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Report Name: Economic Challenges Continue to Impact the Egyptian Market

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Report Highlights:

Many global events have impacted the Egyptian economy, and as a result, contributed to the devaluation of the Egyptian pound, high inflation, and a lack of foreign currency. Although Egypt had started to recover its tourism industry and economy after COVID-19, the Russian war in Ukraine contributed to the rise in food prices and a lack of forex. As of recent, the Israeli-Hamas crisis further affected Egypt's outlook to heavily source foreign currency from another decline in the tourism industry. With a lack of foreign currency, the International Monetary Fund signed a $3 billion loan program and has voiced a potential increase in the loan due to the economic crisis.

Global Events Effect the Egyptian Market

Global events such as COVID-19, the Russian war in Ukraine, and the Israeli-Hamas crisis have collectively effected Egypt's economy - resulting in the devaluation of the Egyptian pound, high inflation, and most importantly for trade, a lack of foreign currency for imports.

Russia's invasion of Ukraine disrupted the international market for wheat trade, as both countries account for nearly 30 percent of global wheat exports and are important suppliers to the Middle East and North Africa. As Egypt began to recover from the effects of COVID-19, high wheat and vegetable oil prices started to rise again due to the onset of the Russian war in Ukraine in early 2022. According to the Food and Agriculture Organization's Food Price Index (FPI) (which measures the monthly change in international food prices), the FPI averaged 143.7 points in 2022, up 14.3 percent from 2021 (the highest recorded since 1990). More importantly for Egypt, wheat prices spiked to an average of 56.2 percent above their value in 2021.[1]

Due to the increase in wheat prices because of the Russian war in Ukraine, the Egyptian government doubled its budget for wheat purchases to $6 billion in 2023. The Russian invasion also caused domestic food prices to skyrocket and restricted the availability of foreign currency for imports - further harming access to raw feed materials such as soybeans. Additionally, the foreign currency crunch was exacerbated by a decrease in tourism, as Egypt is heavily reliant upon tourism for U.S. dollars. Before the Russian war in Ukraine, Russians and Ukrainians represented a large percentage of tourists, and with the ongoing Israeli-Hamas crisis, tourism has further declined.

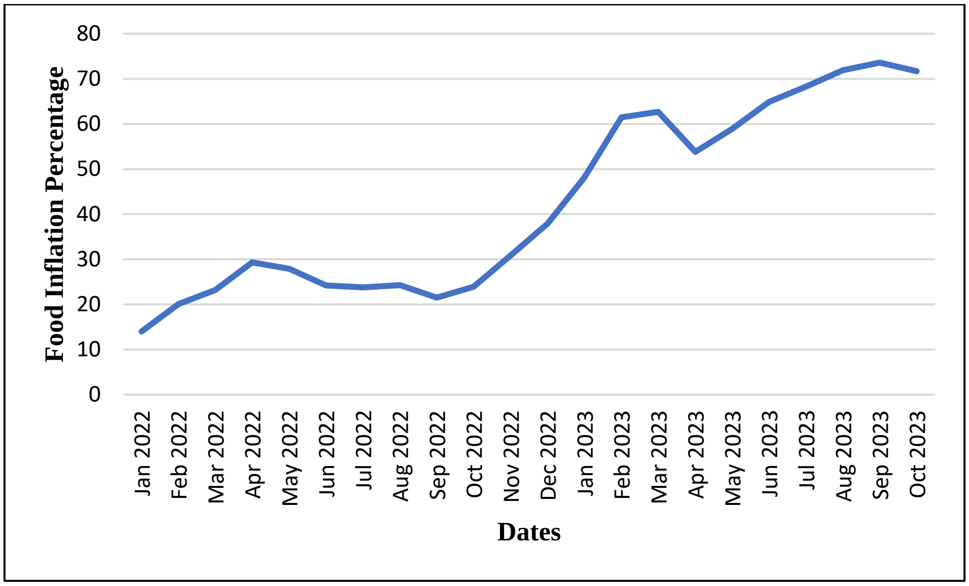
Lastly, other global factors have threatened Egypt's ability to import agricultural commodities such as: an increased demand of agricultural imports led by China; reduced supplies due to drought; tightened supplies of wheat, corn, and soybeans from major exporting countries; high energy prices which increased prices for fertilizers, transportation, and agricultural production; and countries imposing export bans of some agricultural products.

