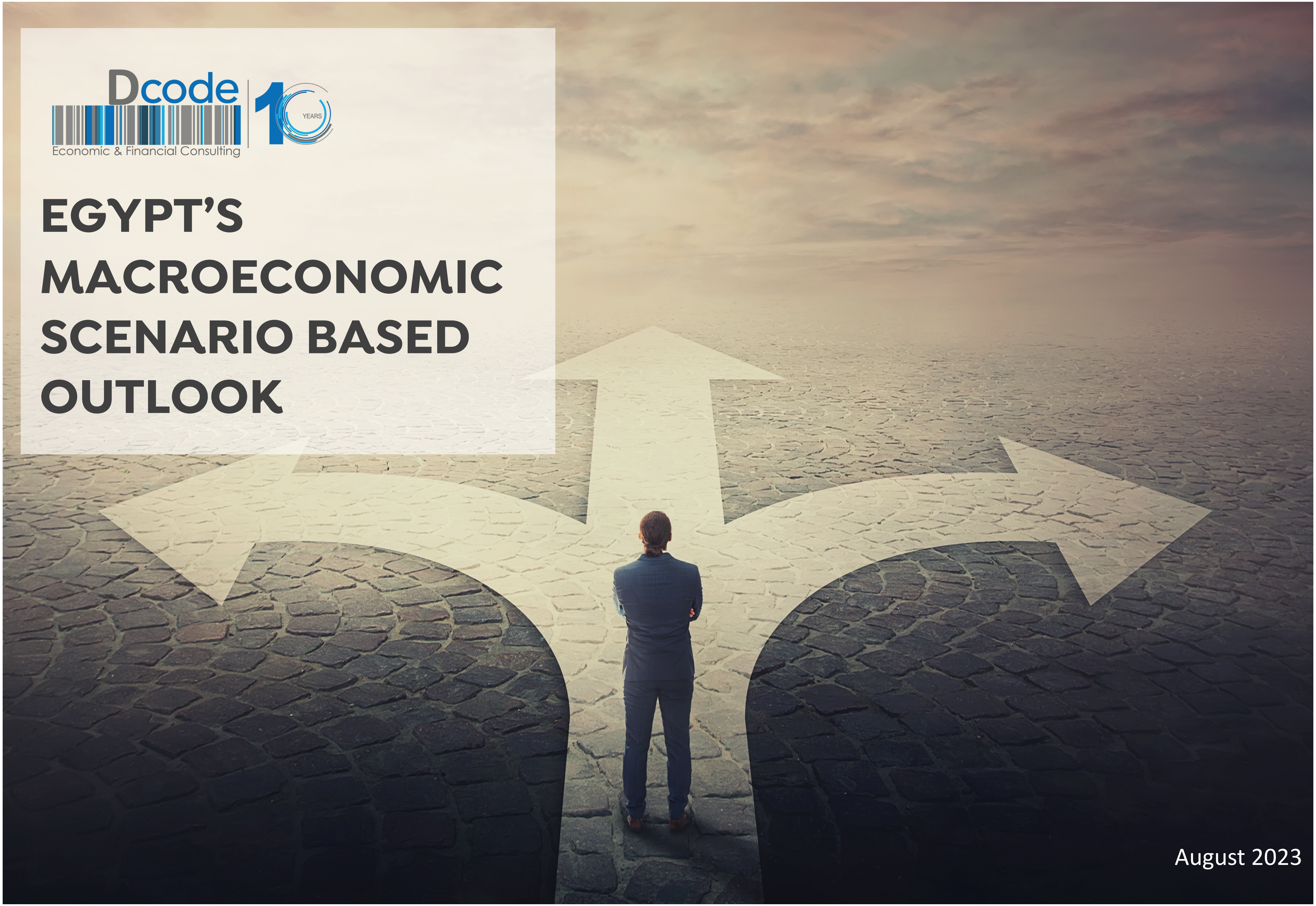
EGYPT'S MACROECONOMIC SCENARIO BASED OUTLOOK



August 2023

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PREFACE

- The last two years were eventful on the global economic and political fronts. This has rippled into the Egyptian economy exposing its vulnerability hence impacting FX liquidity, inflation rates, interest rates, and foreign debt, to name a few. Those changing factors will continue to unfold (locally and globally) in the coming 18 months, with different possible trajectories for the Egyptian economy.

- Thus, in this exceptional issue, we are introducing a “Scenario Based Outlook”, where we analyze three different economic scenarios to show the potential paths that could take place within such uncertainty.

  i. **SCENARIO 1 | STAYING AFLOAT**: assumes no bold changes in economic policy with the government trying to keep the socio-economic status afloat, for as long as they can afford.

  i. **SCENARIO 2 | THE TRADE-OFF**: assumes prioritization of social and political stability on the short-term, along with a preponed Presidential Elections, trading off economic performance on the short and medium terms.

  ii. **SCENARION 3 | POLICY CHANGE:** immediate change of government with unrestrained mandate, aimed at regaining the trust of the Egyptians and International Community, through a sound and progressive economic policy.

- Within the forecasting period, other possible significant global, regional or local changes could impact our input assumptions, with possible upward or downward risks. Examples are the conclusion of the Russia Ukraine war, an extended GCC support to Egypt (additional deposits or accelerated FDIs) to support stability, changes to the presidential elections timing and/or expected outcome, among others. However, those factors were not considered in our scenario-based outlook, given they are less likely to materialize.

- We hope this issue aids your business planning process, and provide better visibility on the short term. We continue to monitor the developments closely and would revise our outlook following actual developments and economic cues.

SUMMARY OF SCENARIOS' ASSUMPTIONS

Assumptions	Scenario-1: Staying Afloat	Scenario-2: The Trade-Off	Scenario-3: Policy Change
Common Assumptions (Global & Local)	**Global Assumptions:** ▪ Russia – Ukraine war and geopolitical tensions to continue until the end of 2024. ▪ Global growth and trade to stay subdued ▪ Interest rates in advanced economies to remain elevated and not decline before Q1 2024 ▪ Non-oil global commodity prices to continue normalizing but are heavily prone to shocks ▪ while oil prices to continue witnessing volatility	**Local Assumptions:** ▪ Natural gas exports to decline in FY 2023/24 ▪ Tourism to fully recover in 2023 and 2024 to even exceed pre-pandemic levels while Suez Canal revenues to continue rising. ▪ Public investments to continue being muted	
Main Scenarios' Assumptions	*Maintaining the situation as is, with non-drastic and minimal interventions that keeps public sentiment at its current status.* ▪ An exchange rate step-devaluation to occur during early Q4 2023, that will be followed by another step-devaluation in Q2 2024. ▪ Continuation of the IMF program. ▪ Moody's pending rating downgrade to be avoided. ▪ Asset Sale program (led by GCC acquisitions) to witness moderate progress until the end of 2024. ▪ Workers' remittances to remain subdued. ▪ Foreign portfolio investors to remain largely distant from the local debt market until end 2024. ▪ International bond markets to remain highly inaccessible. ▪ FX supply shortages and parallel market to remain in place until the end of 2024. ▪ Administrative controls on imports will continue to be significant until end 2024. ▪ Non-petroleum exports to stay below targets. ▪ Slow progress regarding energy and food subsidies reforms.	*Aiming for improving clarity and signaling political stability, the Presidential elections to be brought forward to Q4 2023. This entails trading-off economic growth in the long-term for social and political stability in the short-term.* ▪ Authorities will fix the exchange rate until the end of the year and until the presidential elections are done before making a bigger step-devaluation in Q1 2024 with the aim of easing the mounting pressures on the currency and the imbalances arising from the delayed decision. ▪ A downgrade by Moody's to happen in Q4 2023 while the IMF deal to be resumed in Q1 2024 ▪ Asset-Sale Program (led by GCC acquisitions) to witness very slow progress until the end of 2023 but shall pick up moderately in 2024. ▪ Workers' remittances to decline sharply in H2 2023 while remaining subdued in 2024 ▪ Foreign portfolio investors to remain largely distant from the local debt market until end 2024. ▪ International bond markets to become severely inaccessible ▪ FX supply shortages to intensify until the end of 2023, marginally improving in 2024, with the parallel market to remain in place throughout the upcoming 1.5 years ▪ Administrative controls on imports to tighten sharply until the end of 2023, albeit loosening moderately following the steep devaluation in Q1 2024 ▪ non-petroleum exports to stay below targets ▪ Slow progress regarding energy and food subsidies reforms	*An immediate progressive change within the Government with unrestrained mandate, all aimed to regain the trust through sound economic policy. To be followed by Presidential elections as originally planned in Q1 2024.* ▪ An exchange rate step-devaluation to occur during early Q4 2023 (supported by some increase in FX liquidity from a strong tourism season and sale of state-owned assets). That will be followed by a relatively flexible exchange rate regime with the central bank only intervening afterwards in case of excessive volatility ▪ No more delays regarding the IMF program ▪ Moody's rating downgrade to be avoided. ▪ Asset-Sale Program (led by GCC acquisitions) to witness moderate progress until the end of 2023 and to pick up significantly in 2024. ▪ Workers' remittances to recover gradually and to achieve in 2024 the highs witnessed prior to the Russia-Ukraine war ▪ International bond markets to remain very costly due to elevated interest rates but risk premiums/insurance to decline ▪ FX supply shortages to remain in place until the end of 2023, but the FX picture will gradually get better throughout 2024, accompanied by a gradual disappearance of the FX parallel market. ▪ Continuation of energy and food subsidies reforms starting 2024

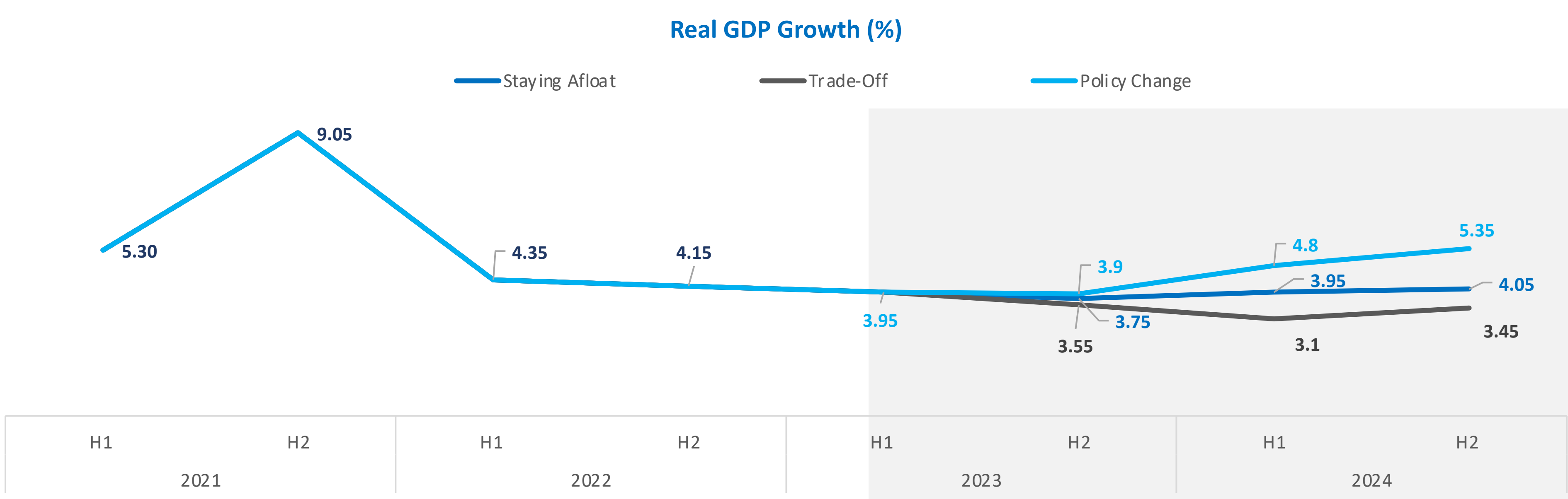
SUMMARY OF SCENARIOS' RESULTS

Main Indicators	Unit	Scenario-1: Staying Afloat		Scenario-2: The Trade-Off		Scenario-3: Policy Change	
		Q4 2023	Q4 2024	Q4 2023	Q4 2024	Q4 2023	Q4 2024
Real GDP Growth	% (Demand Side)	3.7	4.0	3.3	3.6	4.0	5.5
EGP/USD	Mid Official Rate End of Quarter	35	39.9	30.9	41	38	40
EGP/USD	Mid **Parallel*** Rate End of Quarter	41	44	43	48	40	N/A**
Annual Headline Inflation	% End of Quarter	31	20	28	23	35	16
Overnight Lending Rate	% End of Quarter	22.25	24.25	22.25	27.25	22.25	23.25

*Dcode EFC did not report on projections for the parallel market in previous issues, given that it is highly speculative and involves various variables that makes it difficult to have definitive rates. However, in this issue with the various scenarios, it was deemed important to capture the trend in the parallel market, since the first two scenarios in particular have the assumption that the parallel market will not be cleared.
** In this scenario it is assumed that the parallel market will be fully cleared by Q2 2024.

Full Comparison Charts on Page 36

Sample:



GLOBAL ECONOMIC BACKDROP

GLOBAL ECONOMIC BACKDROP: STABLE BUT RISKS REMAIN

- Global growth has proved resilient in 2022 in the face of food and energy price shocks and supply chain disruptions on the back of Russia-Ukraine war, and the IMF estimates that the global economy grew by 3.5%. Global growth is also projected to witness a moderate deceleration in 2023 and 2024 to be 3% annually. Variations among advanced and developing economies' growth rates are projected to widen further in 2023 and 2024 with developed countries to witness subdued economic activity while developing markets growth expected to be relatively stable.

- On a country basis, major economies are faring differently. According to the IMF, the **U.S.** economy is projected to grow by weak rates in the current and next years compared to 2022 despite provisional data pointing to solid annual growth in Q1 2023 (1.8%) and Q2 2023 (2.6%). **Euro area** growth is expected to weaken sharply in 2023 before slightly recovering in 2024, with provisional estimates point to weakening annual growth in Q1 2023 (1.1%) and Q2 2023 (0.6%). **Germany** is the only advanced economy projected by the IMF to shrink in 2023 (-0.3%) driven by weakness in the manufacturing output. **U.K.**, however, is projected to narrowly avoid a recession in 2023 before slightly expanding during next year. On the other hand, **China's** recovery (which is still below expectations) is expected by the IMF to boost its GDP growth to 5.2% in 2023 (above the national target of 5%) before decelerating moderately next year.

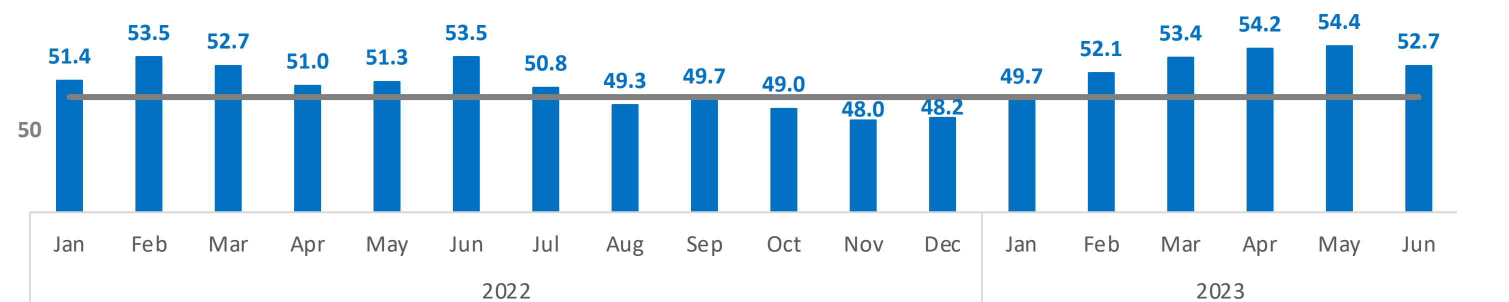
- Along the same lines, the J.P. Morgan Global Composite PMI point out to enhanced activity in H1 2023 after the sharp slowdown during H2 2022 primarily driven by the growth in the services sector activity while the manufacturing recovery is still volatile, amid the recent contraction by the end of Q2 2023. Global employment tracked by the index also showed robust performance driven as well by the job creation in the services sector relative to manufacturing.

- Global trade value in goods and services rebounded in Q1 2023, increasing by about 2% on a quarterly basis, and following the decline in H2 2022. The increase in goods trade was driven by the re-opening of economic activity in China and despite the easing of energy prices while trade in services remained resilient throughout 2022 and increased by 2.8% (Q-o-Q) in Q1 2023 partly due to the rebound in tourism following the pandemic. However, the IMF projects a significant slowdown in world trade volume of goods and services in 2023 to record only 2%, down from 5.2% in 2022, before rebounding to 3.7% next year.

Overall, risks to global economic activity and trade outlook are still tilted to the downside with significant risks still present including persistent inflation levels (especially core measures), geopolitical tensions, sovereign debt distress for several developing economies, and risks related to financial market turbulence as interest rates in advanced economies set to stay elevated for a longer period of time.

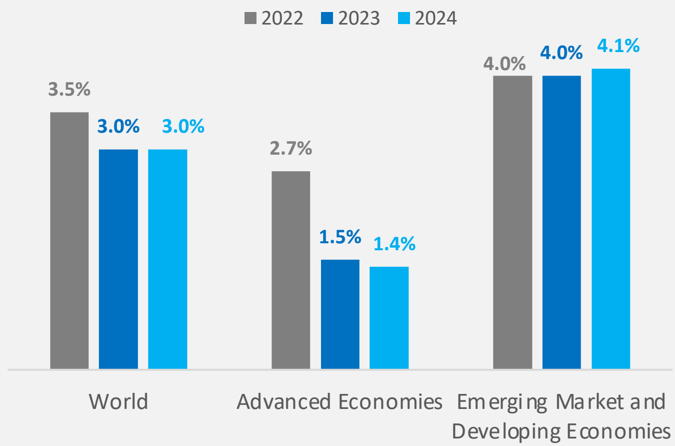
J.P.Morgan Global Composite Purchasing Managers' Index (PMI)

Below 50 = Contraction

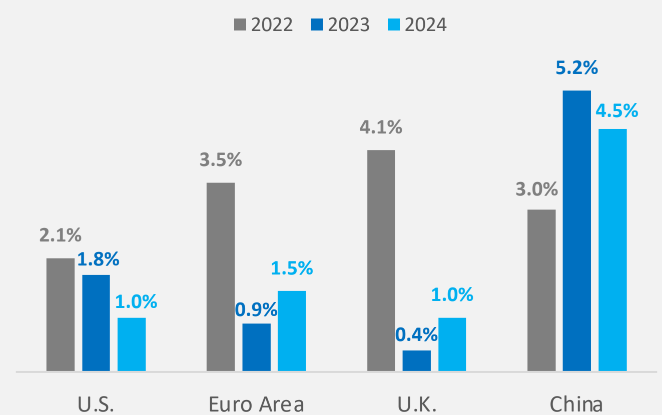


Sources: IMF, S&P Global, J.P. Morgan & UNCTAD Global Trade Update (June 2023)

IMF Real GDP Growth Projections



IMF Real GDP Growth Projections



Source: IMF WEO (July 2023 update)

GLOBAL ECONOMIC BACKDROP: INFLATION NOT DONE YET

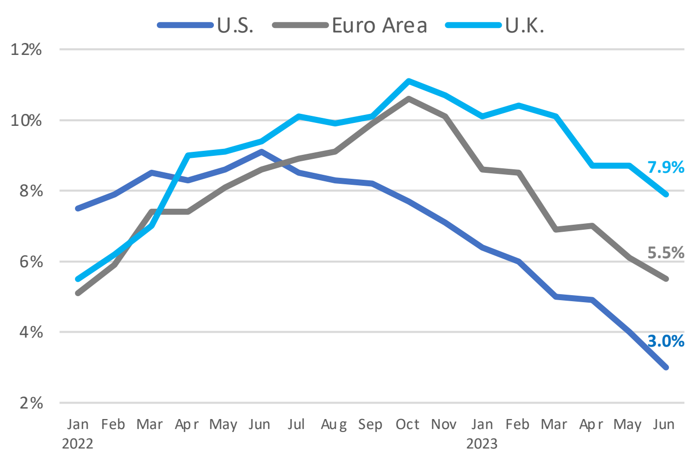
- The Russia-Ukraine war has triggered significant spikes in prices of most commodities throughout 2022 - particularly food and energy products - as both countries are major commodities' suppliers. But as the world absorbs such external shocks and countries find alternative suppliers, several commodity prices started normalizing again by the end of 2022. That was also supported by milder winter that brought down natural gas prices from the highs witnessed by mid last year.

- However, the recent OPEC+ decisions has pushed oil prices back above the USD 80 per barrel mark. Saudi Arabia announced the extension of the current voluntary cut of one million barrels per day (bpd) into September 2023 (while signaling that the cut might be extended further or even deepened) with Russia announcing a cut to its oil exports by 300,000 bpd into September as well that essentially brings the total pledged cuts by OPEC+ to over 5 million bpd since October 2022.
- Additionally, climate risks affecting agricultural crops throughout the world are also mounting the pressure on some commodity prices such as rice and sugar (see first chart) with several countries now imposing export bans on strategic commodities to prioritize domestic consumption (ex: India imposing export ban on non-basmati white rice). Moreover, the recent halting of the UN-brokered Black Sea Grain Initiative mounts additional upside pressure on food prices, especially corn and wheat..

