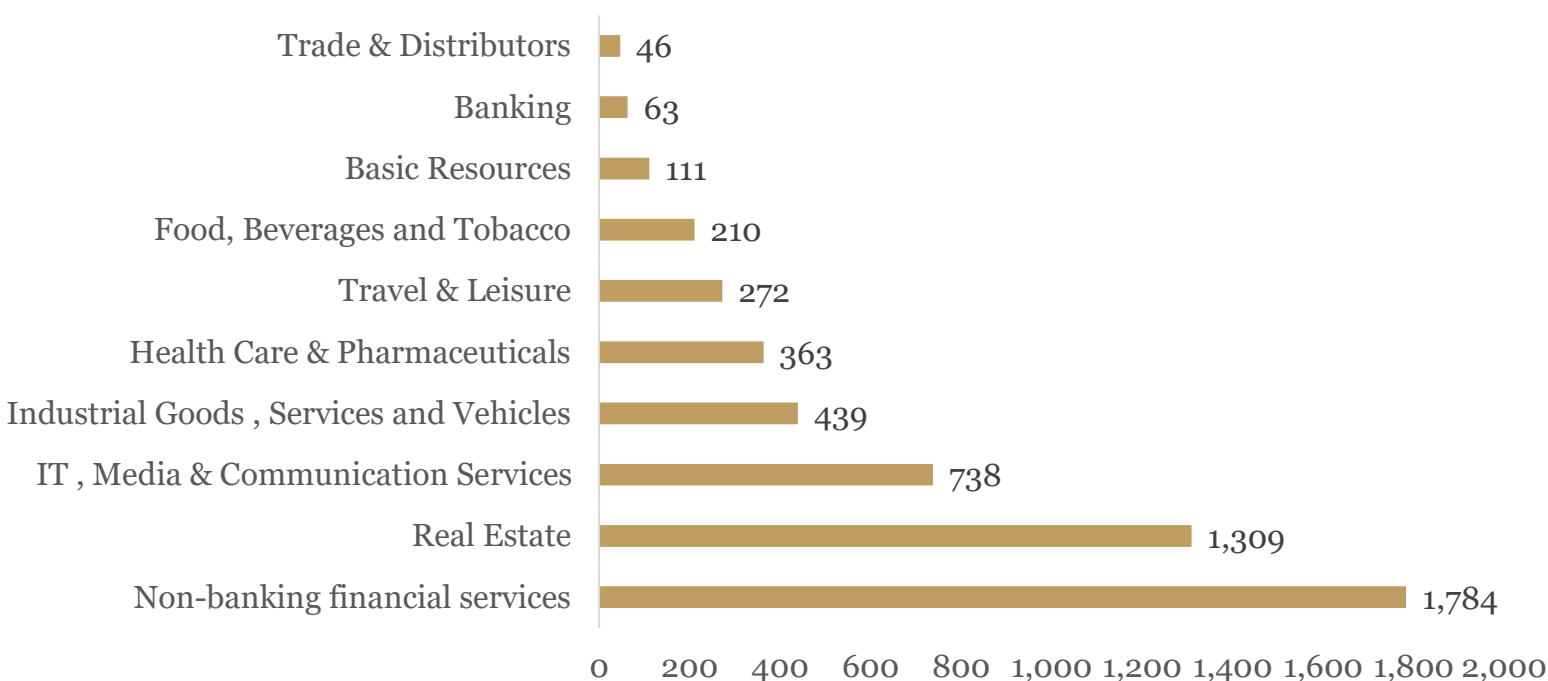
Source: The Central Bank of Egypt

Remittances in Egypt decreased to 7430 Million USD in Q2 FY2021/2022, from 8145.9 Million USD the previous quarter.

The 10 Most Active Companies in Terms of Volume Traded - as of 28/2/2022 (Mn EGP)



The 10 Most Active Sectors in Terms of Volume Traded - as of 28/2/2022 (Mn Shares)



Source: The Central Bank of Egypt



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