

LOGIC

CONSULTING

EGYPT'S ECONOMY

SURFING THROUGH
THE WIND OF CHANGE

In 2024, Egypt's economy faced significant challenges, navigating a critical turning point while pursuing bold reforms. The year's economic landscape was defined by the continued depreciation of the Egyptian pound and a severe foreign currency shortage, which drove inflation to new heights and intensified external debt burdens. These factors underscored the urgent need for transformative reforms aimed at stabilization and recovery.

To address these challenges, the Central Bank of Egypt devalued the Egyptian pound for the fourth time since 2022, adopting a flexible exchange rate regime to curb instability. This shift was supported by an **\$8 billion** Extended Fund Facility secured from the International Monetary Fund (IMF) in March 2024, supplementing a previous **\$3 billion** arrangement from December 2022. The IMF agreement came with stringent commitments, including subsidy reforms, privatization initiatives, and tighter fiscal policies, aimed at rebuilding investor confidence and addressing structural imbalances.

As part of its reform strategy, the government enacted bold measures to alleviate fiscal pressures, including a significant hike in fuel prices—ranging from **10% to 17%** in October 2024, the third increase of the year—and a dramatic **300%** rise in the price of subsidized bread. These controversial steps reflected Egypt's commitment to achieving fiscal sustainability despite their social and political sensitivities. The IMF highlighted three critical areas that could pose implementation risks to Egypt's reform program:

1.**A sustained shift to a fully liberalized foreign exchange regime****2.****Comprehensive energy subsidy reform to reduce fiscal burdens.****3.****The integration of off-budget investments into unified fiscal accounts, enabling tighter economic management.**

Additionally, Egypt undertook structural reforms to bolster private sector-led growth, including the adoption of a State Ownership Policy to decrease the playing field for public and private enterprises, privatization and divestment of state-owned enterprises to attract foreign direct investment. The government also planned to transition from commodity subsidies to direct cash assistance by July 2025, promoting economic efficiency and better targeting of social assistance .

1.0 REFLECTING ON 2024

Key Economic Milestones and Challenges in Egypt

I. AGRICULTURE

Towards Sustainable Expansion

Key Strategic Initiatives and Challenges

Egypt aims to expand arable land to 12 million feddans by 2030 (from 9.6 million in FY2021/2022) and meet 70% of local wheat demand to reduce import reliance mainly from Russia (74%). Also, Programs like the Sustainable Agricultural Development Strategy 2030 and emerging Agritech startups (e.g., Zr3i) promote technology use, with international collaborations introducing innovations like Greendome greenhouse technology. This initiative is still underway, since many rural areas still struggle with inadequate internet and electricity, and limited farmer trainings.

II. TOURISM

Ambitious Goals Amid Regional Uncertainty

Tourism, a cornerstone of Egypt's economy, witnessed conflicting experiences, resulting from the political unrest of the region and global economic uncertainties, yet at the same time, despite the challenges the devaluation causes on the overall economy, it makes Egypt an even more attractive and affordable destination for tourists. That was clearly demonstrated by significant drop in room bookings in South Sinaia, nevertheless overall tourism remained robust, with a 5% year-on-year increase in early 2024, generating \$6.6 billion, up from \$6.3 billion in 2023.

Capitalizing on that, Egypt aims to double annual tourist arrivals to 30 million by 2030 and expand hotel capacity to 500,000 rooms. Achieving these targets requires infrastructure development, sustained stability, enhanced connectivity, cultural promotion, and innovative offerings, and that is foreseen to happen through many strategic initiatives, with lights shedding specifically on the following;

The Grand Egyptian Museum:

will be the world's largest archaeological museum, showcasing over 50,000 artifacts.

Ras el-Hekma:

A \$35 billion investment on the North Coast featuring luxury resorts, a financial center, and free zones with state-of-the-art infrastructure. Designed to attract up to 8 million tourists with enhanced accessibility through airports and high-speed rail.