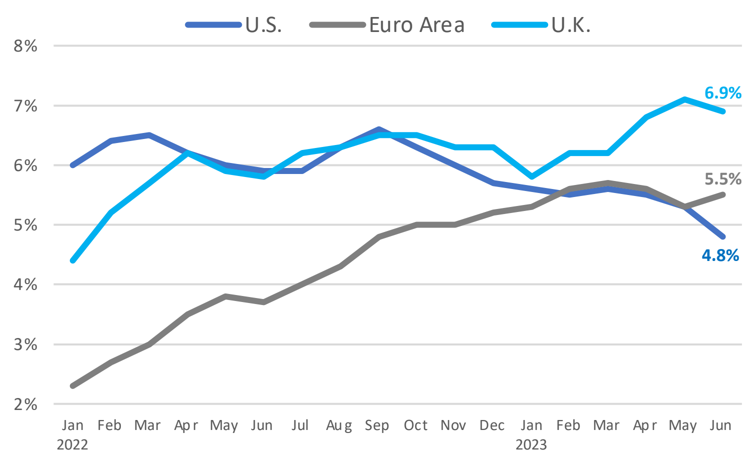
Accordingly, risks are presently noticeable and material for a re-acceleration of several commodity prices

- On a country basis, annual headline inflation levels which reached decades-highs in advanced economies by mid-2022 declined gradually on the back of lower food and energy prices, though still relatively elevated and above the 2% target. On the other hand, the underlying inflationary pressures are still strong as seen in the annual core inflation in advanced economies that remains stickier (and even temporarily accelerating as in the Euro area), further suggesting that the fight against inflation is not done yet and likely pushing policymakers to continue (or at least maintain) their current monetary tightening cycle, weighing further on already subdued economic activity and trade.

Annual Headline Inflation

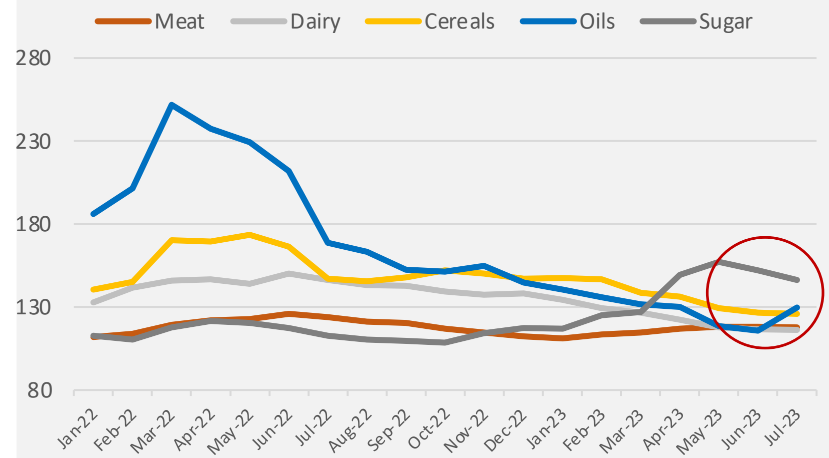


Annual Core Inflation

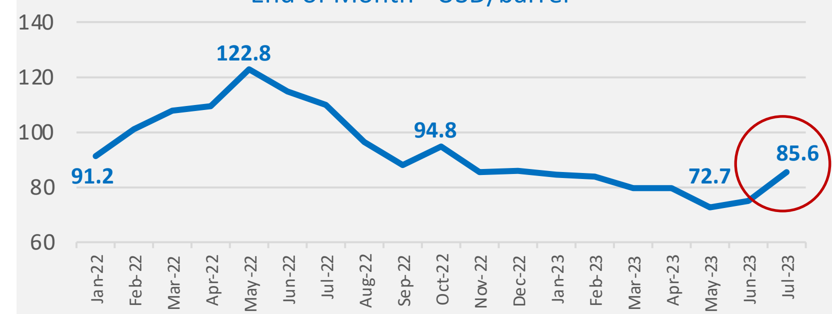


Sources: U.S. BLS, Eurostat & U.K. ONS

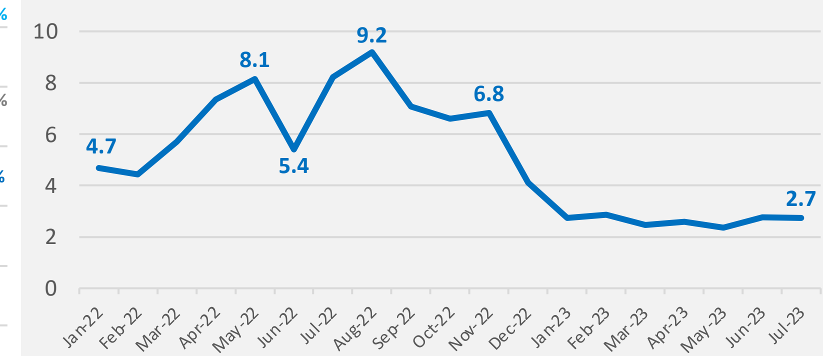
Food Price Indices
2014-2016 = 100



Brent Crude Price
End of Month - USD/barrel



U.S. Natural Gas Price
End of Month - USD/MMBtu



Note: Brent crude and natural gas price futures (Oct 23)
Sources: FAO & Investing.com

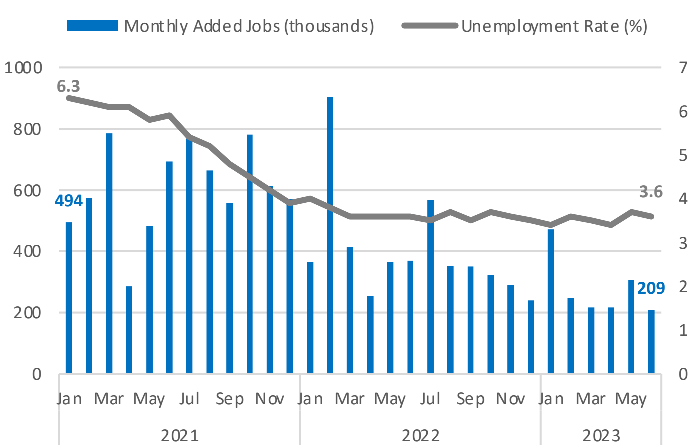
GLOBAL ECONOMIC BACKDROP: ELEVATED RATES FOR LONGER TIME

- Despite the monetary tightening cycle underway in advanced economies for more than a year (which has been the strictest since the 2008 global financial crisis for the U.K. and since the start of the century for U.S. and the Euro Area), the **fight against inflation is not won yet** as clearly stated by policymakers especially on the back of sticky core inflation and clear risks of price increases for several food and energy products. Markets are betting that the end of the current tightening cycle (especially in U.S. and Euro Area) has come after the latest policy rates increases in July and August 2023, though the relatively tight labor market, solid wage growth, and risks to further price increases could push central banks in advanced economies for further (yet marginal) rate hikes during the rest of 2023.

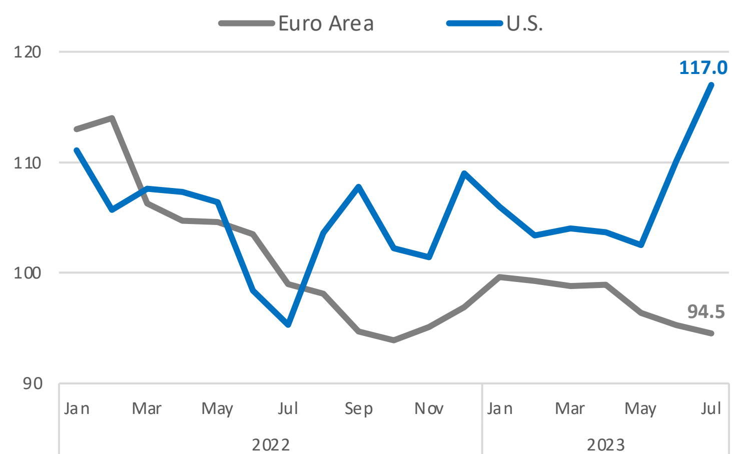
All in all, it is considerably clear (and as policymakers pointed) that elevated interest rates will have to stay for longer periods than previously expected with the easing of the monetary stance likely not happening before Q1 2024 subject to incoming data.

- Despite the cooling of the labor market in U.S. lately, the latest figures are still strong compared to the long-term trend, coupled with solid growth in GDP in H1 2023, the Fed will likely have more room to further fight inflation (if necessary) while maintaining the "soft landing" goal. Recent credit rating downgrade for U.S. by Fitch will also likely have minimal impact on the macroeconomy on the short-term. However, growth in Euro Area and U.K. is very thin as latest figures indicate while their inflation levels are much higher from targets (almost four times the 2% target in U.K.) suggesting that the upcoming trajectory of interest rates in Europe will face a harder economic tradeoff than in U.S. That is also seen in the subdued economic sentiment in the Euro Area compared to U.S. where consumers are more optimistic about the short-term outlook for business conditions, labor market that continuously outperforms, and households' financial health supported by declining inflation.

U.S. Labor Market Indicators

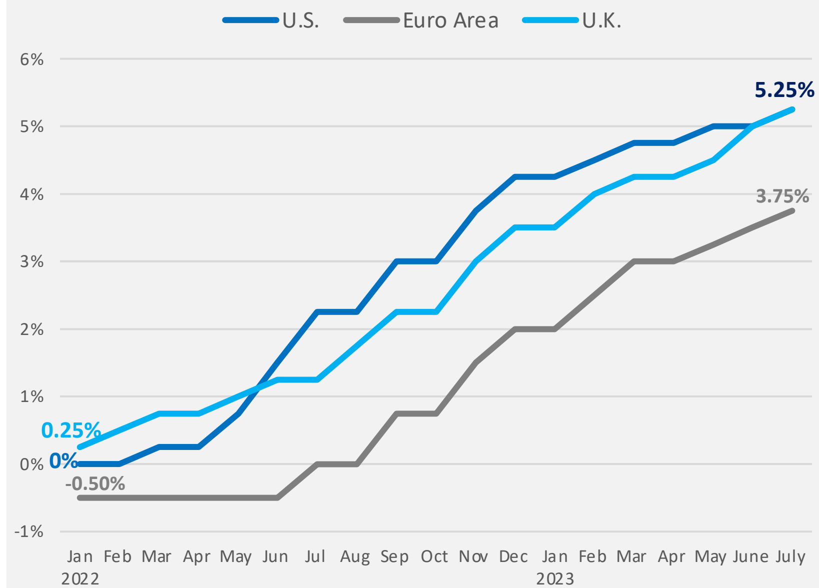


Economic Sentiment Indices



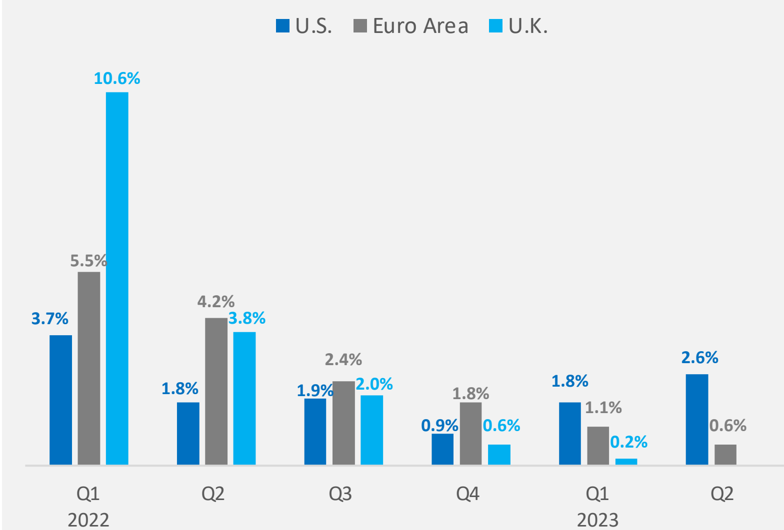
Note: Euro Area -> Economic Sentiment Indicator (ESI) – above 100 = above average economic sentiment
U.S. -> Conference Board Consumer Confidence Index (1985 = 100)
Sources: U.S. BLS, Eurostat & MacroMicro

Key Interest Rates in Selected Countries



Note: U.S. -> lower limit of the Federal Funds Rate
U.K. -> Official Bank Rate
ECB -> Deposit Facility Rate
Sources: U.S. Fed, U.K. Bank of England & ECB

Y-o-Y Real GDP Growth



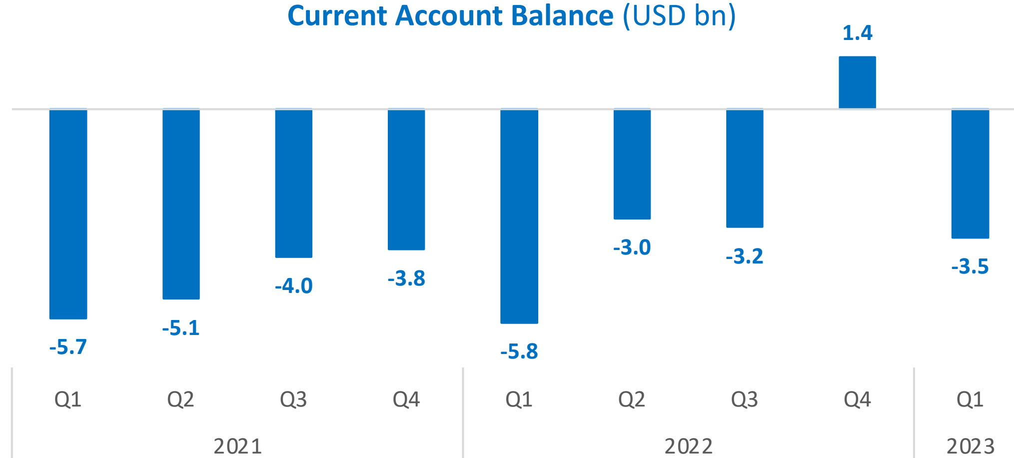
Sources: U.S. BEA, Eurostat & U.K. ONS

EGYPT'S ECONOMIC STATUS

EXTERNAL SECTOR: STRUCTURAL DEFICIT TOO LARGE FOR IMPORT RESTRICTIONS ALONE

Egypt's external sector has been long suffering from a structural current account deficit over the years. Such deficit has widened significantly in 2021 to reach USD -18.6 bn compared to USD -14.2 bn in 2020 during the peak of the pandemic. The structural deficit was supported by a fixed exchange rate regime (overvalued currency) and the availability of external borrowing, particularly from foreign portfolio investors who enjoyed Egypt's high real yield on its local debt instruments (T-Bills and T-Bonds) that provided a solution for such deficit to remain and even grow. The current account deficit became very explicit following the Russia-Ukraine war due to high global commodity prices inflating the import bill along with the outflow of hot money and limited external borrowing available to bridge that deficit, all exposing Egypt's structural vulnerability. That led the exchange rate to adjust sharply (halving in value) to narrow the gap, net international reserves to decline significantly, and access to FX became increasingly restricted leading to high imports backlog at ports. Such measures led to the decline in the current account deficit in 2022 (USD -10.5 bn) and even turned surplus in the last quarter (the first time since Q1 2014) on the back of FX shortage leading to reduced non-petroleum imports coupled with rising natural gas exports and tourism rebound. Nevertheless, the current account turned negative again in the following quarter with widened trade deficit and an uptick in investment income payments on external debt and FDI earnings in Egypt.

Current Account Balance (USD bn)

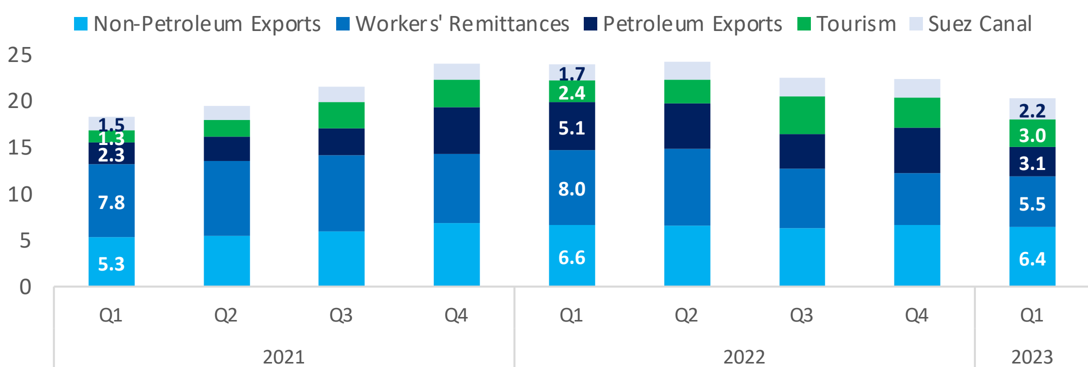


On an account basis, positive performances have been witnessed regarding tourism and Suez Canal over the last year supported by currency depreciation and higher tolls, respectively, while the reduction in non-petroleum imports (despite negatively impacting the economy, increasing inflation given the limited supply, and slowing industry production given the unavailability of raw materials and hence affecting exports) is narrowing the trade deficit. That was also helped by rising petroleum exports over the last year (44% annual increase) mainly due to natural gas exports, but the momentum is decreasing. Lower global gas prices, declining local natural gas production, and increasing domestic consumption pose considerable downside risks to Egypt's gas exports which more than halved during the first 5 months of 2023, compared to the same period in previous year. Non-petroleum exports also remain subdued and below targets, declining by 11% annually during Jan – May 2023 on the back of shortage of raw materials and intermediate products resulting from restricted imports.

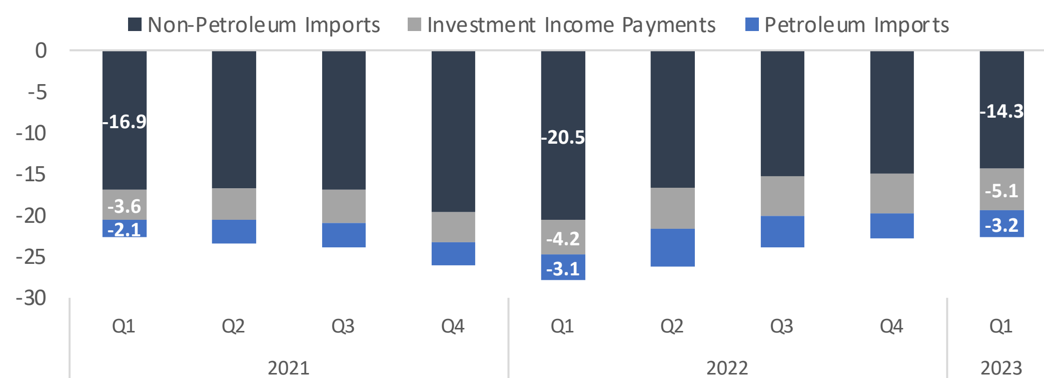
Workers' remittances declined heavily in 2022 by 10% compared to previous year and by almost third in Q1 2023 on annual basis as remittances continue to be increasingly channeled to the FX parallel market that provide around 25% premium over official rates. Additionally, rising external debt interest payments continue to pose negative headwinds to the current account deficit.

Overall, while the current account deficit was successfully narrowed from the high of 2021, it remains still significant considering the limited external financing sources available/feasible, with any further narrowing only possible through a change in the macroeconomic landscape rather than regulations.

