# Egypt

*The economy is moving out of the very tough period of 2023 and early 2024 with inflation heading lower, several signs pointing towards growth accelerating and interest rates likely to fall sharply over coming quarters. Policy changes have improved the macro picture considerably, though regional geopolitical pressures could drag on growth short term, having already hit Suez Canal receipts, while energy security also needs addressing. We look for the authorities to maintain strong commitment to the flexible exchange rate to ensure that current high buffers are preserved and that confidence in the broader reform process – which will be key to delivering higher investment rates and faster longer-term growth – is sustained.*

### Government reform steps so far successful

The government has pressed ahead with key reform steps following the big policy shifts seen earlier this year, including a move to a flexible exchange rate and higher interest rates to control inflation. FX reserve buffers have been rebuilt and tough cuts in subsidies have been implemented. We expect more reform follow-through over coming quarters, including further cuts to petroleum, gas and electricity subsidies. The extent of exchange rate flexibility in times of tension is yet to be tested but will be as imports rise in conjunction with recovering economic growth rates. Although fiscal and financial reforms are key, measures to create a more pro-business environment are also needed to ensure higher employment, stronger knowhow, and to boost investment rates (including FDI) beyond crucial mega deals such as Ras Al Hekma that are secured at a political level.

### Economic growth to accelerate ahead

GDP growth slowed to 2.4% in FY23/24 from 3.8% in FY22/23. The second half of the year (Jan-Jun 24) endured the most severe fallout in terms of high inflation, elevated interest rates, and initial demand and supply shocks post the near-40% March currency devaluation. However, we see this as now behind us with the pound having stabilized, inflation cooling to 26% (and set to fall sharply next year), and the start of the monetary easing cycle approaching. Some key positive signs include a PMI level creeping back above the 50 benchmark in August, a return to positive real credit growth and a recovery in corporate earnings. On the back of such, we expect GDP growth to accelerate to 4.0% in FY24/25, assisted by potentially aggressive cuts in interest rates. Consumer spending will be the main driver of GDP growth in the coming period while net exports could continue to be a drag mainly due to a high energy bill.

### External mega financing deals could be over

Having secured the huge $35bn Ras El Hekma investment from the UAE and $20bn in other international funding deals this year, the external funding picture is no longer an immediate concern. International reserves hit an all-time high of $46.7bn in September while commercial banks' net foreign assets have flipped back into positive territory. Still, we see the authorities reverting to traditional methods of financing including issuing FCY Eurobonds, which – given continued current account deficits and debt maturities – will be needed to cover a net cumulative external financing gap of about $10bn through FY25/26. Egypt's current 5yr Eurobond yields are at 9% and could go lower as the Fed continues to cut interest rates by over coming quarters. We also see potential for a sovereign rating upgrade by Moody's to B3 from the current Caa1 in the short term, putting it in line with S&P and Fitch. Further upgrades could take place in early 2025 if the government maintains momentum, which could also help in lowering bond yields.

### Fiscal deficit back to normalized levels in FY24/25

The fiscal deficit came in extremely low at 3.6% of GDP in FY23/24 thanks to the mega investment Ras El Hekma deal which increased non-tax revenue to the budget. However, similar to the external account, we expect a normalization to take place as big-ticket investments fade and more focus is now put on organic, lower-scale FDIs. Furthermore, in FY24/25, the government will be losing a big share of Suez Canal revenues (see below) which will have negative implications on the budget as it represents close to 8% of total tax revenues. However, this could be offset by the interest rate cuts that we expect through the year, reducing the large debt interest burden, while subsidy cuts could reduce spending by 0.6% of GDP this year. We expect the deficit to come in at 8.0% of GDP in FY24/25.

### Geopolitics and high energy costs are key risks

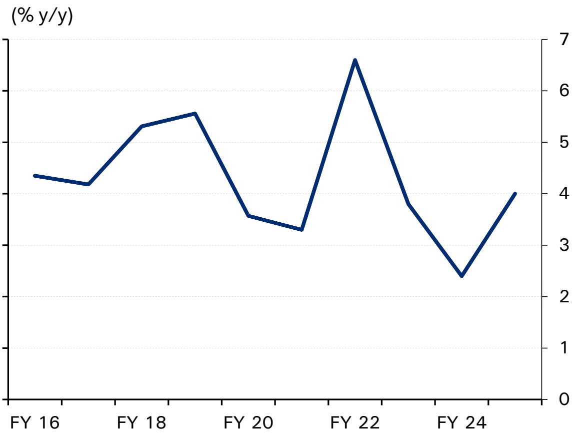
Suez Canal receipts were down 25% y/y in FY23/24 overall and 62% in H2 (Jan-Jun) alone, affected heavily by the geopolitical escalation which caused the diversion of maritime transport away from the canal. If Egypt gets dragged further into the current conflict, one key repercussion could be a shortage of gas imports (Egypt imports 20% of its total gas needs from Israel). This, along with a recent drop in local production, will push up energy import costs significantly. The elongation or expansion of the current war in the region would be a drag on the external sector and Egypt's growth prospects. On the upside, a more favorable global inflation climate could lead to sharper cuts in international interest rates, providing more space for the central bank to follow and boost domestic growth prospects. We also await further progress on human capital-related (i.e. education and healthcare) and business environment improvements in the coming year – key to improving the economy's longer-run growth prospects.