These initiatives exemplify Egypt's strategic commitment to revitalizing its tourism sector through cultural and coastal developments. By targeting diverse and affluent tourists, the government seeks to sustain long-term growth and reinforce Egypt's positioning as a premier global destination.



ICT SECTOR

A Digital Growth Engine

Egypt sought to elevate the ICT sector's contribution to GDP from **3.4% to 7%**, supported by initiatives such as:

Expanding mobile network towers for better connectivity.

Increasing outsourcing exports to \$13 billion.

In 2024, Egypt's outsourcing sector experienced significant growth, with exports reaching \$3.7 billion, up from \$2.4 billion in 2022. This 54% increase underscores the country's commitment to becoming a global hub for outsourcing and technology innovation. The Information Technology Industry Development Agency (ITIDA) has been instrumental in this progress, attracting international companies and fostering skilled, multilingual workforce. The government aims to further elevate outsourcing exports to \$9 billion by 2026, creating over 200,000 direct export job opportunities for its youth in the outsourcing field. These advancements hinge on robust investments in digital infrastructure and human capital development, underscoring the importance of education and workforce training in sustaining ICT growth.

IV. INDUSTRIAL SECTOR

Towards Realizing Long-term Economic Goals

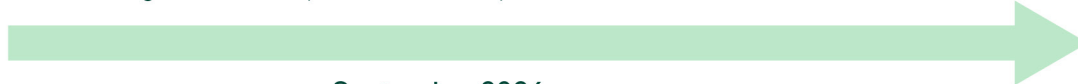
In 2024, Egypt's industrial sector faced significant obstacles, including energy shortages, foreign exchange constraints, and the pressing need for enhanced private sector participation.

To address these challenges, the government implemented various measures aimed at stimulating industrial growth and ensuring economic stability.

The Industrial Production Index (IPI), which measures the output of manufacturing and extractive industries (excluding crude oil and petroleum products), showed mixed performance throughout the year:

January 2024:

The IPI declined by **5.45%** compared to December 2023, falling from **98.20** points to **92.85** points.



September 2024:

The index rebounded, showing a **3.5% year-on-year increase**, signaling a positive shift in industrial output.

Strategic Initiatives

Category	Initiative	
Energy Sector Interventions	Importing Natural Gas	A government-formed consortium began importing U.S. shale gas to address shortages and stabilize industrial operations.
	Enhancing Production	Collaborations with international energy firms, such as Eni, aimed to boost gas output from existing fields.
Financial Measures	Financial Leasing Initiatives	The Financial Regulatory Authority proposed extending financial leasing to industrial land purchases to improve liquidity and facilitate investments.
	Tax and Customs Relief	Upcoming packages announced by the Ministry of Finance sought to reduce financial burdens on businesses, encouraging growth.
Strategic Industrial Development	National Industrial Strategy	A comprehensive plan was approved to raise the industrial sector's GDP contribution from 14% to 20% by 2030, focusing on import substitution, export promotion, and localization of industries.
	Private Sector Engagement	Strengthened cooperation with the private sector was prioritized to enhance competitiveness and drive sustainable growth.

Key Economic Indicators

Indicator	Unit	2023	2024 Est.	2025 F
Gross domestic product, constant prices	% change	3.759	2.672 ▼	4.081 ▲
Gross domestic product, current prices	Billion U.S. dollars	393.828	380.04 ▼	345.874 ▼
General government revenue	% of GDP	16.973	16.638 ▼	17.628 ▲
General government total expenditure	% of GDP	22.741	26.779 ▲	27.693 ▲
GDP based on purchasing-power-parity (PPP) share of world total	%	1.152	1.147 ▼	1.157 ▲
Inflation, average consumer prices	Index	149.067	198.708 ▲	240.818 ▲
Total investment	% of GDP	12.878	10.790 ▼	11.065 ▲
Unemployment rate	%	7.185	7.230 ▲	7.351 ▲
Volume of exports of goods and services	% change	2.223	-6.525 ▼	4.242 ▲
Volume of imports of goods and services	% change	-17.552	9.736 ▲	2.820 ▼