Main Current Account Receipts (USD bn)

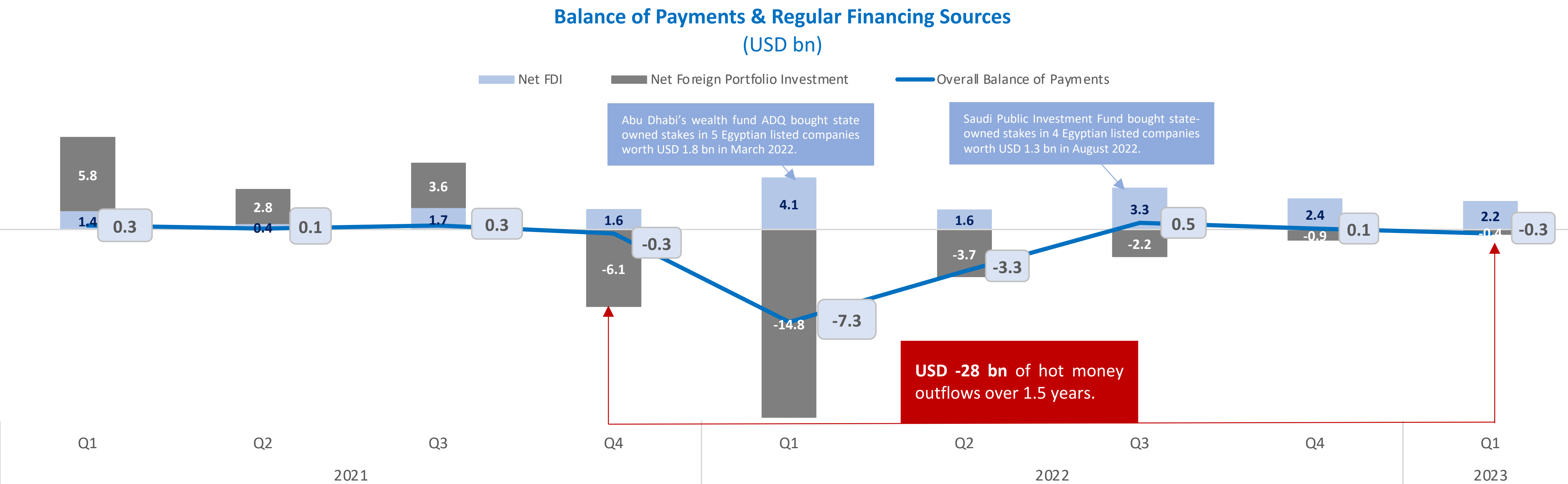


Main Current Account Payments (USD bn)

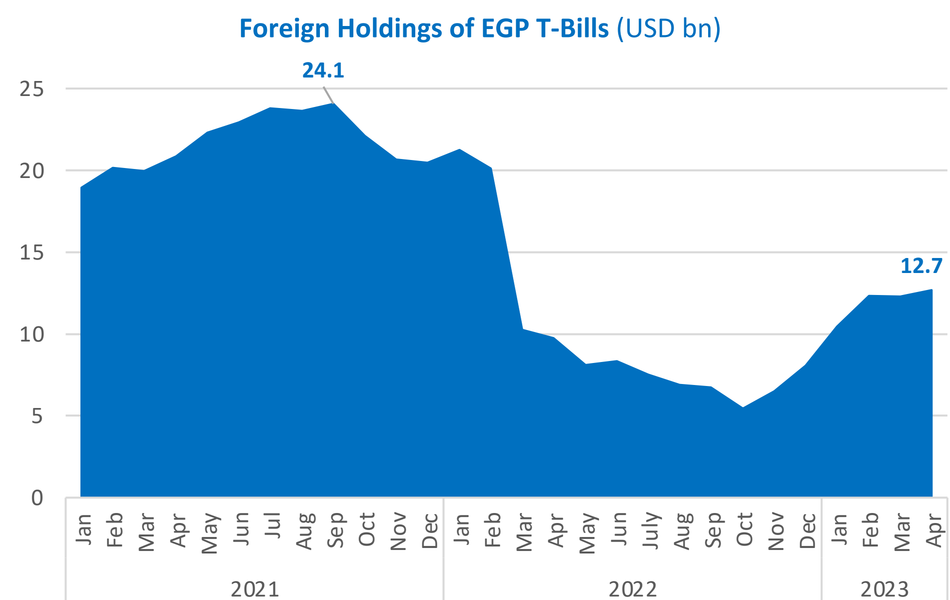


Sources: CBE & CAPMAS

EXTERNAL SECTOR: DRYING EXTERNAL FINANCING SOURCES



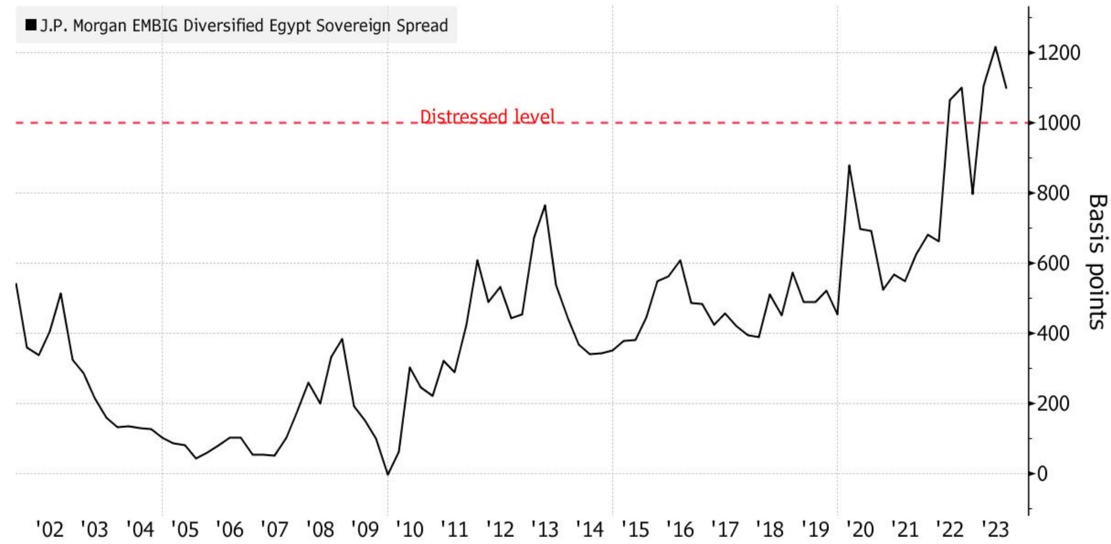
In order to bridge the structural current account deficit over the years, Egypt relied heavily on foreign portfolio investment inflows in its local debt instruments (T-Bills and T-Bonds) thanks to one of the highest real interest rates in the world and a fixed exchange rate regime. On the other hand, the more sustainable Foreign Direct Investment inflows remained very modest (even compared to regional peers) and was far from being able to help bridge the structural external deficit. Accordingly, when Russia-Ukraine war started and foreign investors sentiment towards emerging markets declined sharply (in addition to higher interest rates in advanced economies), Egypt witnessed around USD -28 bn of "hot money" outflows over the course of 1.5 years that hit hard its vulnerable external sector and put significant pressure on its currency. As a result, the government re-focused on the privatization program of state-owned assets by announcing a plan to sell stakes in 32 state-owned companies in February 2023, that was later increased to around 40 companies. Recently, the cabinet announced the successful completion of deals worth USD 1.9 bn (USD 1.65 bn of which in fresh FX from abroad), still marginally short from the USD 2 bn target by June 2023 agreed on with the IMF. Last year as well, the government completed sales of state-owned assets to UAE and Saudi Arabia sovereign funds in March and August 2022 worth combined around USD 3.1 bn. However, since then, investments/acquisitions from GCC countries have been muted (apart from USD 800 mn recent acquisition by Abu Dhabi's wealth fund ADQ in three mining and petrochemicals companies) on the back of valuation differences and uncertainty about exchange rate trajectory and and lack of trust in the economic policy direction. On the other hand, foreign holdings of EGP T-Bills rebounded partly following the October and January devaluations but stalled again recently.



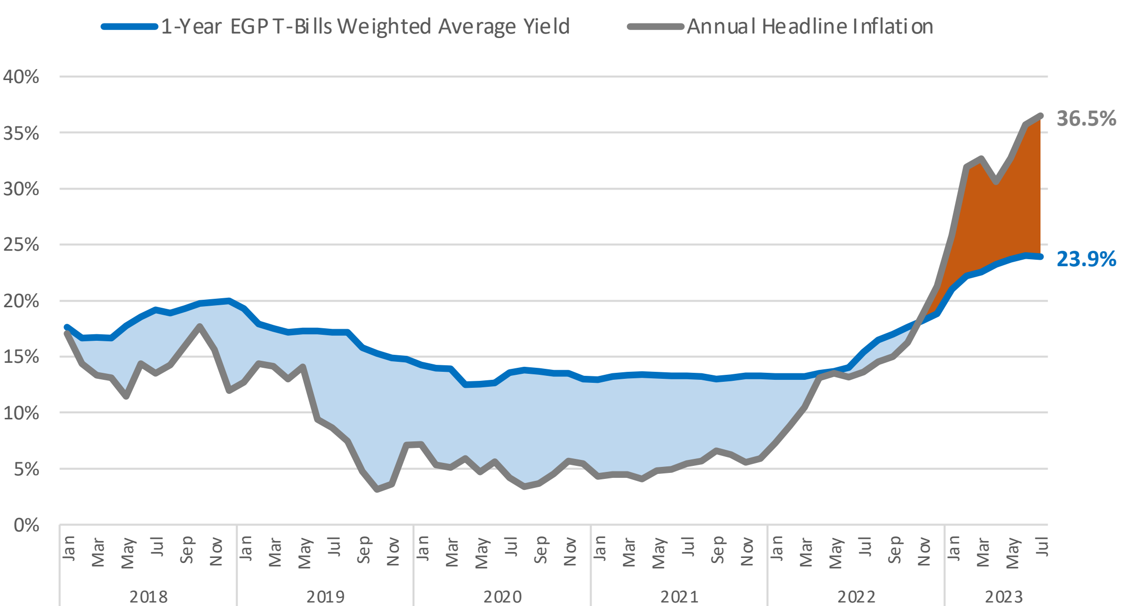
Source: CBE

EXTERNAL SECTOR: BORROWING FEASIBILITY AND AVAIALBILITY ARE SHARPLY LIMITED

Egypt's real yield on local debt instruments started turning negative in Nov. 2022, and to widen significantly following the spike of inflation to all-time high levels by July 2023, highly distancing foreign portfolio investors from such instruments, especially with highly elevated interest rates in advanced economies. New external financing is also negatively impacted by the fact that several USD international bonds issued by Egypt are currently trading at distressed levels (10+% risk premium over maturity-equivalent U.S. treasuries). Moreover, the latest wave of rating downgrades/negative outlooks for the economy are significantly limiting Egypt's international borrowing accessibility and feasibility, pushing the government to focus more on international currency-denominated bonds with low interest such as the Chinese Panda bonds and the Japanese Samurai bonds in addition to issuing high-interest USD Certificates of Deposit (CDs) in hope of re-channeling the leaked FX outside the banking system (parallel market) plus potential inflows from foreign portfolio investors. Furthermore, Moody's has put Egypt's rating on watch for a possible downgrade on May 9, 2023, while extending the review period recently to assess the impact of the new USD 1.9 bn sale of state-owned assets on the FX liquidity in the banking system (which is declining sharply) and Egypt's debt repayment affordability while monitoring the progress regarding the IMF delayed review and the relevant reforms, on top of which is exchange rate flexibility.



Positive Real Yields Since 2018 Turned Negative Again
(Backward Looking)



Agency	Long-Term Rating (Foreign & Local Currency)	Outlook	Last Review Date	Last Change Date	Last Change Action
S&P	B	Negative	Apr 21, 2023	May 11, 2018	Upgrade from B-
Fitch	B	Negative	May 5, 2023	May 5, 2023	Downgrade from B+
Moody's	B3	Stable	May 9, 2023	Feb 7, 2023	Downgrade from B2

Sources: CBE, S&P, Fitch, Moody's, Bloomberg & JPMorgan Chase & Co.

EXTERNAL SECTOR: DEBT DUE PAYMENTS ON THE RISE

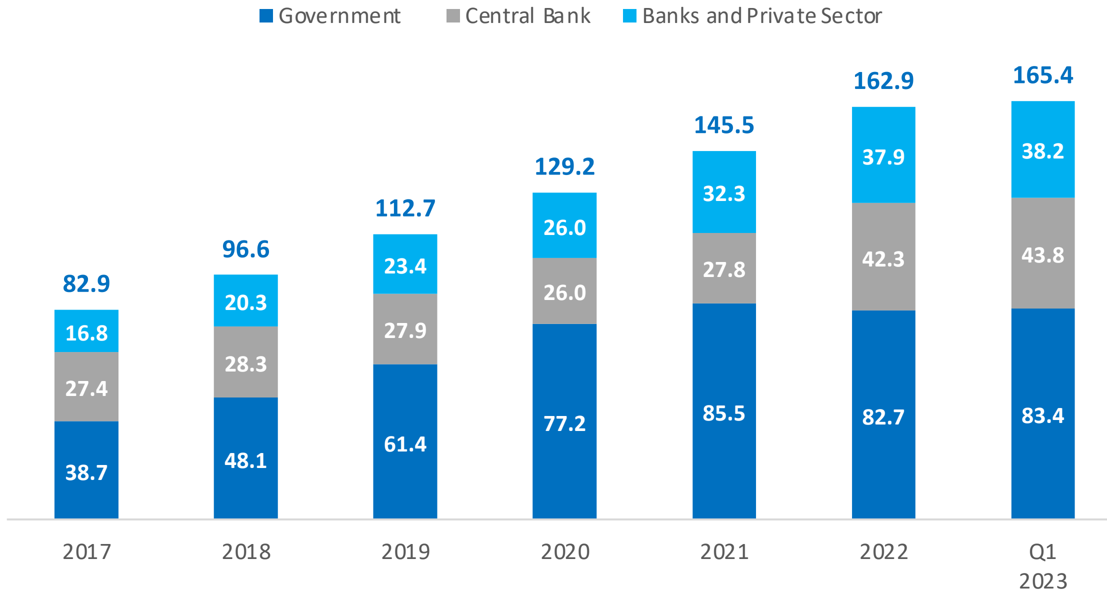
Egypt's external debt stock has almost doubled in the last five years. The government accounts for more than half of such external debt stock (more than doubling its debt over the same period as well). As a percentage of GDP, the external debt stock currently stood at 35.5% of GDP as of December 2022 which is in the moderate range compared to global benchmarks. However, the rising external debt service payments which reached USD 24.5 bn in 2022 (up from USD 21.8 bn in 2021) is a cause for concern as it is over 30% of Egypt's total exports of goods and services where the IMF & World Bank debt sustainability benchmark for strong performers of low-income countries is 21% of exports.

On the creditor side, multilateral institutions (led by the IMF) account for almost third of Egypt's total external debt stock while the GCC bloc comes in second at over 25% (mainly in the form of deposits where a significant USD 14.9 bn were freshly deposited in the CBE during 2022 by UAE (5), Saudi Arabia (5), Qatar (4), and Libya (0.9) to cover the external funding gap mainly caused by the hot money outflows from Egypt).

Due payments are also rising sharply in the coming couple of years even after the likely reschedule of GCC deposits - which the government announced during the finalization of the current IMF USD 3 bn loan program. Around USD 6.7 bn is due on Egypt's government and CBE during H2 2023, rising to over USD 17 bn in 2024, putting more pressure on the FX supply picture and pushing the government to accelerate the current asset sale program.

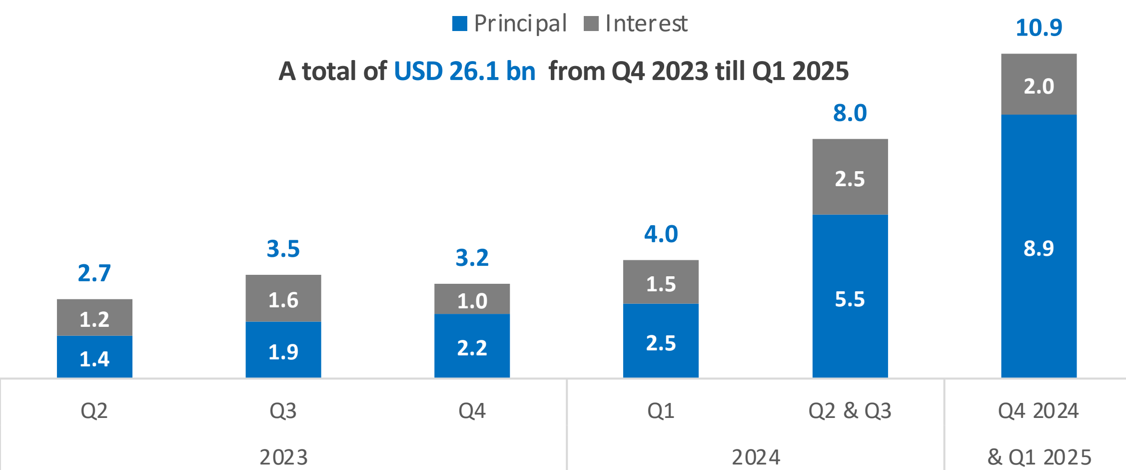
Egypt's External Debt Stock by Debtor

End of Period - USD bn



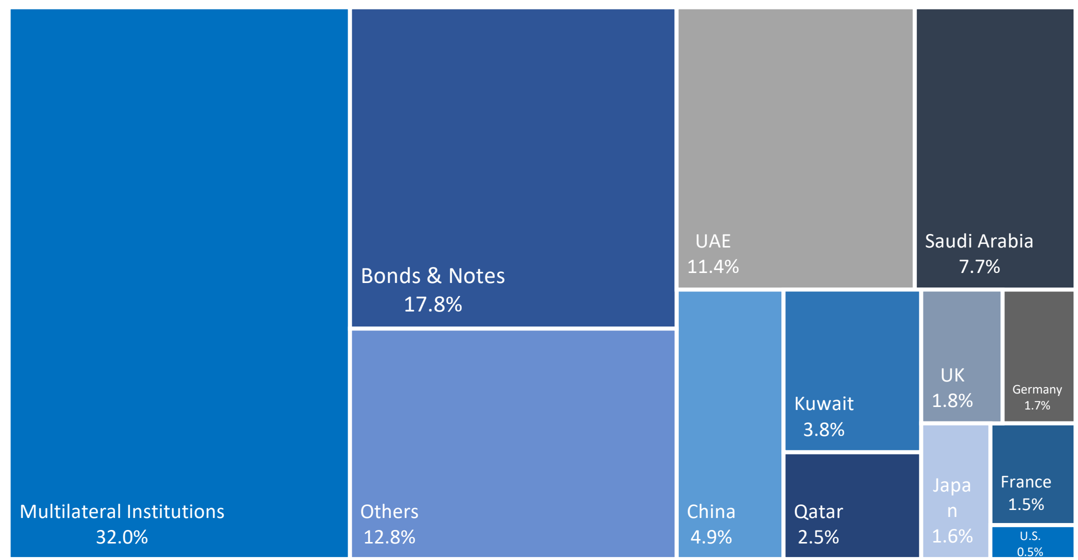
External Debt Service Due Payments For General Government & Central Bank

Excluding Service on Currency & Deposits of CBE (USD bn)



Egypt's External Debt Stock by Main Creditors

End of 2022



Sources: CBE, IMF & World Bank QEDS Data (Q1 2023 Reference)

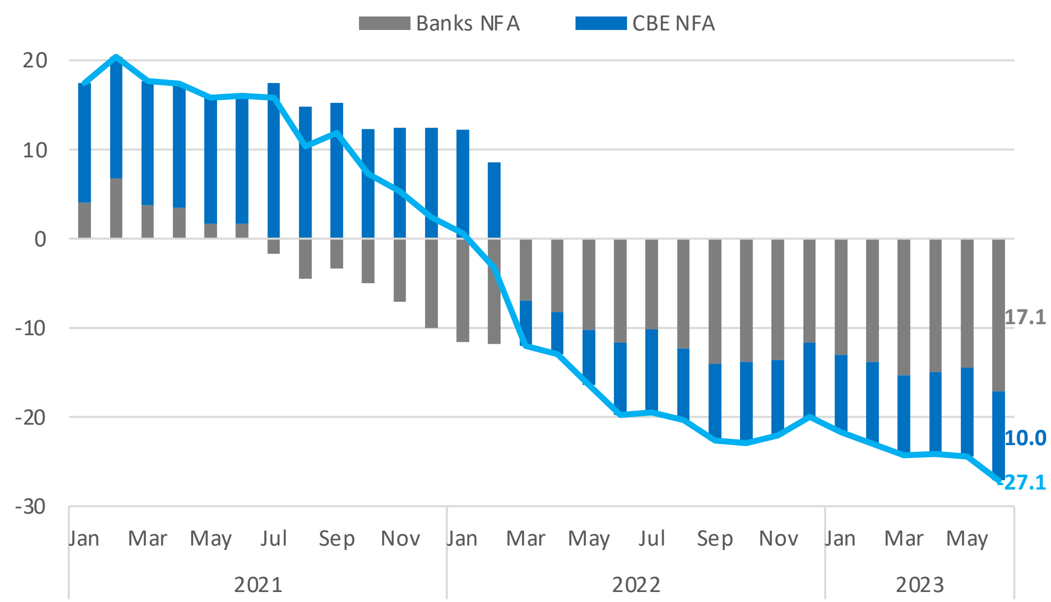
MONETARY SECTOR: DWINDLING FX LIQUIDITY

Egypt's banking system FX liquidity position has been under significant pressure since mid-2021 on the back of rising current account deficit and external debt service payments with limited options for external borrowing. Banks Net Foreign Assets (NFA) has recorded negative figures (net liability position) since July 2021 (exactly two years in a row) standing at USD -17.1 bn by the end of June 2023 while CBE NFA, which dropped sharply by more than USD -17 bn following the start of Russia – Ukraine war and the flight of hot money, has been declining marginally since then to reach USD -10 bn by the end of Q2 2023.

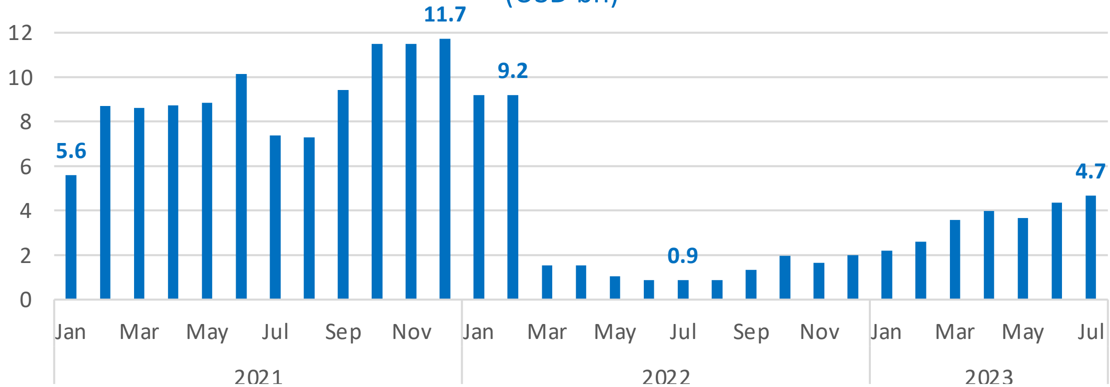
The current NFA position of Egypt's banking system is at record low, signaling the increasing pressure on FX liquidity in the official channels and the reduced ability to continue supporting the Egyptian pound. Such FX crunch in the banking system has been accumulating pressure on the EGP while widening the presence and influence of the FX parallel market and disincentivizing foreign direct and portfolio investments for the fear of potential currency devaluation and profit/dividends repatriation limitations.