### Table 1: Key economic indicators

| | | FY22/23 | FY23/24 | FY24/25 |
|---|---|---|---|---|
| Nominal GDP | EGP bn | 10,377 | 13,810 | 16,656 |
| Real GDP | % y/y | 3.8 | 2.4 | 4.0 |
| Fiscal balance (FY) | % of GDP | -6.0 | -3.6* | -8.0 |
| Inflation | % y/y | 24.1 | 33.5 | 19.0 |
| Current Account | % of GDP | -1.6 | -6.26 | -4.5 |

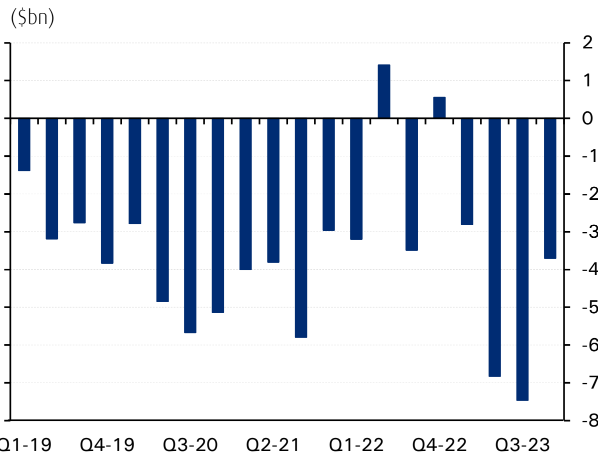
Source: Official sources, NBK forecasts. Fiscal years end in June. *Fiscal deficit shrinks from 8% as per the new agreement whereby the MoF will receive half of the Ras El Hekma deal in local currency.

### Chart 1: Real GDP



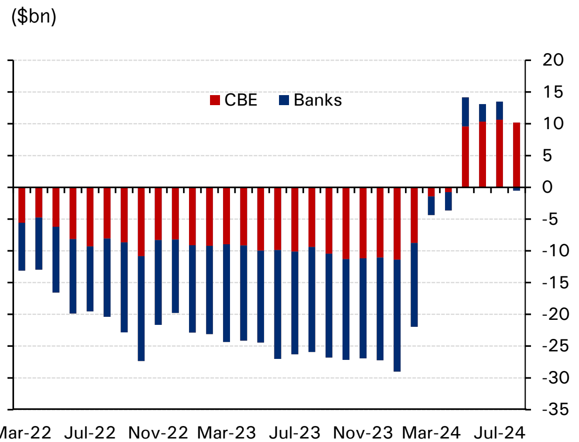

Source: Central Bank of Egypt (CBE), Ministry of Planning, NBK forecasts (FY25 is NBK forecast at 4.0%)

### Chart 2: Current account balance



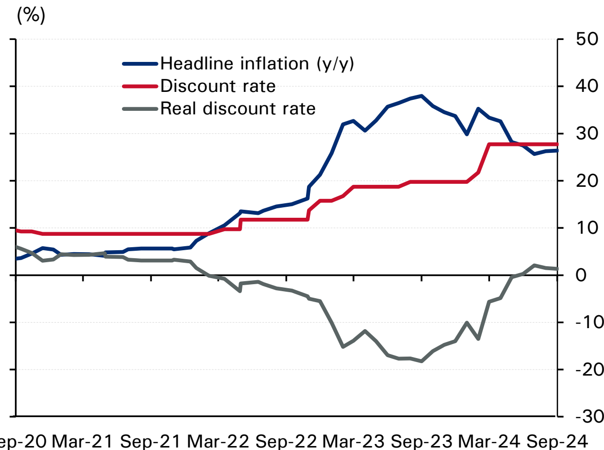

Source: CBE, NBK Forecasts

### Chart 3: Net foreign assets



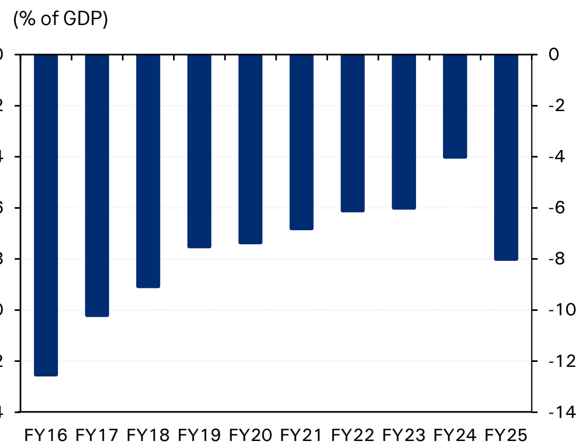

Source: CBE

### Chart 4: Inflation and policy interest rates




Source: CBE, NBK Forecasts

### Chart 5: Fiscal deficit




Source: CBE, NBK Forecasts