Inflationary Pressures on the Egyptian Market

Since early 2022, the lack of foreign currency has led to a slowdown in overall imports and a backlog of commodities stuck at port. The backlog of shipments caused significant hikes in food prices. At the end of October 2023, Egypt's Central Bank reported annual inflation at 35.6 percent - primarily driven by a 71.7 percent increase in food prices compared to October 2022 (Figure 1). The World Bank also reported Egypt as the top country in the world for real food inflation and fifth for nominal food inflation (See Table 1 and Figures 2 and 3).

[1] https://www.fao.org/worldfoodsituation/foodpricesindex/en/

Figure 1: Food Inflation (Year/Year)



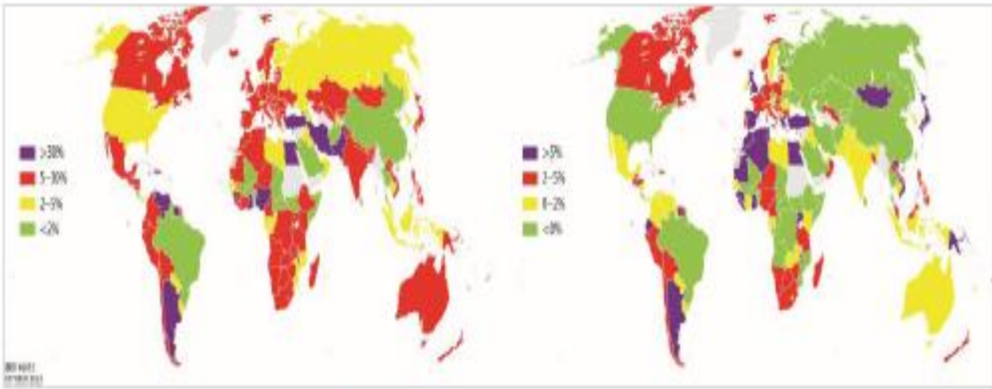
Source: Central Agency for Public Mobilization and Statistics (CAPMAS)

Table 1: Global Food Price Inflation (Top 10 List)

Country	Nominal Food Inflation (%YoY)	Country	Real Food Inflation (%YoY)
Venezuela	318	Egypt	36
Lebanon	239	Lebanon	31
Argentina	150	Rwanda	15
Turkey	76	Turkey	14
Egypt	74	Argentina	12
Suriname	65	Sierra Leone	12
Sierra Leone	63	Ghana	11
Ghana	49	Suriname	11
Haiti	38	Bahrain	9
Iran	37	Netherlands	9

Source: The World Bank

Figures 2: Food Inflation Heat Map **Figure 3: Real Food Inflation Heat Map**



Source: International Monetary Fund, Haver Analytics, and Trading Economics.
Note: Food inflation for each country is based on the latest month from June 2023 to September 2023 for which the food component of the Consumer Price Index (CPI) and overall CPI data are available. Real food inflation is defined as food inflation minus overall inflation.

Forex Issues Impede Agricultural Imports

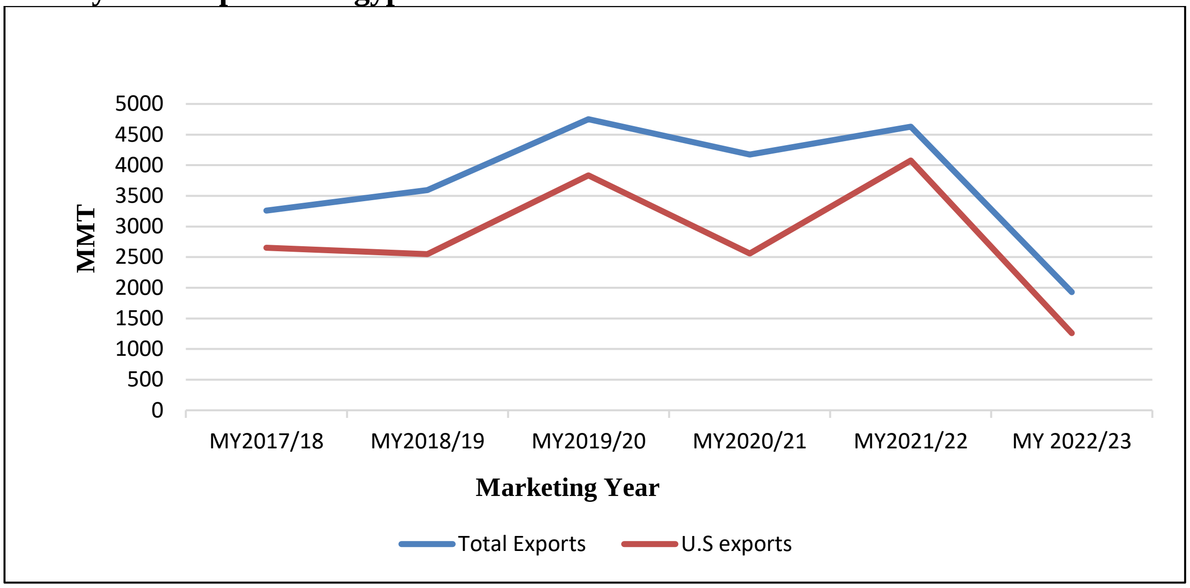
More than inflation, the lack of foreign currency continues to be the main issue hindering business in Egypt. It has caused some companies to leave the market entirely. In the past year, the Egyptian pound has depreciated by more than 50 percent. The Russian war in Ukraine further strained the availability of the U.S. dollar, as roughly $25 billion of currency left the country during the invasion of Ukraine.[2]