Net International Reserves (NIR) also declined sharply by around USD 7.6 bn in H1 2022 on the back of Russia-Ukraine war but was followed by a period of stabilization with marginal increases every month to currently stand at USD 34.88 bn by the end of July 2023. The significant decline in NIR was due to the partial covering of the deficit in the Balance of Payments incurred as a result of the USD -20+ bn of foreign portfolio outflows "hot money", which was also partly reimbursed by the significant GCC deposits in the CBE in 2022 of USD 14.9 bn. Noteworthy is the purchases of gold by the CBE in Q1 2022 and the rise of gold prices since then that led gold reserves to increase by almost 90% compared to end 2021 level to currently stand at USD 8 bn, that is compared to the foreign currencies component of NIR that only increased by USD 660 mn over the last year after the notable depletion in H1 2022. It is also important to mention the similar depletion trajectory witnessed in the CBE FX deposits outside the official reserves, though it rebounded partly by adding USD 2.5 bn in 2023 to date.

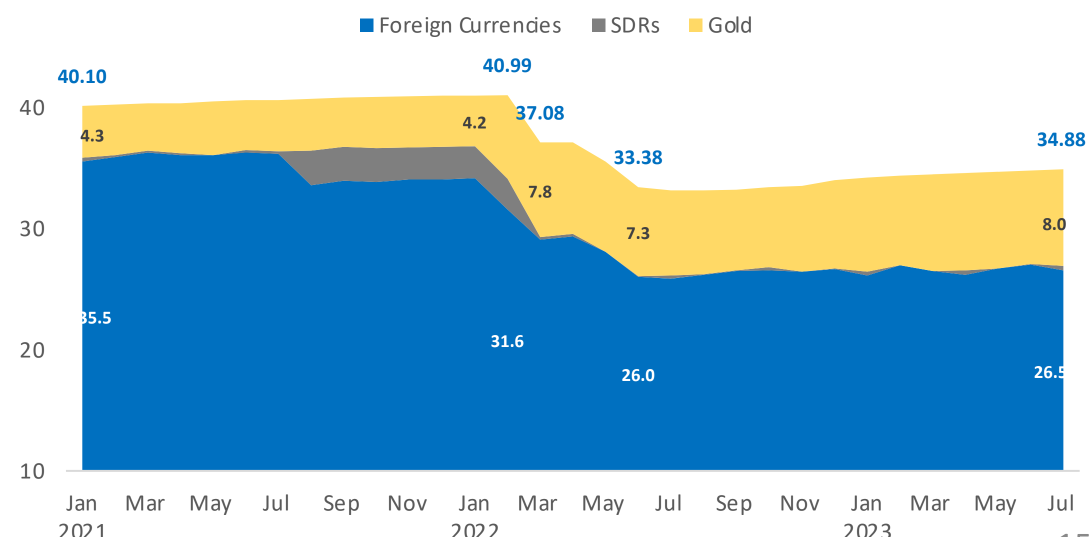
Banking System Net Foreign Assets (NFA)
USD bn



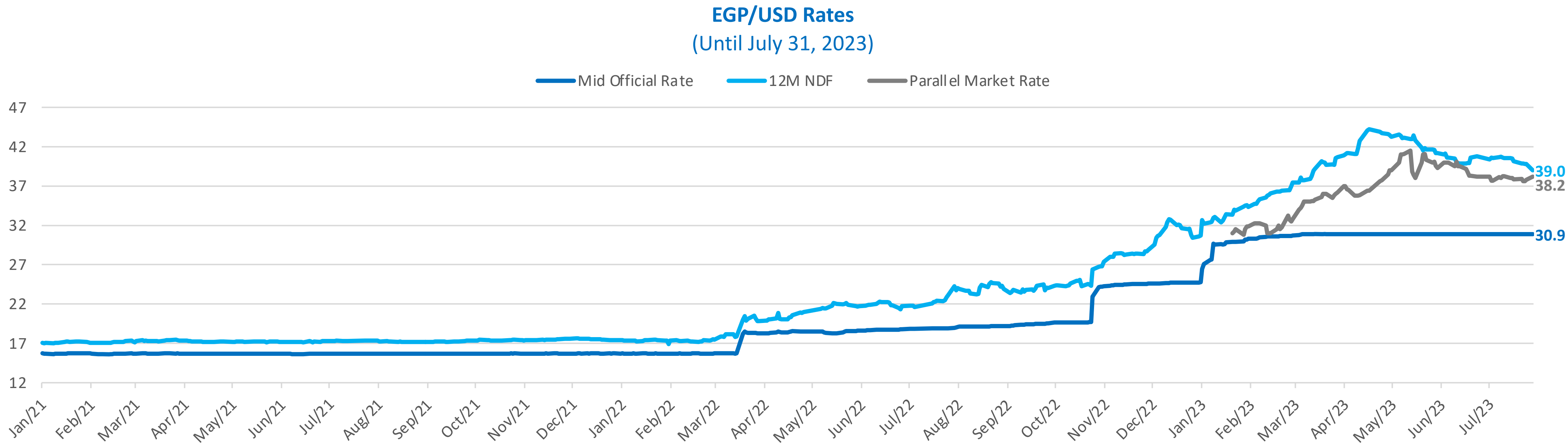
CBE FX Deposits Not Included in Official Reserves
(USD bn)



Net International Reserves by Component (USD bn)



Sources: CBE & IMF



After halving in value in less than a year through three successive devaluations, Egypt's currency is still under significant pressure. FX crunch in the banking system, restrictions on imports, and a significant FX parallel market all mirror the mounting pressures on the currency and the unsatisfied demand for foreign currencies through official channels. The problem is exacerbated by the rising external debt service payments in the next couple of years, limited external borrowing capabilities, and the delay of the current IMF deal and lower-than-expected GCC investments. That led the government to announce several investment incentives in order to increase FDIs as an important source of financing the external deficit such as the expansion of the golden license provision and providing tax credit for green hydrogen projects of up to 55% of revenues subject to 70% of project's financing comes from overseas. The incentives include the removal of preferential treatment as well to state-owned companies, speeding up company licensing procedures, removing land ownership restrictions on foreign investors, and expanding the applicable sectors to operate under the free zones scheme. That is coupled with a recent cooperation with the International Finance Corporation (IFC) to strategically advise the government on the current privatization program that is expected to boost FDI numbers on the short-term. On the other hand, the government also embarked on other initiatives to improve the FX supply picture though they have been of limited effect such as the tax & customs-free car import program, buying citizenship through FX, rationalizing electricity usage (and even bringing in daylight saving time back) to avail more natural gas quantities for exports, among others.

As the above chart shows, the official EGP/USD rate has been fixed for more than 5 months following the three consecutive devaluations in the span of 10 months, despite the parallel market and non-deliverable forwards (NDF) widening further. Recent announcements by authorities have reduced the speculation about another exchange rate movement in the short-term but with FX inflows lagging behind the domestic demand, the drops in both the parallel market rate and NDFs weren't significant in the last couple of months. **The IMF first review has also been delayed since March 2023 as exchange rate flexibility (a key condition for the current loan) has not been implemented yet.**

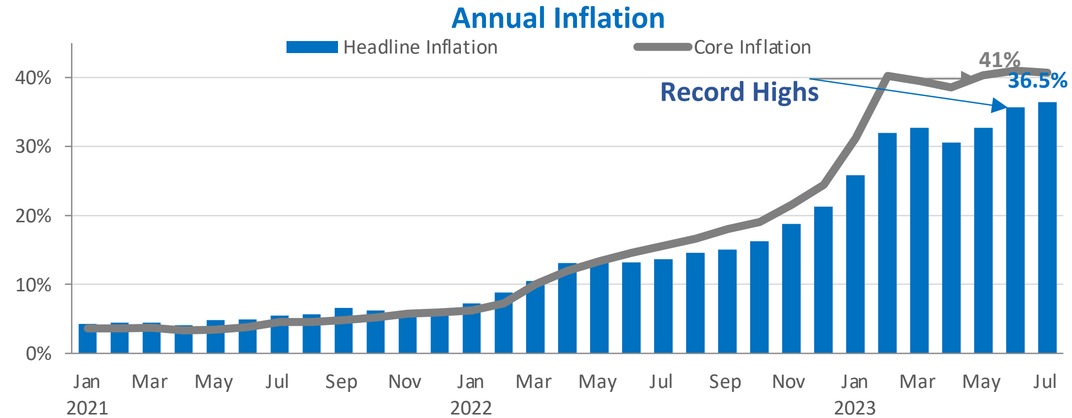
Note: Parallel market exchange rate data was recorded starting January 22, 2023.
Sources: CBE, Bloomberg, Reuters & Sarf Today

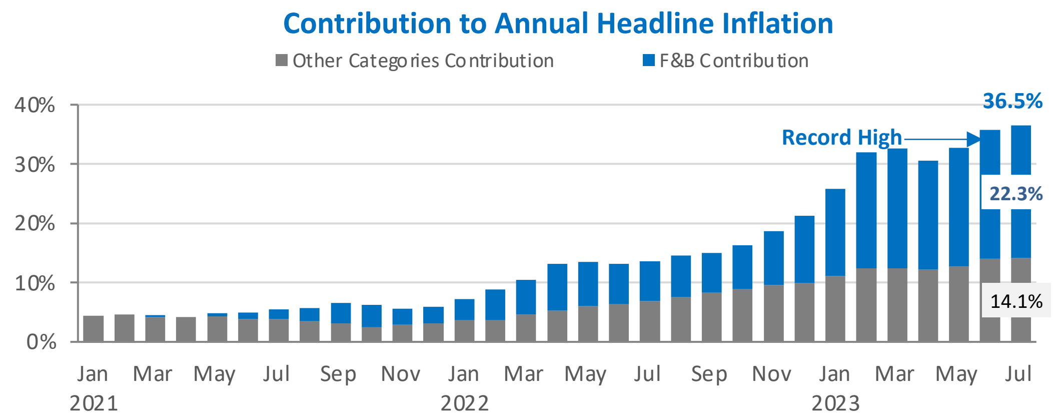
MONETARY SECTOR: RECORD INFLATION & INTEREST RATES

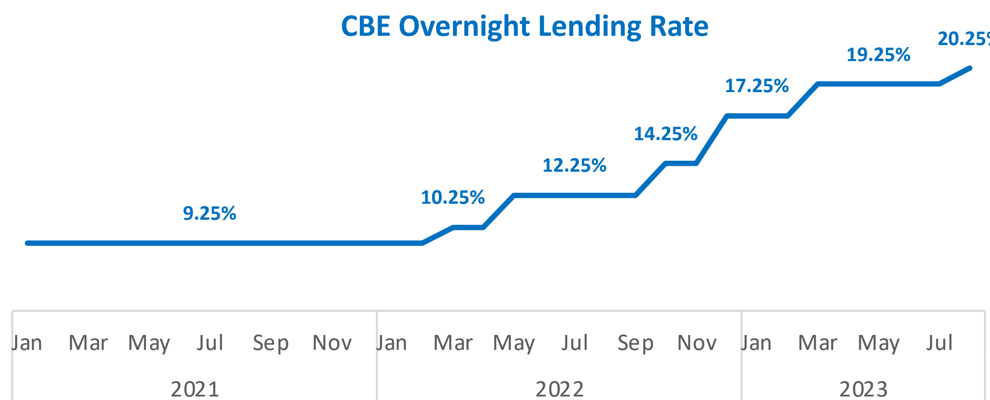
As the currency lost half of its value since March 2022 coupled with significant FX crunch in the banking system and slowed import process that led to supply shortages of raw materials and intermediate products for several sectors in the economy, inflation has been rising since early last year, reaching all-time high levels by Q2 2023. Benchmark annual headline inflation rate for urban Egypt has sharply increased in 2023 to currently stand at 36.5% in July 2023, a record high level and up from the previous record in June of 35.7%. The spike was heavily driven by Food and Beverages category (the single biggest component in the CPI basket that accounts for almost third of the total basket weight) whose inflation has been soaring in 2023 reaching a new record level in July of 68.4% with input shortages continuing to be witnessed across the sector. Core inflation (that excludes fruits & vegetables and regulated items such as energy products) has been similarly accelerating and above the headline inflation for more than a year, reaching an all-time high as well of 41% in June 2023 before slightly decreasing to 40.7% in July. Core inflation has now been above 40% for 3 successive months before last reaching it in February 2023, further indicating the solid underlying inflationary pressures arising from several product and service categories.

In response, the CBE Monetary Policy Committee (MPC) raised its main policy rates by a cumulative of 11% since March 2022 to take the overnight lending rate to the highest level on record of 20.25% in August 2023 in an effort to curb inflation expectations and support the depreciating currency through reducing the negative real yield on local debt instruments. That was also coupled by increasing banks' reserve requirement ratio from 14% to 18% in September 2022 - the first such increase since October 2017. Local banks have also issued a number of very high-interest EGP CDs – reaching as high as 25% annually - in order to reduce dollarization, narrow the FX parallel market, and limit liquidity and demand side effects on inflation. But since the record inflation numbers are mainly driven by supply side shocks, as also indicated by the CBE authorities, the current monetary tightening cycle has fallen short of tackling the solid inflation momentum.

In fact, Inflation expectations remain highly elevated driven by currency uncertain trajectory and continued shortage of FX liquidity in the banking system leading to persistent supply shortages and slowed import process. On the other hand, delayed subsidies reductions (particularly for electricity) would lessen such inflation expectations. However, all factors combined, the balance of risks regarding the inflation outlook is still tilted to the upside, raising doubts about attaining the CBE's new annual headline inflation targets of 7% (± 2%) on average by Q4 2024 and 5% (± 2%) on average by Q4 2026.







Sources: CBE, CAPMAS & Ahram Online

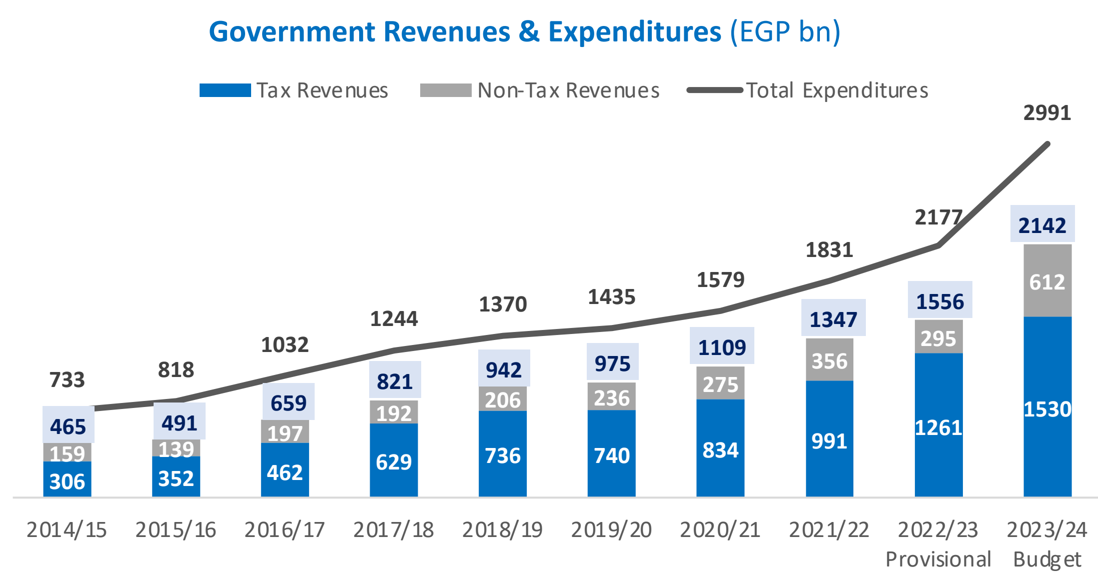
FISCAL SECTOR: FISCAL PROGRESS UNDER PRESSURE

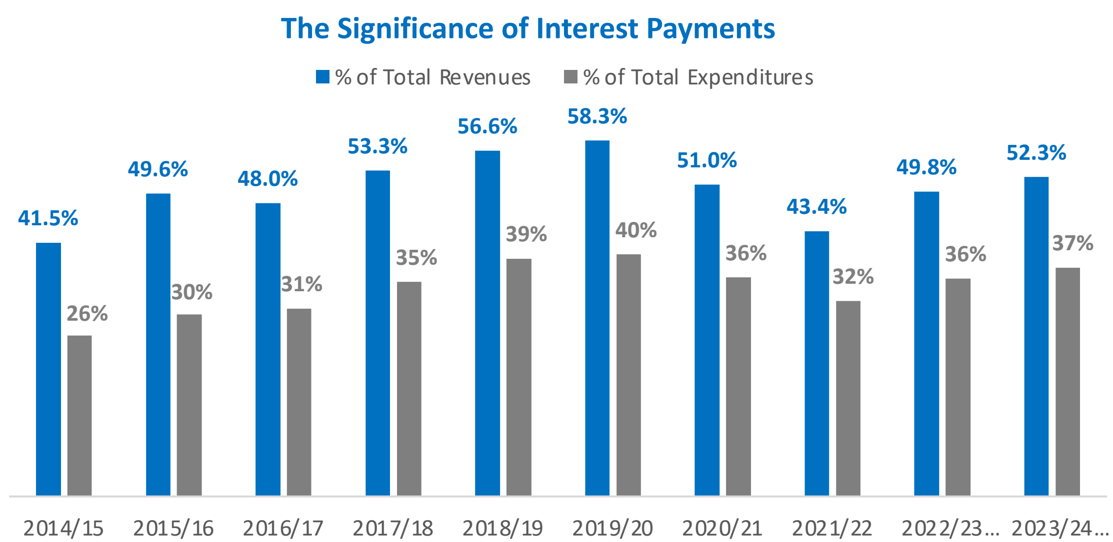
Egypt has achieved some strides in its fiscal consolidation path since FY 2016/17 under the USD 12 bn IMF EFF loan program. The government has implemented necessary reforms to the subsidy's programs (ex: fuel, electricity, food, etc.) while targeting more vulnerable population through Takaful and Karama cash subsidy scheme. That is coupled with enhancing tax and customs collection and processing mechanisms through digitization and more inclusion of the informal sector leading to a significant increase in government's total revenues (more than doubling in six years since FY 2016/17).

However, total expenditures has been significantly rising as well despite the rationing of subsidies. In particular, interest payments by the government on local and foreign debt has been increasing considerably accounting for almost half of total revenues and more than third of total expenditures in FY 2022/23 driven by the increased government borrowing to finance its national investment projects in several sectors. Interest payments are also estimated to rise by 44.5% in the current fiscal year ending June 2024 to cross the EGP 1 tn mark. Similarly, expenditures on public investments also spiked by around three folds since FY 2016/17 as the role of the state widened in the economy especially regarding infrastructure projects.

Over the course of 2022, the government announced three main social protection packages aiming at reducing the cost-of-living crisis from the rising inflation (particularly for the most vulnerable) leading to an increase in the Subsidies, Grants, and Social Benefits expenditure category by 29% in FY 2022/23 while estimating it to rise by around 20% in the current fiscal year. Such rise would mainly be reflected in an increase in the export subsidy program (rising by more than 5 times to EGP 28.1 bn), industrial and agricultural sectors subsidized loan scheme (11%), social pensions and Takaful and Karama program, and social housing. Public investments are also projected by the government to rise by 71% in the current fiscal year driven by the increase in the prices of raw materials and currency depreciation.

Accordingly, the new government budget is expected to witness total expenditures amounting to around EGP 3 tn (more than 37% increase) while tax revenues are projected to increase by around 21% (on the back of further digitization efforts and more inclusion of the informal sector) to take the total revenues to around EGP 2.1 tn (more than 37% rise as well).





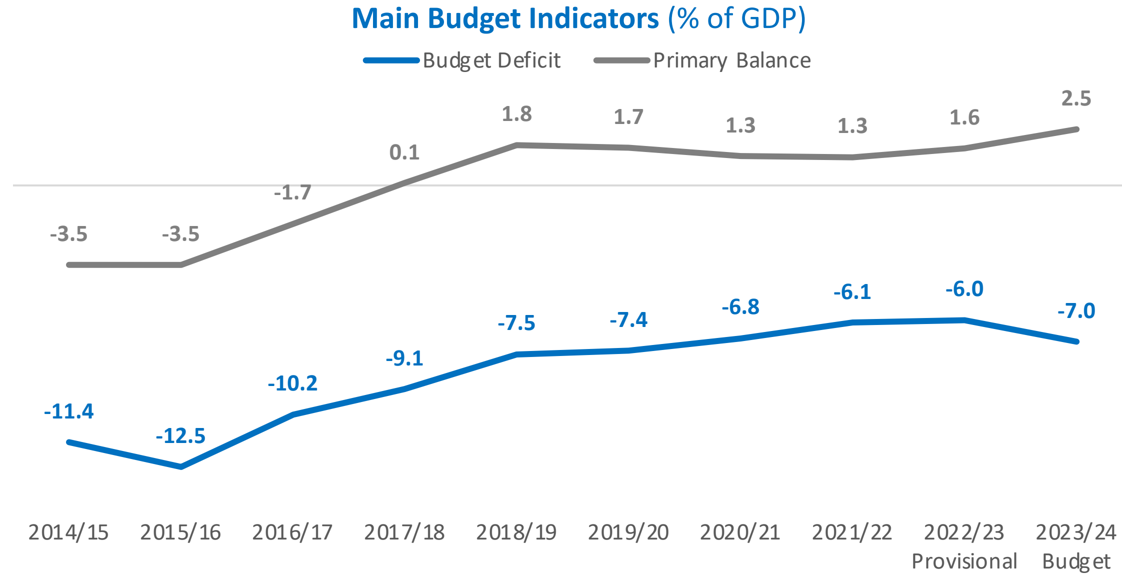
Sources: Ministry of Finance & Cabinet statements

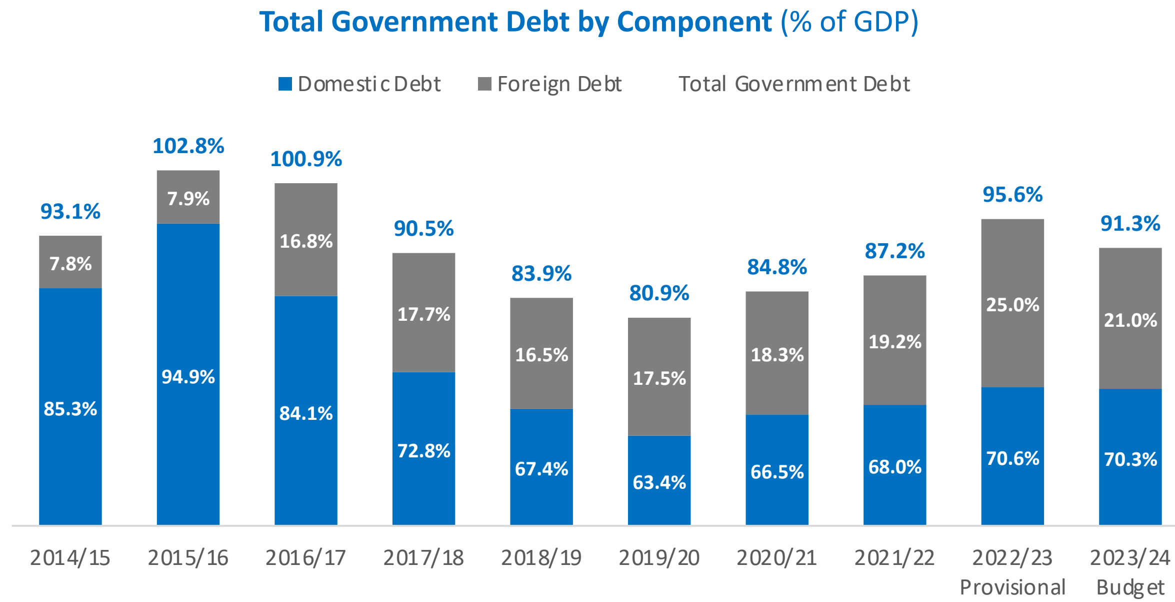
FISCAL SECTOR: DEBT ON A WORRYING PATH

Egypt's government has recorded positive primary surplus (that excludes interest payments) for six years in a row while projecting it to rise to 2.5% of GDP in the current fiscal year. Budget deficit (as % of GDP) has been also on a downward trend since the high of -12.5% in FY 2015/16 to reach 6% of GDP by June 2023. **However, the government's deficit is projected to expand notably to 7% of GDP in the current fiscal year ending June 2024 driven by rising interest payments, social expenditures, and public investment cost.** The different projected trajectories between the primary surplus and budget deficit for the current fiscal year is also a clear result to the impact of increasing interest payments on the government's budget.