Source: International Monetary Fund, World Economic Outlook Database, October 2024

Egypt, in 2024, exemplified **resilience and adaptability** in the face of multifaceted challenges. While the country grappled with **inflation, currency shortages**, and global disruptions, its strategic reforms and investments laid a foundation for **sustainable, inclusive growth**. The coming years will test the efficacy of these efforts, with success contingent on maintaining momentum and addressing structural vulnerabilities.

2024 & Beyond

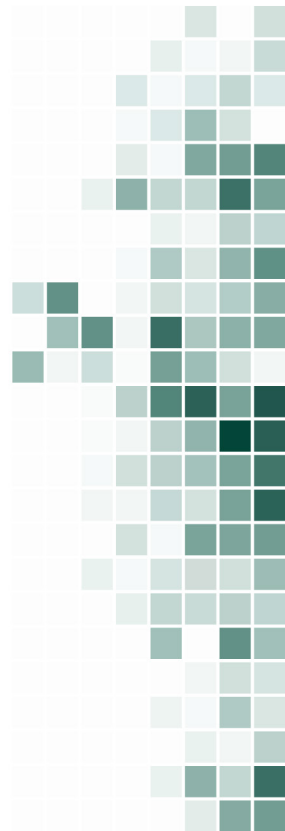
Maha Maalouf's Insights into Egypt's Evolving Landscape

Maha Maalouf, Senior Partner at LOGIC Consulting and Egypt Managing Partner, provided valuable insights into Egypt's economic landscape for 2024, discussing key sectors, challenges, and growth opportunities, and how were they demonstrated on the business environment in reflection to our expertise in the Egyptian market across various sectors.



Q1 What are the major macroeconomic trends shaping Egypt's economy in 2024?

- ▶ **Maha Maalouf:** Egypt continues to grapple with high inflation rates, hovering around 27%, and fluctuating currency exchange rates. Frequent fluctuations in the foreign exchange market have added another layer of complexity for businesses operating in Egypt. With the Egyptian pound subject to significant volatility, companies dealing in imports or exports and even services and manufacturing sectors found it very challenging to adopt sound and consistent pricing strategies to account for changes in exchange rates. These price adjustments resulted in market instability, affecting both consumers purchasing behavior and the profitability of businesses. Additionally, businesses were compelled to engage in an unanticipated race to mitigate the effects of soaring inflation by implementing mid-year salary and compensation adjustments. This had a dual negative impact: straining company performance and driving top talent to seek opportunities in Gulf countries, where compensation packages offer a six- to eightfold increase.



Q2 How has the privatization strategy affected Egypt's economic growth?

- ▶ **Maha Maalouf:** Egypt's private sector contribution to the economy has shifted from around 65-70% before 2013 to approximately 30-40% today. While the government's plans focus on increasing private sector involvement, progress has been slower than anticipated. Further efforts to strengthen privatization, including the mandates and initiatives adopted by the Egyptian Sovereign Fund to attract private investments in Egypt's underutilized assets to unlock value and create wealth hence contribute to the growth of Egypt's economy, in sectors like tourism, healthcare, education, industry, agriculture and food, telecommunication and others, yet again progress has been relatively slow due to the sandbags attached to their feet, resulting from the previously mentioned economic factors. The gap between the public and private sector contributions highlights the need for continued and persistent efforts and strategic actions to enhance private sector participation in the coming years.

Q3 What's next for Egypt's real estate sector—where do you see it heading?

