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Egypt: The acute economic crisis continues in all sectors

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The acute economic crisis that the Egyptian economy is suffering from is ongoing, with its manifestations clearly evident in all economic sectors that are extremely suffering from absence of production requirements, or their significantly high prices - if any - as a result of the devaluation of the Egyptian pound by nearly 100%, compared to several previous months; and also due to the global inflation wave resulting from the remaining effects of the Covid-19 Pandemic, in addition to the repercussions of the Russian-Ukrainian war; not to forget the chaos of the country's local market and the complete absence of the state's role in monitoring or controlling prices.

First: Continuation of work on roads and bridges despite the government's rationalization plan

It is noteworthy that the roads and bridges sector was not significantly affected by the government's rationalization plan, declared last month, including reduction of operational expenditures in ministries, and limiting spending on some national projects that have not yet entered into force, provided that they have dollar components, until the end of the fiscal year (2023-2022), to end next June – as the decision explicitly states that any new projects that have not entered into force and clearly have dollar components will be postponed.

Meanwhile, the government decision excluded some ministries and their affiliated bodies, namely the ministries of health, interior, defense and foreign affairs, from the new controls, as well as the authorities responsible for securing food and energy supplies. However, relevant ministries and agencies will have 21 days to submit the amended internal spending budgets in accordance with the new controls.

It is clear that the decision's broad wording, in addition to the stipulated exceptions, allowed continuation of work on existing projects; where Kamel Wazir, the Egyptian Minister of Transport, said, "All projects being implemented (whether with a dollar component or not) are all ongoing, and there is no delay in them even for a single day," he said, adding:

"In addition to the fact that the projects implemented by the state are all important and required, they also provide many job opportunities for citizens. However, the projects that have been included in the FY (2022-2023) budget, including a dollar component, will be re-considered again, but they will not be canceled altogether; and if the dollar component of these projects can be provided, they will be completed," Kamel Wazir said.

This reveals the government's general trend that these projects cannot be dispensed with, under the pretext of the job opportunities they may provide. The truth is that the biggest executor of these projects (the army) cannot be removed from implementation of these projects, and at the same time, some of its projects may be sold. In fact, maintaining work in these projects is primarily a way to appease the army, and also because it is the sole engine of the economic wheel at present, being the largest public consumption fuel, in light of the dwindling share of consumption at the household and investment sectors. On the one hand, it provides job opportunities, and secures continuation of some household sector spending; and on the other hand, it manages the remaining economic activities.

Second: False improvement of foreign direct investment

Despite the remarkable improvement of the Egypt's Stock Exchange during the post-latest flotation period (in the last quarter of 2022), due to the price increase in Egyptian pounds after its devaluation, and accordingly the decline in share value if they are denominated in dollars, however the main remark is that Egyptians acquired transactions by 83.4% of the trading value of listed shares since the early 2023, after excluding deals, while foreigners recorded 8.3%, and Arabs 8.3% - where foreigners recorded a net sale of about EGP 938.4 million, and the Arabs a net purchase of about EGP 696 million, on listed shares since the early 2023, after excluding deals.

This indicates lack of incentives to enter the market in general, despite the significant drop in stock prices denominated in dollar; and it also indicates the foreigners' continued exit from the market. At the same time, the Arabs are flocking to the market, awaiting opportunities for the awaited government offerings, where it has become certain that in light of the current low stock prices in valuation of listed companies, the exit plan will be implemented at cheap prices that are not commensurate with the value of these assets, which does not serve the state's goal in the provision of required dollar proceeds from these exits. Also, it is likely that the period of the upcoming offerings will witness fierce competition between various Gulf sovereign funds to seize opportunities to acquire state shares in some companies in different sectors.

In this context, it should be noted that the increase in foreign direct investment by 98% during the first quarter (July / September) of FY 2022/2023 in fact came as a result of the sale of state assets, which led to an increase in investment income payments by $ 815.4 million, to recording about $ 4.8 billion dollars, compared to about $ 4 billion in the previous quarter, which is logical to continue during the coming period amid successive government proposals, but it reflects false figures about foreign direct investment in the country.

Third: External borrowing, the only government solution

Under the foreign exchange crisis, the government's approach relying on searching for new external borrowing sources is still prevailing. Egypt has signed a financing agreement worth $1.5 billion with the International Islamic Trade Finance Corporation, for financing the purchase of basic commodities and energy products. The new loan is distributed between $800 million to the General Petroleum Corporation and $700 million to the Supply Commodities Authority.

It is noteworthy that the government has kept the public debt figures undeclared for nearly two and a half years, and that the external debt figures have not been updated for nearly six months, with continuation of conflict between the Central Bank of Egypt and many international institutions over installments and interest payable during the current year and the coming years.

Fourth: Gas raises total Egyptian exports

With respect to the Egyptian prime minister's remarkable statement about the rise in Egypt's exports in 2022 up to $53.8 billion, compared to $45 billion last year, and that non-oil imports reached $80 billion, it should be noted here that these figures are still only estimates to a great extent. Even assuming they are certain figures, it can be said that this leap mainly came as a result of an increase in oil exports in 2022 up to $18.2 billion compared to $12.9 billion in 2021, a growth rate of 41% on an annual basis.

The boom in petroleum exports came as a result of the record boom in natural gas exports, which amounted to about $8.4 billion, compared to about $3.5 billion in 2021, an increase of 171%, an increase that can be described as largely temporary, especially that it is linked to the rise in gas prices as a result of the Ukrainian war.

That is, Egyptian non-oil exports are still at around $35 billion only, compared to approximately $30 billion in 2021, which means that the increase is approximately 16%, roughly the same as the global inflation rate, in the main markets for Egyptian commodities.

Table: Egyptian economy between December 2022 and February 203, based on government official data:

Statement / Rate	December 2022	February 2023
Inflation	26.5%	31.2%
Exchange Rate	EGP 24 to the dollar in Dec, on average	EGP 24 to the dollar on 31 January
Foreign Exchange Reserves	$34 billion at the end of December	$34.2 billion at the end of January
Purchasing Managers Index (PMI)	47.2 points at the end of December	45.5 points at the end of January
Egyptian Expats' Remittances	July 2022	August 2022
	$2.4 billion	$2.2 billion

Conclusion

In general, it can be said that the economic crisis that Egypt is suffering from is likely to continue in the coming months. Even with the demand for the expected offerings, it is likely to take some time for acquisitions and payments to take place. Even if it is completed, these funds will be immediately transferred abroad to pay off loans, and accordingly, the import bill crisis will remain, which is likely to cast a heavy shadow on the exchange rate and foreign exchange reserves, in addition to disrupting the productive activities and causing further inflation[1].

[1] The views expressed in this article are entirely those of the author's and do not necessarily reflect the views of the Egyptian Institute for Studies