On the other hand, total government debt has reversed its downward trend significantly in the last couple of years. After reaching as low as 80.9% of GDP in FY 2019/20, it returned to rise again to reach more than 95% of GDP by June 2023 (driven by the inflated external debt when converted to EGP due to currency depreciation) with the government targeting a ratio of 91.3% in the current fiscal year. Domestic debt accounts for more than two-thirds of total government debt (primarily financed by local banks buying treasury bills and bonds) and has been rising since FY 2019/20 while foreign debt (around USD 83 bn) has also been on a similar trend to reach quarter of the GDP by June 2023.

On a positive note, Egypt managed to prolong the average debt maturity to around 3.4 years by June 2023, up from 2.1 years in June 2016, but more efforts need to be done to get the debt back on a downward trend and towards the public debt sustainability threshold of 70% of GDP*.





*IMF & World Bank public debt sustainability benchmark for strong performers of low-income countries is 70% of GDP.
Sources: Ministry of Finance & Cabinet Statements

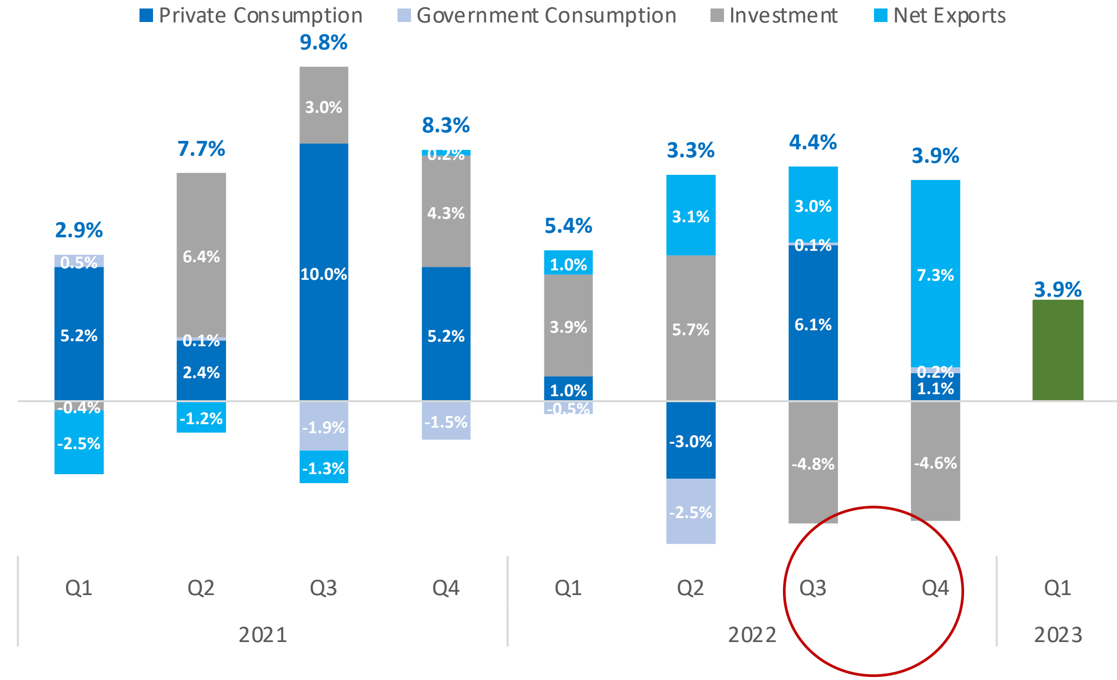
REAL SECTOR: CONSTRAINED ACTIVITY

Egypt's GDP growth has recorded positive results (yet below long run trends) during 2022 with clear different drivers of growth than in 2021. Private consumption contribution, used to be the main driver of growth previously, was highly subdued in 2022, only contributing significantly during Q3 of the year on the back of strong domestic and foreign tourism demand. Public investments, also used to be one of the main growth components, contributed negative numbers during H2 2022 on the back of reduced/halting of public investments as the shortage of FX and difficulty of external borrowing diminishes available liquidity, coupled with a reduction of implementation pace agreed on as part of the new IMF deal. That was also clear in the total nominal value of public investments indicating the significant reduction in H2 2022 (-20% Y-o-Y reduction).

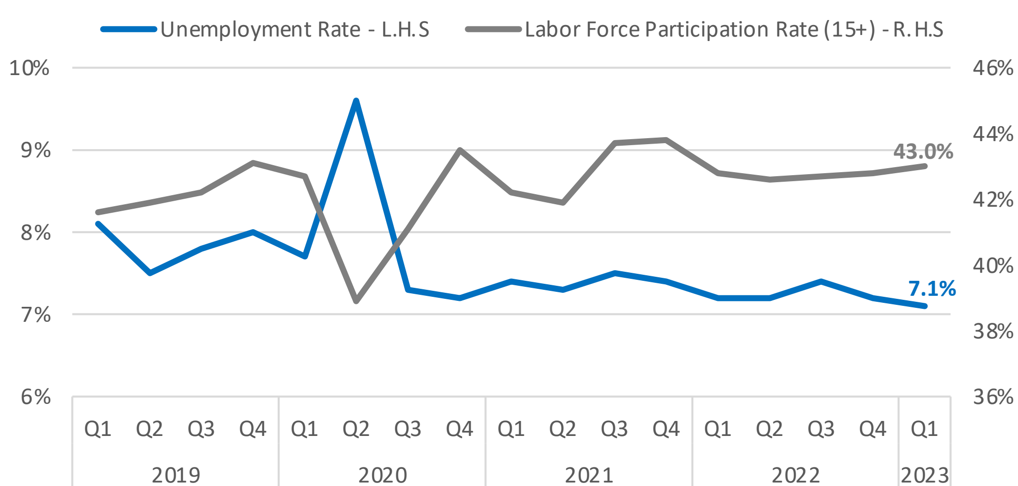
On the other hand, net exports was the main driver of GDP growth in 2022 as a result to restrictions on imports and a pickup in exports (particularly natural gas) that notably reduced the trade deficit and reflected positively on GDP numbers. However, such driver is unlikely to record equally strong numbers going forward due to the unfavorable base effect throughout 2023 along with declining natural gas exports value.

On a more positive scale, unemployment numbers continue to record positive figures, declining in Q1 2023 to stand at the lowest level in more than a decade while labor force participation remaining below regional peers and targets.

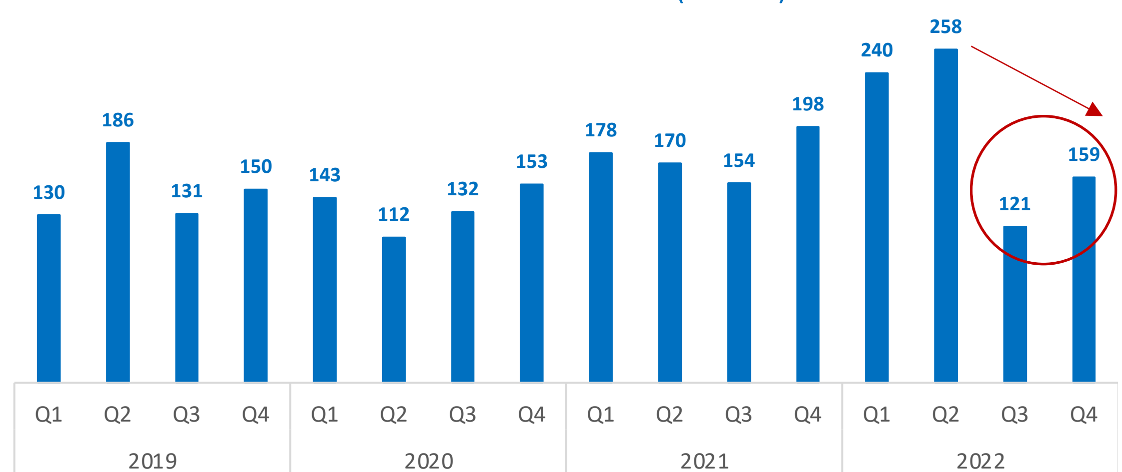
Real GDP Growth Rate by Component



Labor Market Indicators



Total Public Investments (EGP bn)



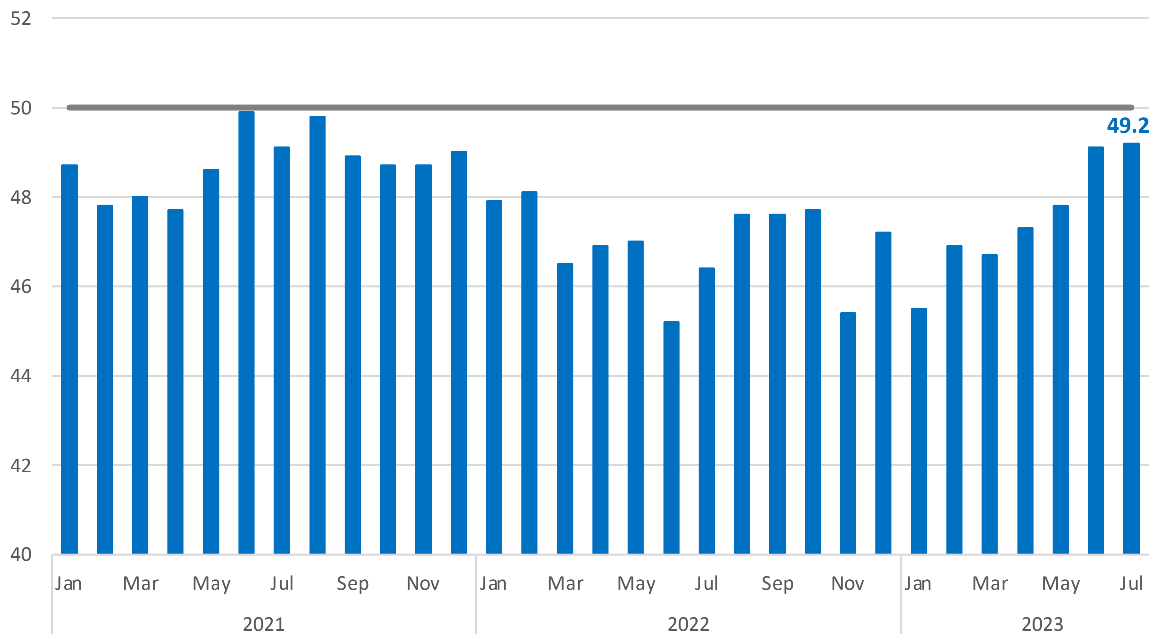
Sources: MPED & CAPMAS

REAL SECTOR: SECTORS DIVERGENCE

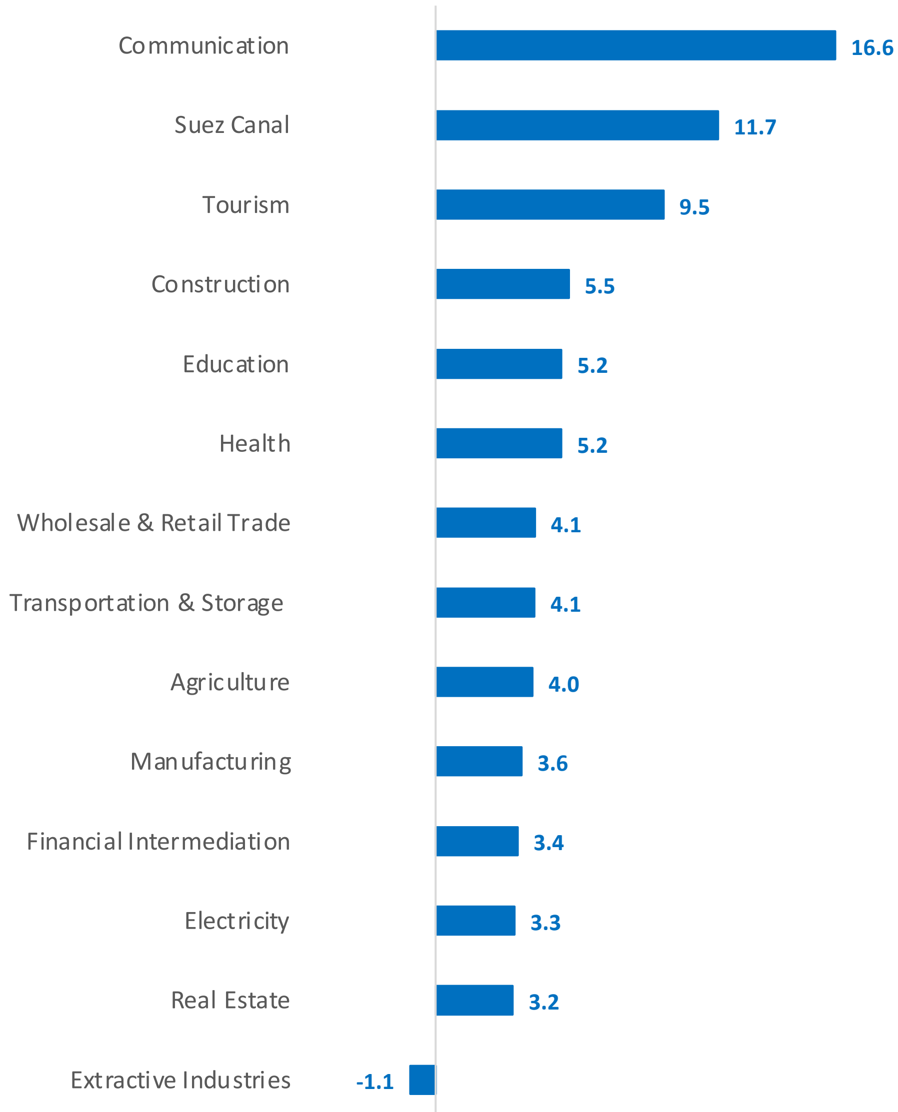
On a sectoral level, communication, Suez Canal, and tourism sectors led growth in 2022 while extractive industries activity marginally contracted driven by the reduction in natural gas output (from 70.4 bcm in 2021 to 67 bcm in 2022). Construction and real estate sectors were fairly resilient as well supported by solid investment demand for real estate. On the other hand, the benchmark PMI index continues to indicate contracting activity for the non-oil private sector economy for more than 2.5 years, though the rate of monthly decline slowed notably in the last couple of months on the back of modest decreases in output and new orders. Output inflation pace also slowed down recently due to firms trying to bear more of the cost of rising input prices (due to depreciating currency, input shortages, and higher borrowing costs) in order to stimulate sales. Additionally, in the latest PMI reading, firms are still fairly subdued about the activity outlook for the next 12 months with only 6% of respondents expecting output to grow during next year.

Purchasing Managers' Index (PMI)

Below 50 = Contraction



2022 Quarterly Average Real GDP Growth (%)



Sources: S&P Global (IHS Markit), MPED & JODI

SCENARIO-BASED OUTLOOK

GENERAL ASSUMPTIONS

APPLICABLE TO ALL SCENARIOS

GLOBALLY

- **Russia – Ukraine war and geopolitical tensions to continue until the end of 2024.**
- **Global growth and trade to stay subdued** and below long-term trends until end 2024 with GCC economies growth slowing from the highs of 2022 due to oil lower prices and supply cuts
- **Interest rates in advanced economies to remain elevated and not decline before Q1 2024** due to persistent inflation levels, especially regarding core inflation.
- **Non-oil global commodity prices to continue normalizing but are heavily prone to shocks** from Russia-Ukraine war developments and rising climate risks **while oil prices to continue witnessing volatility** under supply cuts and slowed economic activity.

LOCALLY

- **Natural gas exports to decline in FY 2023/24** considering lower global prices and limited production capacity.
- **Tourism to fully recover in 2023 and 2024** to even exceed pre-pandemic levels while **Suez Canal revenues to continue rising.**
- **Public investments to continue being muted** under persistent FX shortage, higher borrowing costs, and rising debt due payments.

Source: Dcode EFC Analysis

SCENARIO-1: STAYING AFLOAT

SCENARIO -1: STAYING AFLOAT

ASSUMPTIONS

Presidential elections to take place as originally planned in Q1 2024, leading to maintaining the situation as is, with non-drastic and minimal interventions that keeps public sentiment at its current status.

An exchange rate step-devaluation to occur during early Q4 2023 (supported by some increase in FX liquidity from a strong tourism season and sale of state-owned assets). **That will be followed by another step-devaluation in Q2 2024** under re-accumulation of pressures on the currency from lack of sufficient FX inflows in the face of rising external debt service payments.

Continuation of the IMF program with the first review to take place at the end of Q3 2023 or at the start of Q4 2023. **Moody's pending rating downgrade to be avoided.**

Asset Sale Program (led by GCC acquisitions) to witness moderate progress until the end of 2024 under uncertainty regarding the currency and macroeconomic stability.

Workers' remittances to remain subdued due to being increasingly channeled to the FX parallel market, coupled with the projected decline in growth in the GCC region in 2023 (mainly due to oil production cuts).

Foreign portfolio investors to remain largely distant from the local debt market until end 2024. Some return to shorter-term debt instruments (Ex: EGP T-Bills) is also likely with the completion of IMF reviews.

International bond markets to remain highly inaccessible due to elevated interest rates and high risk premiums/insurance in light of domestic macroeconomic challenges.

FX supply shortages and parallel market to remain in place until the end of 2024 with the parallel market narrowing temporarily following each upcoming devaluation.

Administrative controls on imports will continue to be significant until end 2024 considering the prevailing FX supply shortages, though the accumulating imports backlog will ease temporarily following each upcoming devaluation. **Non-petroleum exports to stay below targets** due to shortage of raw materials and FX.

Slow progress regarding energy and food subsidies reforms in order to limit inflation spikes in light of expected currency devaluations.

Source: Dcode EFC Analysis

SCENARIO-1: STAYING AFLOAT

MAIN PROJECTIONS & ANALYSIS

- **In this scenario, we assume the presidential elections to take place as originally planned in Q1 2024. Accordingly, we see that the government will continue to manage the economy as it did in 2022 keeping the same administrative restrictions and prioritizing the economic medium term economic situation over any political risk. Minimal interventions are to be taken to keep the situation afloat, including step devaluation to reduce FX pressure, and enhancing the Asset Sales Program, all aiming to continue with the IMF deal avoiding any further delay of the review from one-hand, and staying clear of the potential rating agencies' downgrade from the other. These foreseen measures are necessary to keep the situation barely afloat, despite the potential risk of further inflation and its accompanying social discontent before the elections.**

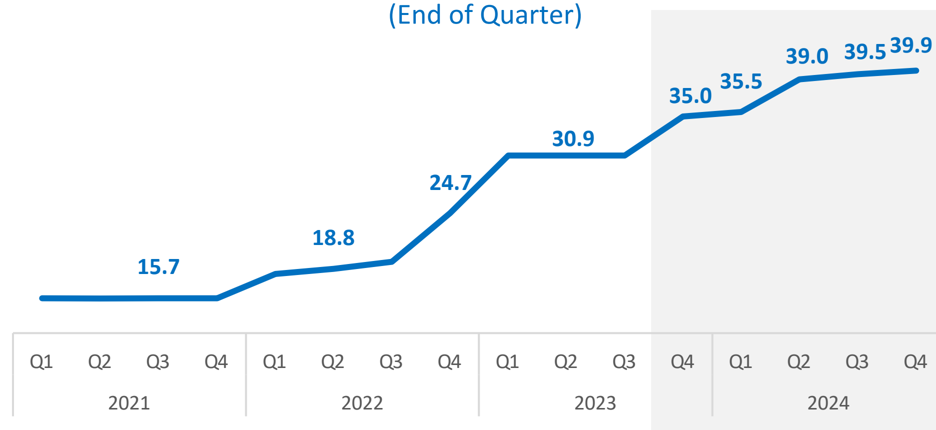
- **Hence, we assume a devaluation to occur in early Q4 2023** on the back of some FX inflows following the recent sale of state-owned assets and solid tourism season. This would allow **the government to avoid a potential downgrade by Moody's** during its extended review to the level of Caa1 - from the current B3 - which was last recorded in Q1 2015. **This will also lead to the completion of the IMF first and (possibly second) reviews (around USD 700 mn in disbursements)** under the current USD 3 bn loan program.