Egypt's imports of all agricultural commodities fell by 17.8 percent from January-September 2023, compared to the same period in 2022, and U.S. soy exports to Egypt declined by 69.1 percent from 2021 (Figure 4). As soybeans are the largest U.S. agricultural export to Egypt (averaging around $1-$2 billion each year), the lack of U.S. dollars was the primary reason for a decline in U.S. soybean exports to Egypt in marketing year (MY) 2022/23, compared to the previous marketing year. FAS/Cairo forecasts a decline in U.S. exports of soybeans by 60-75 percent for MY 2023/24 due to the continuing foreign currency crunch.

Despite relatively high prices, Egypt still has preference for U.S. soybeans due to their high quality. However, the U.S. soybean crop is expected to be smaller in the coming year, and with a record production forecasted for South America, Egyptian buyers could potentially opt for price over quality if trade continues to be difficult due to a lack of forex.

[2] https://english.ahram.org.eg/News/484501.aspx

Figure 4: Soybean Exports to Egypt



Source: Trade Data Monitor LLC

Impact on Consumption

Although the rate of inflation has slowed, food inflation reached 71 percent year-on-year, according to the Central Agency for Public Mobilization and Statistics (CAPMAS). Consequently, consumers will continue to lose purchasing power and will focus on basic commodities until there is a significant reduction in food inflation. Households will most likely limit their food spending in real terms and will focus much more on staples, such as bread and rice (in which their consumption is expected to increase by almost 3-5 percent).

According to CAMPAS, 88.5 percent of Egyptian families use the country's food subsidy system. In recent years, the government introduced several reforms to make the system more efficient and to try to maintain Egypt's consumption patterns. According to the World Economic Outlook report, the IMF anticipates that consumer prices in Egypt will reach 35.7 percent 2022/2023, followed by a decrease to 25.9 percent in 2023/2024, if forex availability is increased.[3]

Market Assessments for the Future

With the lack of forex available, the IMF approved a $3 billion loan on December 16, 2022, which was set to be reviewed bi-annually until mid-September 2026. However, the IMF has delayed its review until Egypt can meets its terms. During COP-28, the IMF noted that they expected an increase in the loan program due to ongoing challenges.[4]

[3] https://www.businesstodayegypt.com/Article/1/3209/IMF-adjusts-Egypt-s-growth-forecasts-4-2-for-2022#:~:text=It%20now%20anticipates%20a%20growth,projection%20of%204.1%25%20in%20July
[4] https://www.zawya.com/en/economy/north-africa/egypts-central-bank-chief-meets-imf-head-at-cop28-loan-boost-expected-ox9q5q1j

In October 2023, credit rating agencies such as S&P, Moody's, and Fitch downgraded Egypt's credit rating. According to business media sources, several finance experts indicated that there may not be another round of devaluation, unless the Central Bank of Egypt has already secured sufficient foreign-exchange buffers beforehand. According to Fitch, the Central Bank of Egypt will allow the currency to weaken at the same time as securing capital inflows. Fitch also anticipates that Egypt will be able to cover its external financing needs of about $18.7 billion in fiscal year (FY) 2023/24 (current account deficit of $8.7 billion and $10 billion in external obligations) mostly from foreign direct investment, multilateral funding, and some debt issuance. At the same time, Fitch expects the fiscal deficit to widen to 8 percent of gross domestic product in FY 2023/24, due to rising interest payments and higher subsidy spending.

Despite the downgrade of Egypt's credit rating, recovery is possible. It is dependent on progress with the IMF, and a potential rebound in tourism. An injection of foreign currency could significantly ease access to raw materials and the flow of imports.

Attachments:

No Attachments.