- **While such developments provide some positive sentiment regarding the macroeconomic conditions, we don't expect the upcoming devaluation to be followed by sufficient FX inflows (either portfolio, remittances, FDI/privatization) and hence to not clear the parallel market** (similar to previous devaluations outcomes during 2022) due to the present big external funding gap driven by rising external debt service payments and significant imports backlog coupled with current negative real yields on local debt instruments and external borrowing inaccessibility resulting from elevated interest rates globally and high risk premium/insurance. **As a result, pressures on the currency will persist throughout 2024 that will lead, in our view, to another step-devaluation by Q2 2024** under rising external debt service payments and accumulating imbalances with below sufficient FX inflows, and to bridge the gap between the official and parallel market prices, especially as we assume the Asset Sales Program to witness moderate progress until end 2024. In both projected exchange rate movements, the step-devaluations might happen gradually and be followed by limited volatility as seen in the January 2023 devaluation, though ultimately it will be highly managed.

- **As a result, inflation is projected to peak in Q3 2023 while remaining highly elevated until the end of 2023 (31% Y-o-Y) and gradually declining in 2024 but will be impacted by the second devaluation with a slightly uptick.** We don't foresee significant spikes in inflation in accordance with the exchange rate movement due to two main effects: a high imports backlog that would temporarily ease following each devaluation (hence increasing supply of imported goods in the market) and the downside pressures coming from a very high base effects (That was caused exceptionally by the administrative restrictions). **Additionally, we expect further delays in subsidies' cuts (particularly electricity as was recently reported) as the government tries to limit additional cost of living pressures on citizens,** especially with elections around the corner. Despite that, inflation is still projected to stay above the CBE target of 7% (± 2%) on average by Q4 2024.

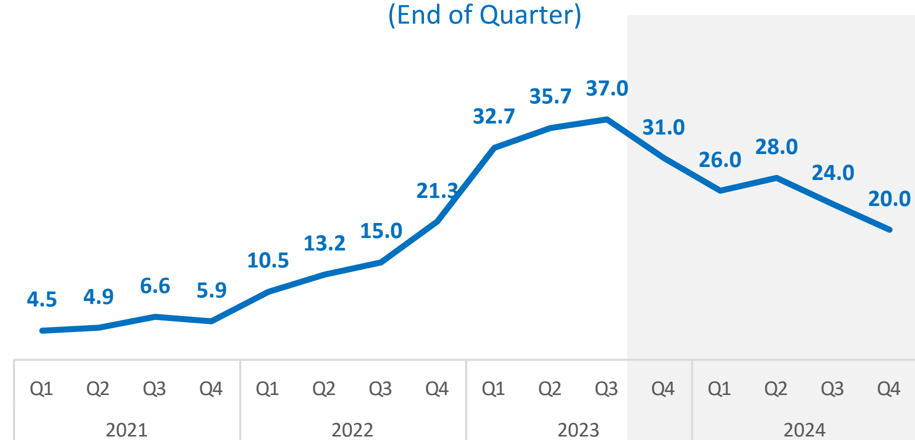
Mid Official EGP/USD Rate

(End of Quarter)



Annual Headline Inflation (%)

(End of Quarter)



Source: Dcode EFC Forecasts & Analysis

SCENARIO-1: STAYING AFLOAT

MAIN PROJECTIONS & ANALYSIS (Continued)

- **We project interest rate hikes to follow the currency path with an overall 2% hike during each upcoming devaluation** to limit the overshoot on the currency and support the real yield on local debt instruments.

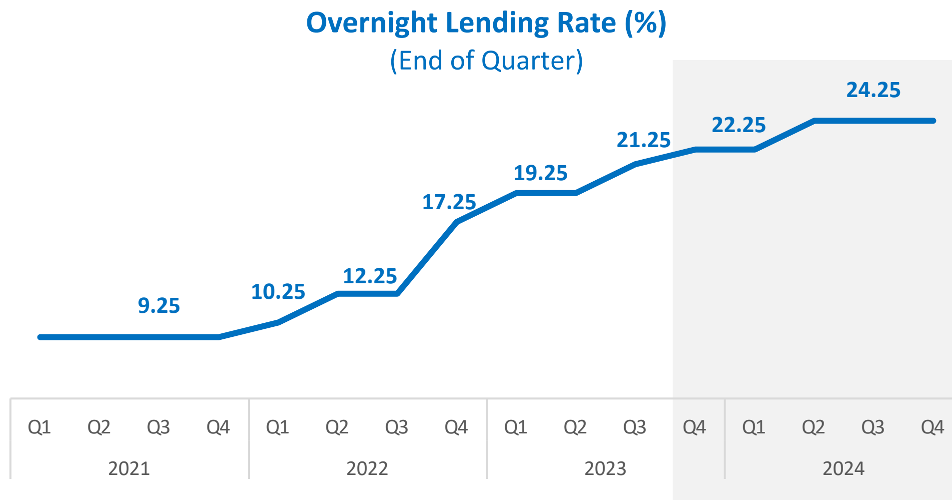
- **GDP is forecasted to achieve 3.9% in FY 2023/24, marginally below the government's target of 4.1%, while still remaining subdued in H2 2024** under softening real private consumption and reduced public investments with net exports contribution to also decline due to the high base effects resulting from the restrictive administrative measures. **We also project in this scenario modest progress regarding further structural reforms related to strengthening private sector role into the economy and overall share of investments.**

- Accordingly, and under the base assumption of no change in thelLabor force participation rate, **unemployment is projected to rise moderately from the current low of 7.1% in Q1 2023 to end 2024 at 7.4%.**

- **Net international reserves is expected to continue rising modestly on a monthly basis until the end of 2024** following the trend seen since September 2022 in line with the IMF agreement.

- **The current account deficit will remain significant to record around USD -12 bn in 2023 and 2024 calendar years** under increased pressures from declining remittances and natural gas exports and rising investment income payments, though will be supported by continued restrictions on non-petroleum imports, tourism growth (driven by a cheaper currency) and Suez Canal solid performance. **It is also important to point to the slight widening of the current account deficit in accordance with each upcoming devaluation as the imports backlog is projected to temporarily ease in the same quarter.**

- **On the fiscal front, depreciating currency and rising local interest rates coupled with a high pick-up risk in global prices (particularly food and energy products) in addition to the slow progress regarding subsidies reforms will put significant pressure on the government's budget.** On the other hand, the government's ability to increase tax revenues will continue thanks to digitization and more efforts to include the informal sector into the economy. **As a result, we expect the deficit to widen to 7.1% of GDP in FY 2023/24, above the announced government's target of 7%, and compared to 6% of GDP in the recent fiscal year ending June 2023.**



Source: Dcode EFC Forecasts & Analysis

SCENARIO-2: THE TRADE-OFF

SCENARIO-2: THE TRADE-OFF

ASSUMPTIONS

Aiming for improving clarity and signaling political stability, the Presidential elections to be brought forward to Q4 2023. This entails trading-off economic performance in the long-term for social stability in the short-term.

With the aim of anchoring the spikes in inflation levels and the accompanying sociopolitical discontent, **it is assumed that authorities will fix the exchange rate until the end of the year and until the presidential elections are done before making a big step-devaluation in Q1 2024 with the aim of easing the mounting pressures on the currency and the imbalances arising from the delayed decision.**

A downgrade by Moody's to happen in Q4 2023 while the IMF deal to be resumed in Q1 2024 in accordance with the exchange rate devaluation.

Asset-Sale Program (led by GCC acquisitions) to witness very slow progress until the end of 2023 but shall pick up moderately in 2024, still negatively impacted by the uncertainty regarding the currency and macroeconomic stability.

Workers' remittances to decline sharply in H2 2023 while remaining subdued in 2024 due to being increasingly channeled to the FX parallel market, coupled with the projected decline in growth in the GCC region in 2023 (mainly due to oil production cuts).

Foreign portfolio investors to remain largely distant from the local debt market until end 2024. Some return to shorter-term debt instruments (Ex: EGP T-Bills) is also likely with the completion of IMF reviews.

International bond markets to become severely inaccessible due to elevated interest rates, lower credit ratings, and high risk premiums/insurance in light of domestic macroeconomic challenges.

FX supply shortages to intensify until the end of 2023, marginally improving in 2024, with the parallel market to remain in place throughout the upcoming 1.5 years despite narrowing temporarily following the devaluation in Q1 2024.

Administrative controls on imports to tighten sharply until the end of 2023, albeit loosening moderately following the steep devaluation in Q1 2024. Accordingly, imports backlog will increase highly to peak in Q4 2023 before easing temporarily following the expected devaluation with **non-petroleum exports to stay below targets** due to shortage of raw materials and FX.

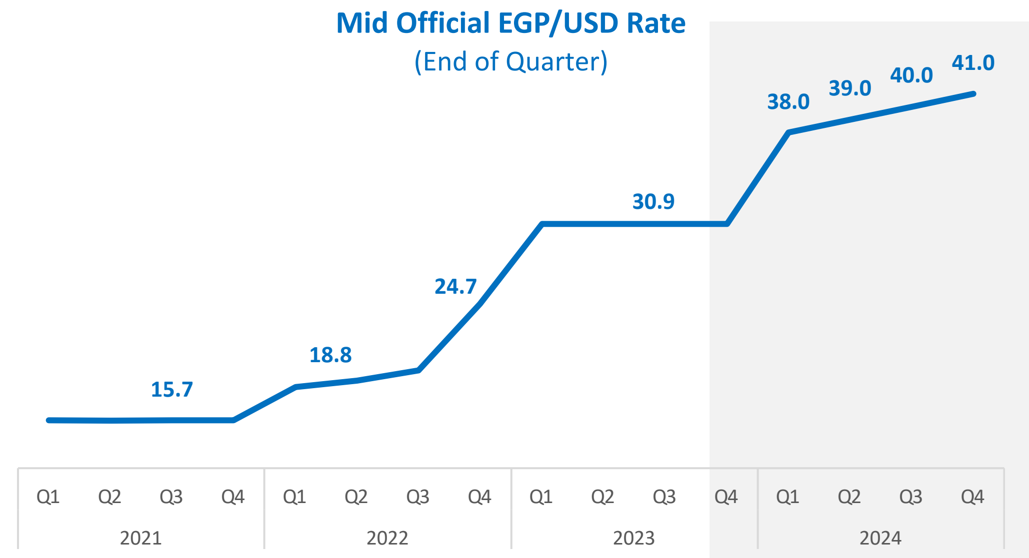
Slow progress regarding energy and food subsidies reforms in order to limit inflation spikes in light of the expected currency devaluation.

Source: Dcode EFC Analysis

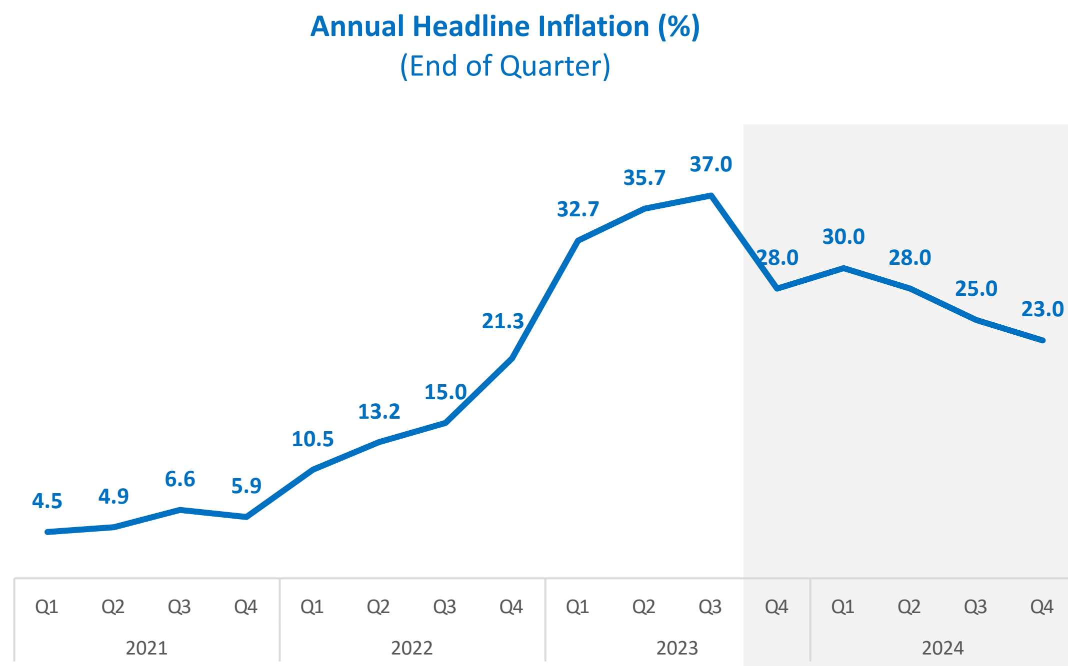
SCENARIO-2: THE TRADE-OFF

MAIN PROJECTIONS & ANALYSIS

- **In this scenario, we assume the presidential elections to be forwarded to Q4 2023 and the government to prioritize controlling inflation by continuing to fix the FX rate to avoid sociopolitical instability during this time, albeit at a high economic cost. This will result in increasing the pressures on the currency and would mandate a steeper devaluation in Q1-2024** on the backdrop of significant imports backlog, rising external imbalances, and intense FX supply shortage driven by very slow progress in the sale of state-owned assets, lower remittances, and severe inaccessibility to international bond markets; that is resulting from the negative sentiment towards the economy with the **expected downgrade by Moody's (under this scenario) and the halt of the IMF deal until Q1 2024. Additionally, we expect such sharp devaluation to be followed by a period of controlled volatility** with the aim of gradually regaining some trust from foreign and local investors and institutions (especially with a privatization program at place) after a series of credit rating downgrades and upcoming elevated external debt service payments.



- **As a result, inflation is projected to peak in Q3 2023 before declining until the end of 2023 driven by a fixed FX rate and higher base effects. However, it is projected to return back to 30+% range in accordance with such steep devaluation. Yet, the release of some imports backlog will limit inflation spikes coupled with high base effects and delayed subsidies reforms, particularly electricity as was recently reported.** Inflation is expected to gradually decline starting Q2 2024 but will stay far above the CBE target of 7% (± 2%) on average by Q4 2024.



Source: Dcode EFC Forecasts & Analysis

SCENARIO-2: THE TRADE-OFF

MAIN PROJECTIONS & ANALYSIS (Continued)

- **We project a tighter monetary stance even before the projected devaluation in Q1 2024 (under this scenario) when interest rates will be hiked by 3%** to support the currency and anchor inflation expectations.

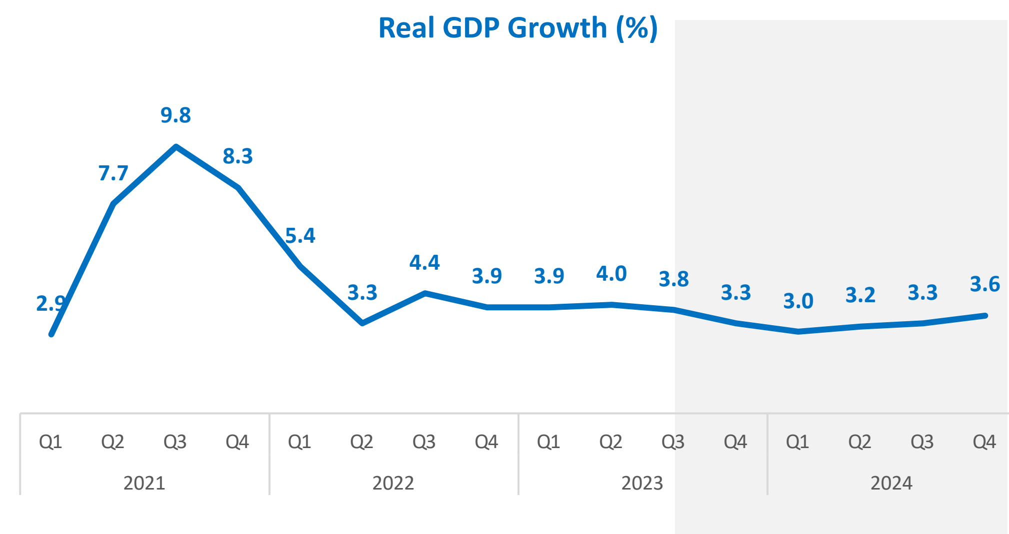
- **On the other hand, GDP is forecasted to decline notably until Q1 2024 before rebounding modestly afterwards to achieve 3.3% in FY 2023/24, significantly below the government's target of 4.1%.** That is resulting from a very subdued activity in H2 2023 under stricter import restrictions and FX supply shortages while elevated inflation rates throughout the fiscal year ending June 2024 will put downside pressures on private consumption. On the other hand, net exports and lower trade deficit will continue being a main driver of GDP in H2 2023 as administrative import controls tighten sharply. **We also project in this scenario a mild progress regarding further structural reforms related to strengthening private sector role into the economy and overall share of investments, weighing further on overall production and activity.**

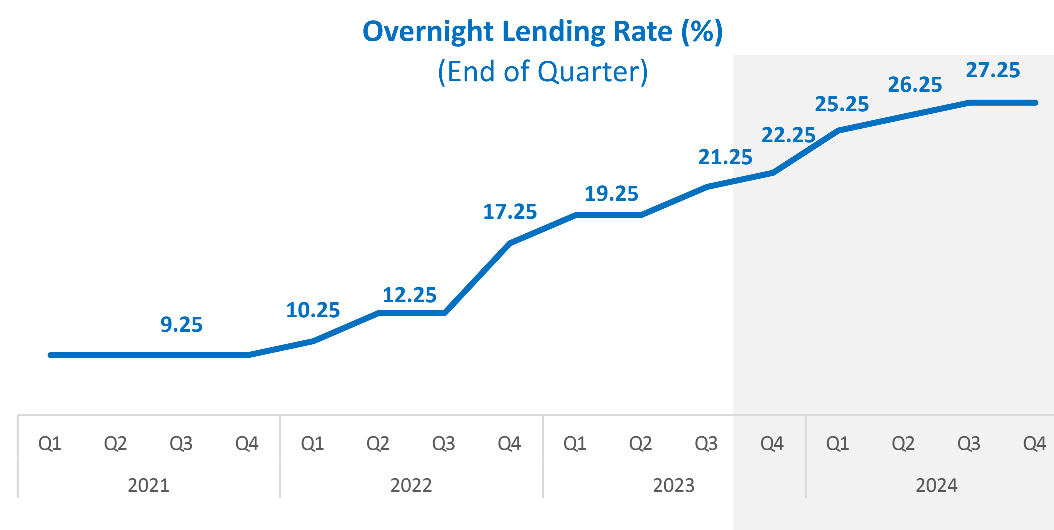
- Accordingly, and under the base assumption of same participation level of work force, **unemployment is projected to rise sharply from the current low of 7.1% in Q1 2023 to end 2023 at 8% and 2024 at 7.6% driven by a significant slowdown in economic activity.**

- **Net international reserves is expected to dip notably as a result of supporting the currency in Q4 2023 as the supply shortages in the banking system intensifies coupled with a fixed FX rate before rising modestly on a monthly basis during 2024** in accordance with reduced pressures on the currency.

- **The current account deficit will be narrowed in 2023 to around USD -11 bn driven by stricter import restrictions against sharper decline in remittances, before widening to USD -13 bn in 2024,** with more than half of the deficit recorded in H1 2024 as the significant import backlog eases following the steep devaluation.

- **On the fiscal front, higher interest rates will pass-through the already elevated interest payments** that account for more than third of total expenditures and around half of total revenues in FY 2022/23, **further widening the deficit to reach 7.2% of GDP in the current fiscal year ending June 2024 compared to the government's target of 7%.**





Source: Dcode EFC Forecasts & Analysis

SCENARIO-3: POLICY CHANGE

SCENARIO-3: POLICY CHANGE

ASSUMPTIONS

An immediate progressive change in Government/Cabinet of Ministers with unrestrained mandate. To be followed by Presidential elections as originally planned in Q1 2024.

An exchange rate step-devaluation to occur during early Q4 2023 (supported by some increase in FX liquidity from a strong tourism season and sale of state-owned assets). **That will be followed by a relatively flexible exchange rate regime with the central bank only intervening afterwards in case of excessive volatility** (i.e. not still a fully floating exchange rate regime).

No more delays regarding the IMF program with the first review to take place at the end of Q3 2023 or at the start of Q4 2023. **Moody's rating downgrade to be avoided.**

Asset-Sale Program (led by GCC acquisitions) **to witness moderate progress until the end of 2023 and to pick up significantly in 2024.**

Workers' remittances to recover gradually and to achieve in 2024 the highs witnessed prior to the Russia-Ukraine war as the FX parallel market narrows.

Foreign portfolio investors to return gradually starting with the upcoming exchange rate movement and the return of positive real yields in H2 2024.

International bond markets to remain very costly due to elevated interest rates but **risk premiums/insurance to decline** due to positive economic sentiment and better credit ratings/outlook.

FX supply shortages to remain in place until the end of 2023, but the FX picture will gradually get better throughout 2024, accompanied by a gradual disappearance of the FX parallel market.

Administrative import controls will continue until the end of 2023 while softening gradually in 2024 due to a better FX supply picture. Non-petroleum exports to pick up moderately in 2024 as a result to the availability of raw materials and increased competitiveness.

Continuation of energy and food subsidies reforms starting 2024 to reduce pressure on the fiscal budget.

Source: Dcode EFC Analysis

SCENARIO-3: POLICY CHANGE

MAIN PROJECTIONS & ANALYSIS

- **In this scenario, we assume the appointment of entirely new and progressive Cabinet of Ministers with unrestrained mandate, leading to a significant economic policy direction change to start from Q4 2023, followed by the Presidential elections as originally planned in Q1 2024. Such an action is foreseen to bring back the trust of international organizations, investors, rating agencies, and citizens, despite the expected harsh economic measures that must be undertaken in the short-term. It is assumed that the new Government/Cabinet will focus its efforts in tackling the economic imbalances and devising a structural reform plan following the main agreement with the IMF.**

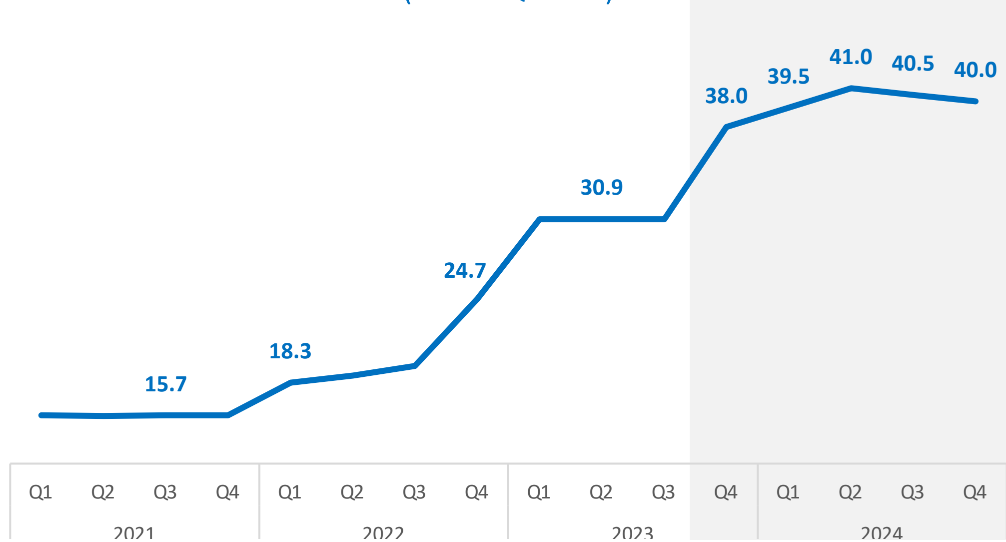
- **In such scenario, we expect a significant change in the exchange rate regime management with the transition to a more flexible FX rate coupled by interventions from the CBE only in cases of excessive volatility.** A sharp step-devaluation is likely to be the start and to occur in Q4 2023 to clear the parallel market, with more flexibility in the FX policy to be witnessed afterwards. Such change is highly likely to allow **the government to avoid the pending downgrade by Moody's** and to even possibly witness improvements in credit ratings in H2 2024. **The IMF deal will also be continued under this scenario with the first (and possibly second reviews) taking place during September-October 2023** (a potential USD 700 mn in disbursement).

- **As a result, the FX supply picture is projected to gradually improve in 2024** with the acceleration of sale of state-owned assets, higher FDIs, recovery of leaked remittances to the parallel market (that should narrow gradually and likely be totally cleared by Q2 2024). **That is in addition to increasing foreign portfolio inflows on the back of a flexible exchange rate regime, high interest rates, and positive growth outlook. Accordingly, the currency is expected to strengthen (albeit modestly) in H2 2024 while the NIR should increase gradually until the end of 2024 with higher monthly gains compared to scenarios 1 & 2.**

- **Inflation will remain very elevated but will gradually decline in 2024 as the supply bottleneck eases and the pass-through effect of the FX devaluation in Q4 2023 fades in addition to very high base effects.** Inflation, however, is projected to remain above the CBE target by end 2024, especially with the continuation of the subsidy's reforms for energy and food products.

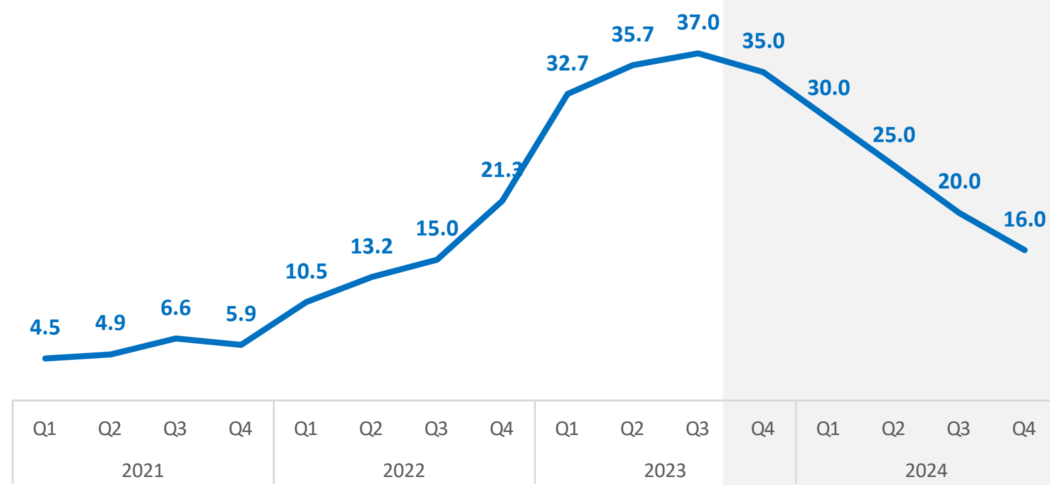
Mid Official EGP/USD Rate

(End of Quarter)



Annual Headline Inflation (%)

(End of Quarter)

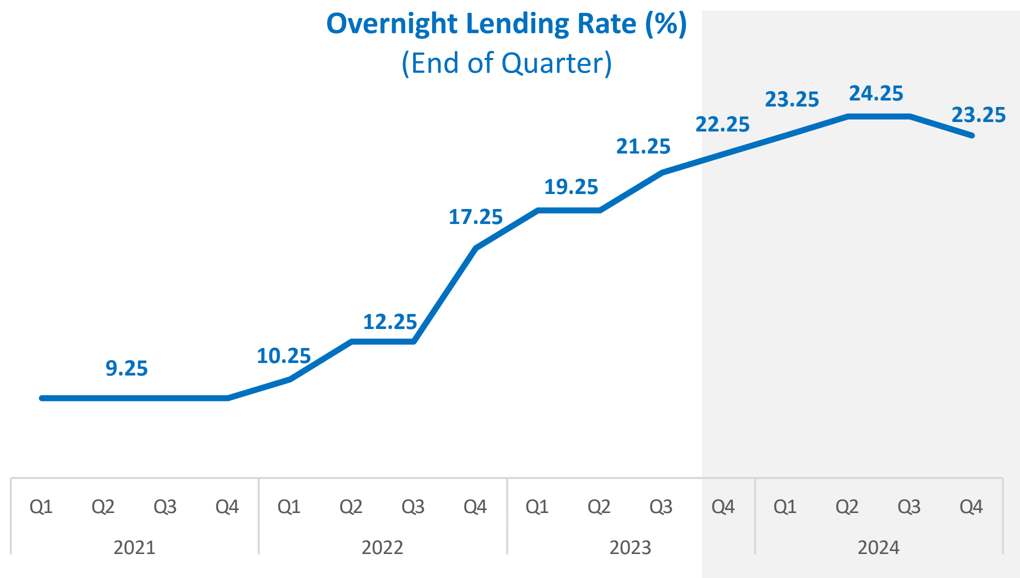


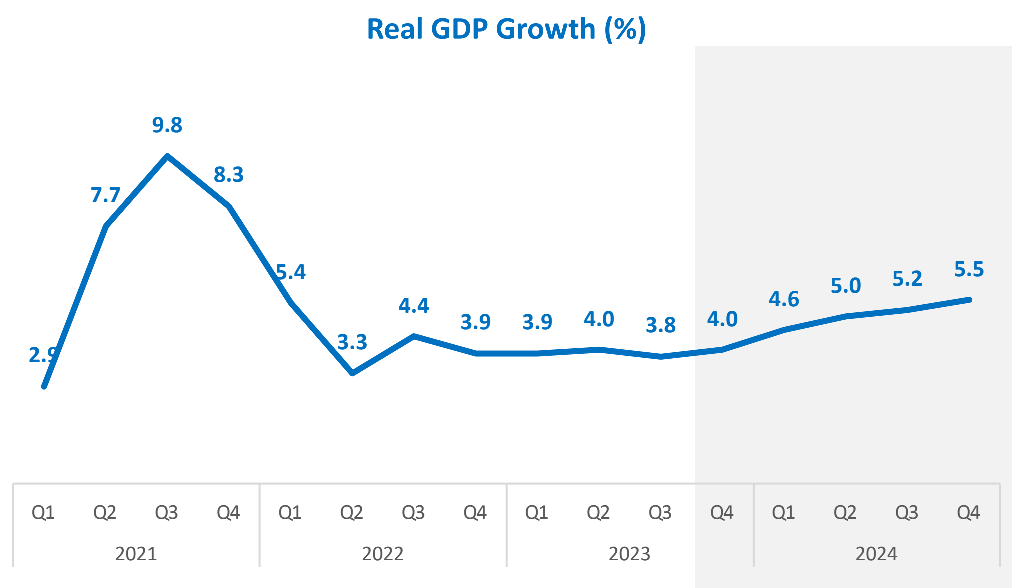
Source: Dcode EFC Forecasts & Analysis

SCENARIO-3: POLICY CHANGE

MAIN PROJECTIONS & ANALYSIS (Continued)

- **Interest rates will be hiked so as to support the currency and to anchor inflation expectations but are projected to be lowered in the last quarter of 2024** as inflation slows sufficiently while maintaining a positive real yield to incentivize FX portfolio inflows.
- **Accordingly, economic activity will rebound next year under this scenario driven by a better FX supply picture, availability of raw materials, increased export potential, and overall enhanced private sector activity supported by the acceleration of the current privatization program and significant structural reforms to the economy with the aim of enhancing private sector participation and leveling the playing field. We project GDP growth to record 4.4% in FY 2023/24, considerably above the government's target of 4.1%, with private consumption and investments being the main drivers.**
- **Current account dynamics will start to normalize gradually in 2024 supported by higher remittances but a wider trade deficit as the imports backlog is cleared, and restrictive administrative measures are lifted.** Tourism and Suez Canal will continue their solid performance along with a projected uptick in non-petroleum exports on the back of increased availability of raw materials and higher competitiveness from depreciating currency. **We project the current account deficit to narrow only marginally, however, compared to the other two scenarios due to the current significant imports backlog and rising investment income payments (primarily interest payments on external debt) to record USD -11 bn in 2024.**
- **On the fiscal front, more flexible exchange rate regime and rising local interest rates coupled with a high upside risk in global prices (particularly food and energy products) will put significant pressure on the government's budget.** On the other hand, continuation of energy and food subsidy reforms starting 2024 in addition to the government's ability to increase tax revenues thanks to digitization and more efforts to include the informal sector into the economy will ease considerable pressure off the budget. **Accordingly, we expect the deficit to widen to 7.2% of GDP in FY 2023/24 which is still above the government's announced target of 7%.**

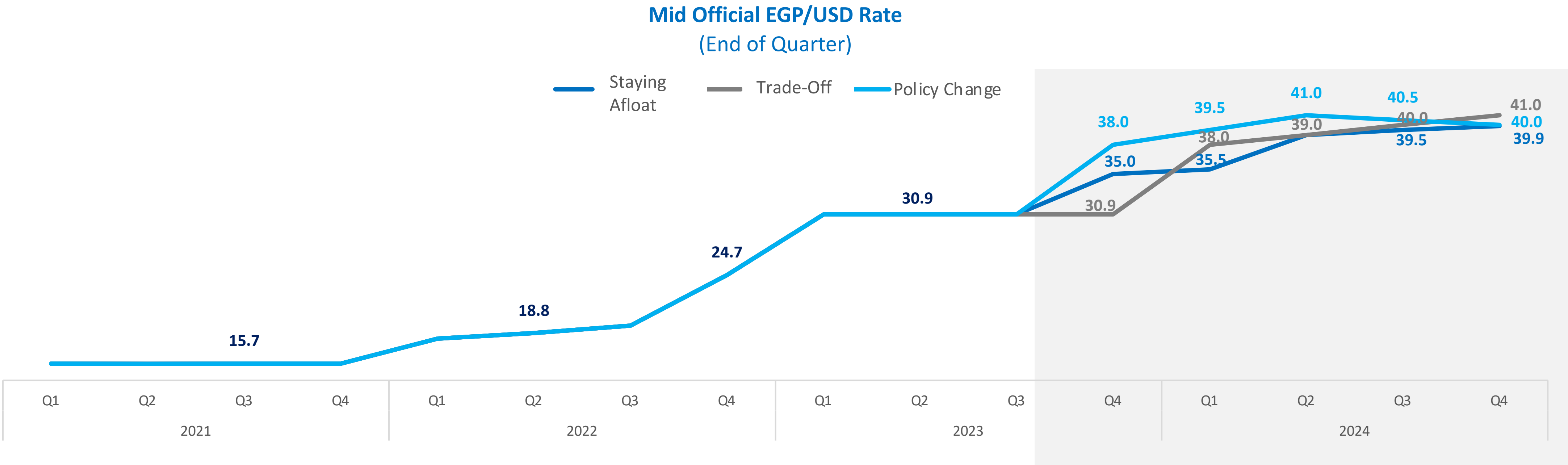


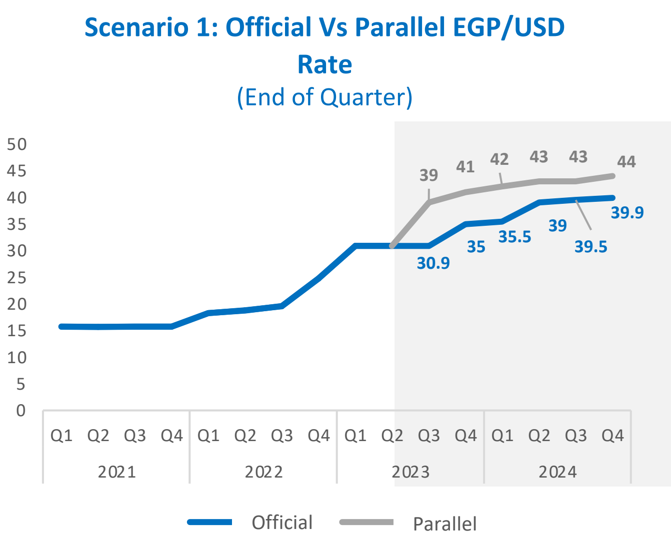


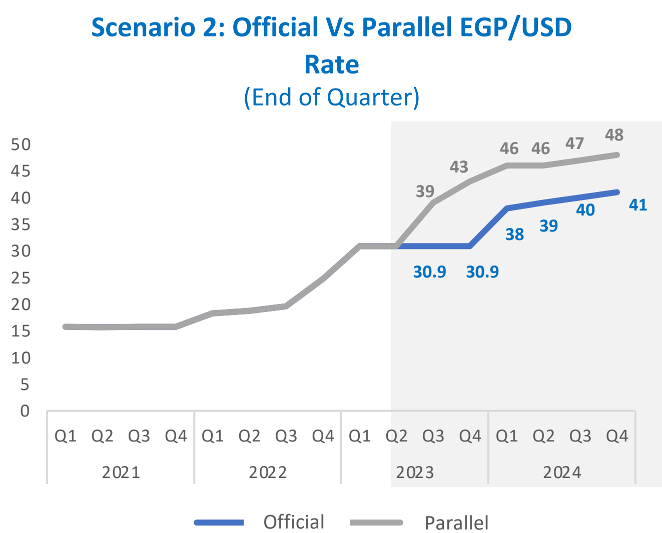
Source: Dcode EFC Forecasts & Analysis

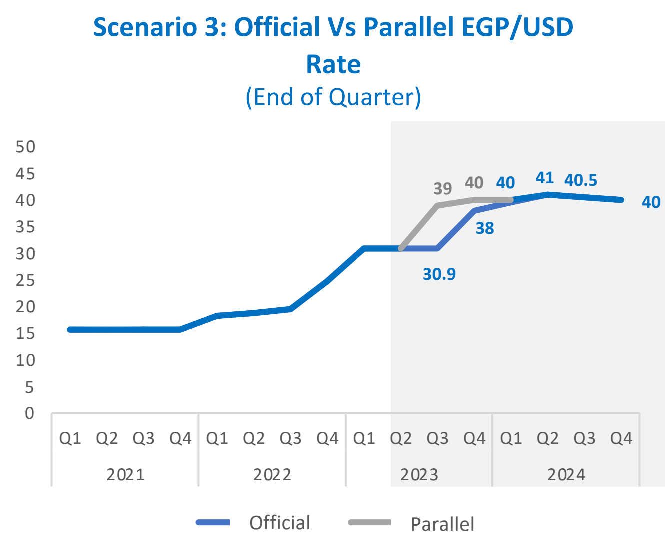
COMPARISON BETWEEN SCENARIOS

SCENARIOS DIFFERENCES:
MAIN INDICATORS





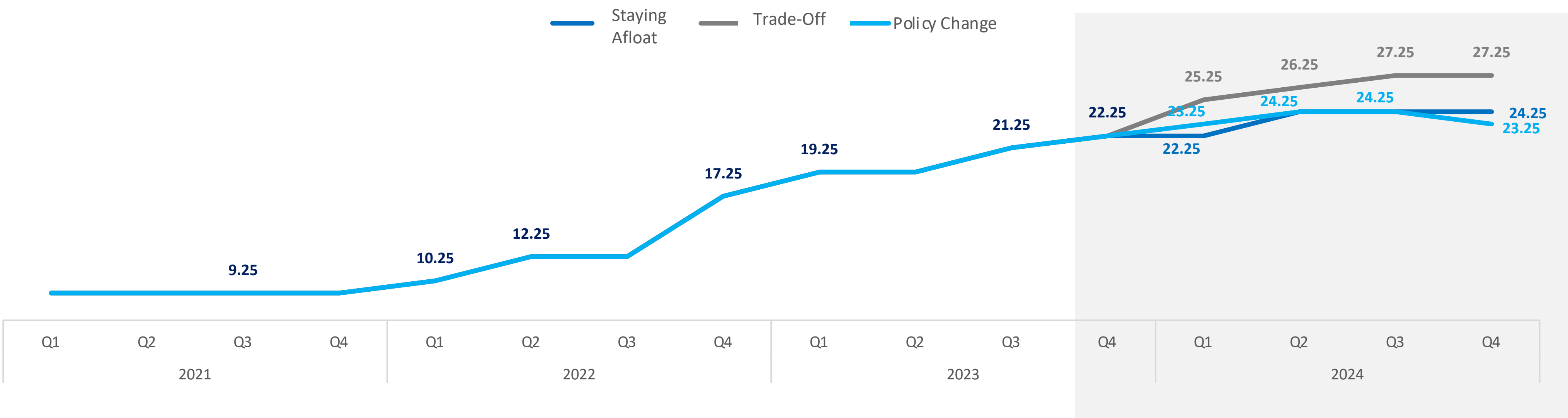




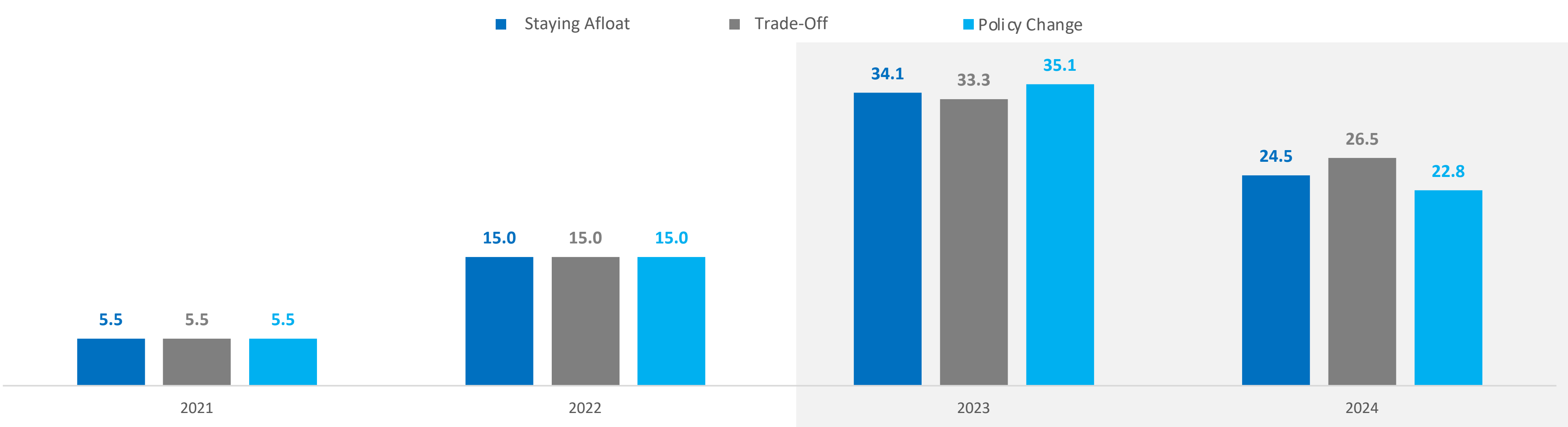
Sources: CBE & Dcode EFC Forecasts

SCENARIOS DIFFERENCES:
MAIN INDICATORS

CBE Overnight Lending Rate (%)
(End of Quarter)

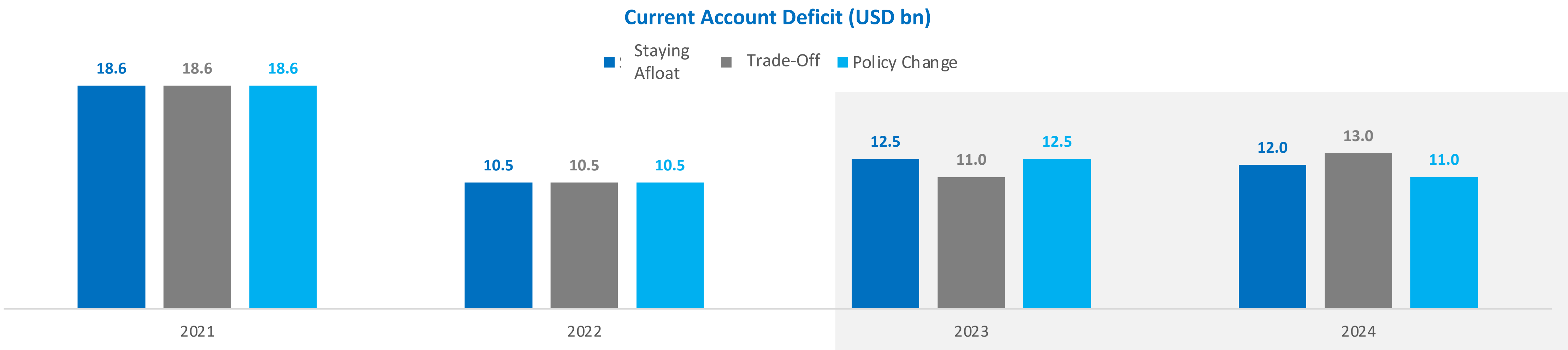


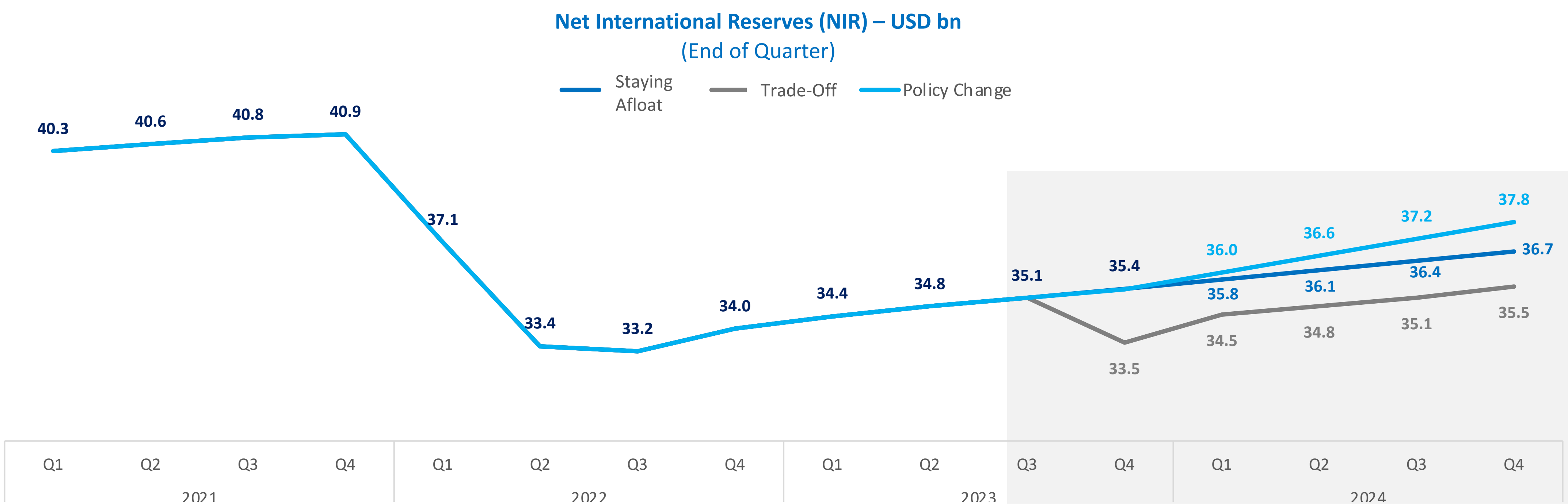
Annual Headline Inflation (%)
(Yearly Average)



Sources: CBE & Dcode EFC Forecasts

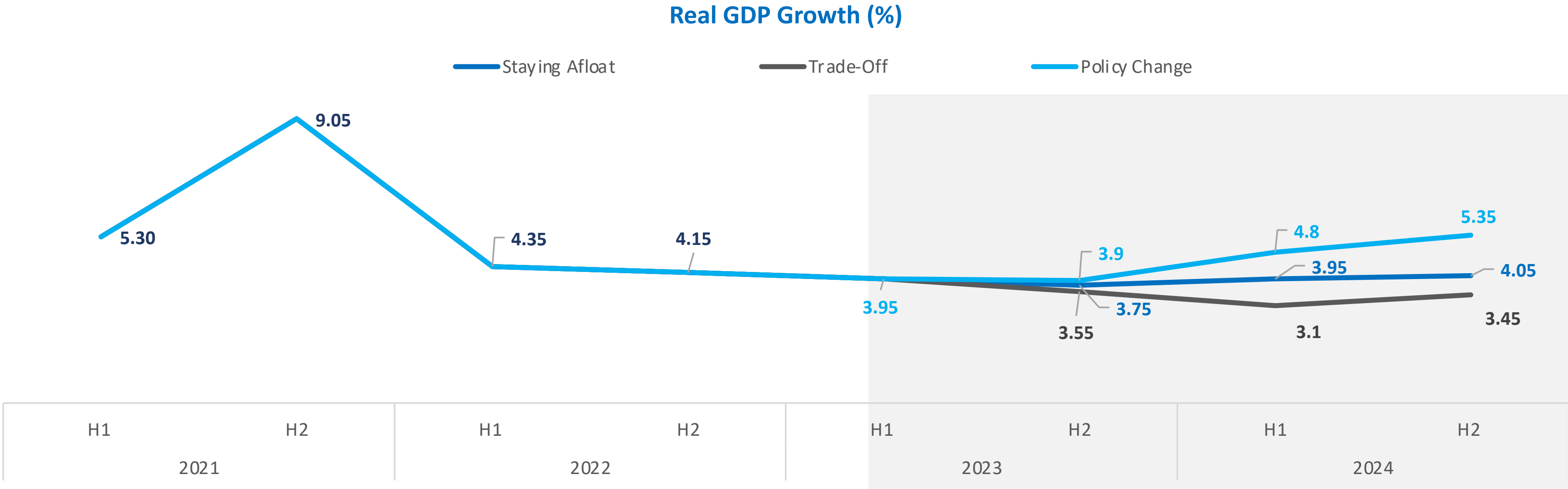
SCENARIOS DIFFERENCES:
MAIN INDICATORS

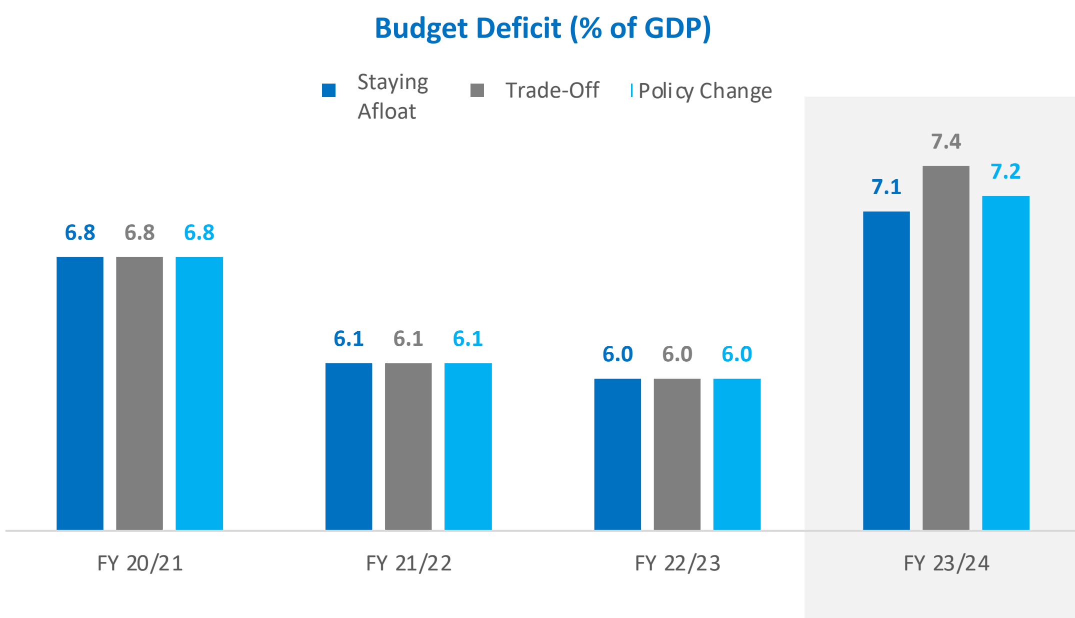


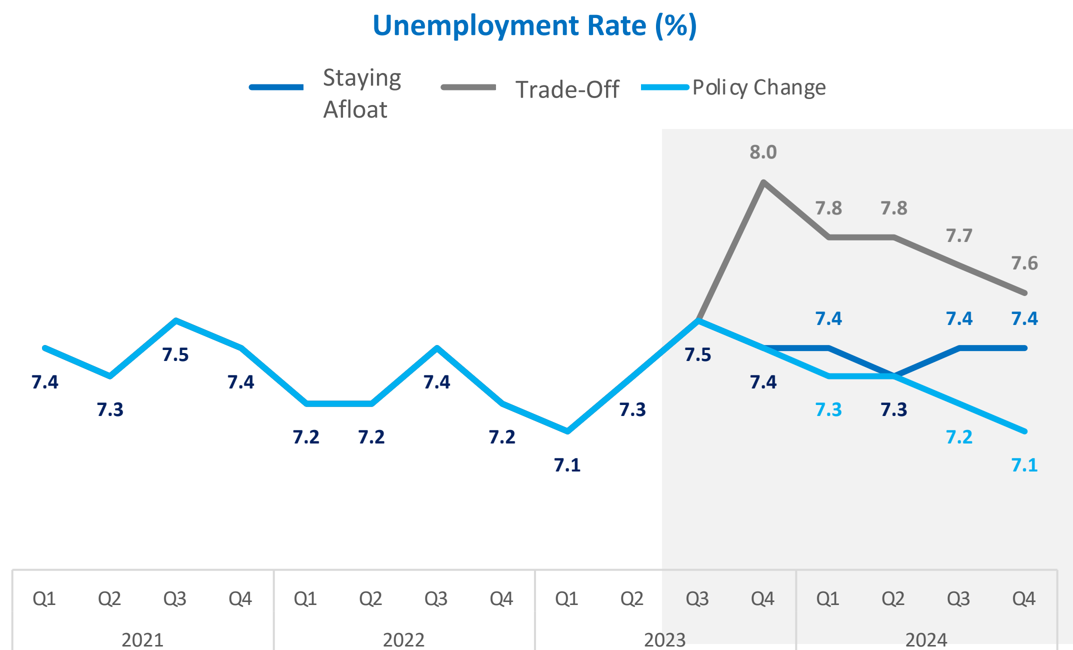


Sources: CBE & Dcode EFC Forecasts

SCENARIOS DIFFERENCES:
MAIN INDICATORS







Sources: MPED, Ministry of Finance, CAPMAS & Dcode EFC Forecasts

KEY TAKEAWAYS

In general terms, we are witnessing a very difficult economic situation and an increasing sociopolitical pressures that limit the decision-making capacity. Although, in theory there is a clear path to getting out of the current situation mainly aided by following the IMF's plan, in practice, it might be difficult for the government to go for a radical change in policy given the current social and political pressures. Thus, in our opinion the government is expected to either continue moving along the same path of 2022 or prioritize political stability despite the grave economic costs.

- Under all three scenarios, we foresee a tough year and half ahead, with soaring inflation and reduced consumption. Thus, growth of local market demand is not expected soon.
- We believe that exporting should be a key strategy for all businesses aiming to achieve growth and hedge against the slowdown in the local economy. Though, for companies in the manufacturing sector that have a larger portion of their raw materials imported, such a strategy should be studied carefully. However, for the services' sector, exporting should come relatively risk free.
- It is expected that input costs will continue to increase and hence prices. This in turn, will yield to lower demand especially for expensive and unessential products and/or reduced profits (depending on the companies' pricing strategies).
- Borrowing rates are foreseen to be high and hence cost of doing business will increase. This in turn, will result in muting immediate investments, but should not hinder studying investment opportunities to be ready with execution once the economic situation turns positive.
- It is foreseen, given the economic hardship, that social safety nets (e.g. Takafoul and Karama) will remain a priority (with varying degrees) under all scenarios. Thus, demand will shift to necessity lower priced alternatives.
- Currently, and more so in the future, brain drain is a challenge, putting pressure on identifying and acquiring calibers in the labour market. Furthermore, retention of talent through different incentive schemes (e.g. cost of living allowance), should be prioritized.
- Given the different scenarios anticipated, we believe that organizations should be prepared with flexible strategies and plans of action.
- Furthermore, and as mentioned, investment opportunities should be well studied in terms of size, feasibility, and more importantly the timing, all to be ready for action under different scenarios.
- In such state of uncertainty, it is not a luxury to closely monitor the policy direction as it will have significant impact in the medium term (3-5 years).

Source: Dcode EFC Analysis

STATISTICAL ANNEX

SCENARIO 1

PROJECTIONS

Indicator	Unit	2021				2022				2023				2024			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP Growth	% (Demand Side)	2.9	7.7	9.8	8.3	5.4	3.3	4.4	3.9	3.9	4.0	3.8	3.7	3.9	4.0	4.1	4.0
Real GDP	Constant Prices Demand Side EGP bn	1781.8	1887.3	2006.3	2010.2	1877.4	1948.6	2093.7	2089.5	1950.6	2,026.5	2,173.3	2,166.8	2,026.7	2,107.6	2,262.4	2,253.5
EGP/USD	Mid Official Rate End of Quarter	15.71	15.68	15.71	15.71	18.26	18.80	19.55	24.74	30.90	30.90	30.90	35.00	35.50	39.00	39.50	39.90
Annual Headline Inflation	% End of Quarter	4.5	4.9	6.6	5.9	10.5	13.2	15.0	21.3	32.7	35.7	37.0	31.0	26.0	28.0	24.0	20.0
Overnight Lending Rate	% End of Quarter	9.25	9.25	9.25	9.25	10.25	12.25	12.25	17.25	19.25	19.25	21.25	22.25	22.25	24.25	24.25	24.25
Unemployment Rate	%	7.4	7.3	7.5	7.4	7.2	7.2	7.4	7.2	7.1	7.3	7.5	7.4	7.4	7.3	7.4	7.4
Net International Reserves	USD bn End of Quarter	40.3	40.6	40.8	40.9	37.1	33.4	33.2	34.0	34.4	34.8	35.1	35.4	35.8	36.1	36.4	36.7
Current Account	USD bn	-5.7	-5.1	-4.0	-3.8	-5.8	-3.0	-3.2	1.4	-3.5	-3.0	-2.5	-3.5	-3.0	-3.5	-2.5	-3.0
Budget Deficit	% of GDP Annual Fiscal Year Basis	FY 2020/21 = **-6.8**		FY 2021/22 = **-6.1**				FY 2022/23 = **-6.0**				FY 2023/24 = **-7.1**					

Forecasted

Source: Official sources & Dcode EFC Forecasts

SCENARIO 2

PROJECTIONS

Indicator	Unit	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Real GDP Growth	% (Demand Side)	2.9	7.7	9.8	8.3	5.4	3.3	4.4	3.9	3.9	4.0	3.8	3.3	3.0	3.2	3.3	3.6
Real GDP	Constant Prices Demand Side EGP bn	1781.8	1887.3	2006.3	2010.2	1877.4	1948.6	2093.7	2089.5	1950.6	2,026.5	2,173.3	2,158.5	2,009.1	2,091.4	2,245.0	2,236.2
EGP/USD	Mid Official Rate End of Quarter	15.71	15.68	15.71	15.71	18.26	18.80	19.55	24.74	30.90	30.90	30.90	30.90	38.00	39.00	40.00	41.00
Annual Headline Inflation	% End of Quarter	4.5	4.9	6.6	5.9	10.5	13.2	15.0	21.3	32.7	35.7	37.0	28.0	30.0	28.0	25.0	23.0
Overnight Lending Rate	% End of Quarter	9.25	9.25	9.25	9.25	10.25	12.25	12.25	17.25	19.25	19.25	21.25	22.25	25.25	26.25	27.25	27.25
Unemployment Rate	%	7.4	7.3	7.5	7.4	7.2	7.2	7.4	7.2	7.1	7.3	7.5	8.0	7.8	7.8	7.7	7.6
Net International Reserves	USD bn End of Quarter	40.3	40.6	40.8	40.9	37.1	33.4	33.2	34.0	34.4	34.8	35.1	33.5	34.5	34.8	35.1	35.5
Current Account	USD bn	-5.7	-5.1	-4.0	-3.8	-5.8	-3.0	-3.2	1.4	-3.5	-3.0	-2.5	-2.0	-4.0	-3.5	-2.5	-3.0
Budget Deficit	% of GDP Annual Fiscal Year Basis	FY 2020/21 = **-6.8**		FY 2021/22 = **-6.1**				FY 2022/23 = **-6.0**				FY 2023/24 = **-7.4**					

Forecasted

Source: Official sources & Dcode EFC Forecasts

POLICY CHANGE
PROJECTIONS

Indicator	Unit	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	2023 Q3	2023 Q4	2024 Q1	2024 Q2	2024 Q3	2024 Q4
Real GDP Growth	% (Demand Side)	2.9	7.7	9.8	8.3	5.4	3.3	4.4	3.9	3.9	4.0	3.8	4.0	4.6	5.0	5.2	5.5
Real GDP	Constant Prices Demand Side EGP bn	1781.8	1887.3	2006.3	2010.2	1877.4	1948.6	2093.7	2089.5	1950.6	2,026.5	2,173.3	2,173.1	2,040.3	2,127.9	2,286.3	2,292.6
EGP/USD	Mid Official Rate End of Quarter	15.71	15.68	15.71	15.71	18.26	18.80	19.55	24.74	30.90	30.90	30.90	38.00	39.50	41.00	40.50	40.00
Annual Headline Inflation	% End of Quarter	4.5	4.9	6.6	5.9	10.5	13.2	15.0	21.3	32.7	35.7	37.0	35.0	30.0	25.0	20.0	16.0
Overnight Lending Rate	% End of Quarter	9.25	9.25	9.25	9.25	10.25	12.25	12.25	17.25	19.25	19.25	20.25	22.25	23.25	24.25	24.25	23.25
Unemployment Rate	%	7.4	7.3	7.5	7.4	7.2	7.2	7.4	7.2	7.1	7.3	7.5	7.4	7.3	7.3	7.2	7.1
Net International Reserves	USD bn End of Quarter	40.3	40.6	40.8	40.9	37.1	33.4	33.2	34.0	34.4	34.8	35.1	35.4	36.0	36.6	37.2	37.8
Current Account	USD bn	-5.7	-5.1	-4.0	-3.8	-5.8	-3.0	-3.2	1.4	-3.5	-3.0	-2.5	-3.5	-3.5	-3.0	-2.5	-2.0
Budget Deficit	% of GDP Annual Fiscal Year Basis	FY 2020/21 = **-6.8**		FY 2021/22 = **-6.1**				FY 2022/23 = **-6.0**				FY 2023/24 = **-7.2**					

Forecasted

Source: Official sources & Dcode EFC Forecasts

EIA OIL & GAS PRICES OUTLOOK

		2023												2024											
Indicator	**Unit**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Brent Crude Oil	USD/bbl.	82.50	82.59	78.43	84.64	75.47	74.84	80.11	85.00	86.00	87.00	88.00	88.00	88.00	88.00	88.00	87.00	87.00	87.00	86.00	86.00	86.00	85.00	85.00	85.00
U.S. (Henry Hub) Natural Gas	USD/MMBtu	3.27	2.38	2.31	2.16	2.15	2.18	2.55	2.56	2.52	2.58	2.91	3.36	3.45	3.33	3.16	2.92	2.88	2.97	3.18	3.27	3.34	3.30	3.37	3.52

Forecasted

Source: U.S. Energy Information Administration (EIA) - Short-term Energy Outlook – August 2023

DISCLAIMER

While the highest professional standards were used to generate the forecasts included in this report, the scenario and assumptions upon which such forecasts were developed remain subject to significant uncertainty. Dcode Economic and Financial Consulting does not guarantee the accuracy or completeness of any information contained herein. Dcode Economic and Financial Consulting specifically disclaims all warranties expressed or implied with respect to the use of this information or any results with respect thereto. In addition, the information/forecasts contained herein shall in no way be construed to constitute a recommendation by Dcode Economic and Financial Consulting, with respect to the business decisions of the client.

“Advice is judged by results not intentions”

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