- ▶ **Maha Maalouf:** The Egyptian real estate sector, like others, is navigating several challenges resulting from the devaluation of the pound, mainly due to the increase in construction cost making it hard to offer competitive pricing for a broader population base. Also, inflation is clearly impacting purchasing power, particularly in the residential sector, despite real estate developers offering various payment facilities to attract investors. Despite such challenges, an influx of new developers, has heightened competition, with numerous players vying for space, with a firm belief that with a population of more than 110 million there will always be an opportunity out there. On the organizational front, the new entrants to the real-estate market has also sparked a talent war, particularly at senior levels, as companies scramble to secure top-tier professionals who can steer their projects and operations to success. The demand for leaders, specifically in the role of the Chief Development Officers, has surged, leading to a fluid exchange of talent between major players in the industry. While this talent circulation brings both positive and negative implications for the market, the competition for leadership positions is undeniably reshaping the landscape of Egypt's real estate sector.

While challenges persist, the horizon is filled with potential opportunities;

Expansion Beyond Major Cities

Developers are increasingly looking outside Cairo and other major metropolitan areas for new projects, tapping into provincial markets that are becoming more attractive due to urbanization and infrastructure development. While success in these regions can vary, the potential for long-term growth is undeniable.

Rising Demand for Mixed-Use Developments

There is a growing trend for mixed-use projects that combine residential, commercial, and recreational spaces. This trend is driven by the increasing demand for more integrated living spaces that offer convenience and accessibility. These developments are seen as key drivers of growth in urban planning.

Smaller, More Economical Units

Tailored to meet the financial constraints of newly married couples, these units provide an affordable housing solution by minimizing upfront costs and reducing the financial strain of monthly installments.

Q4 Looking into pharmaceutical sector, how can Egypt's pharmaceutical sector turn challenges into promising opportunities?



Maha Maalouf: The pharmaceutical sector in Egypt faces several key challenges, including:

1. Dependence on Imports

Around 90% of raw materials required for pharmaceutical production are imported. This heavy reliance on foreign supply chains leaves the industry vulnerable to currency fluctuations, with devaluation of the Egyptian pound driving up costs. These increased expenses, compounded by pricing regulations, often make it difficult for companies to maintain profitability, hence companies are unable to absorb the losses from higher input costs, leading to shortages of critical medicines in the market.

2. Underdeveloped Manufacturing Capabilities:

Despite relentless efforts to build stronger manufacturing capabilities, particularly in the production of active pharmaceutical ingredients (APIs), Egypt's pharmaceutical manufacturing infrastructure remains underdeveloped. Regulatory barriers and insufficient infrastructure have hindered progress in boosting domestic production, which further limits the sector's ability to meet both local and international demand.

However, there are significant opportunities, especially in the areas of vaccine production and the manufacture of essential drugs. These sectors are critical to addressing both Egypt's domestic needs and to expanding export potential. Strengthening investment in these areas could help reduce dependency on imports, improve self-sufficiency, and position Egypt as a key player in the global pharmaceutical market.

One of the key winning strategies for Egypt's pharmaceutical sector lies in exporting. While there are promising opportunities in African and Eastern European markets, the challenges include navigating complex regulatory frameworks and achieving cost competitiveness in these regions. While exporting to price-sensitive markets like Sudan and Yemen might provide short-term opportunities, sustainable growth in the pharmaceutical industry will depend on targeting more structured markets with well-defined agreements. These markets offer the potential for long-term stability and higher profitability, provided that companies can meet regulatory requirements and align their pricing strategies accordingly.

Q5 What observations can be made about the behavior of the business community in response to current economic challenges?

► **Maha Maalouf:** There are several approaches adopted by investors to shield themselves against economic uncertainties:

Diversification

One of the key strategies for investors is allocating investments across various industries, asset classes, or geographic regions, to mitigate the impact of downturns in any single area of their portfolio.

Local Production

By investing in local production, processing, and distribution networks, businesses can reduce their reliance on imported goods, which often become more expensive and less accessible during currency fluctuations. This strategy not only stabilizes operational costs but also enhances the resilience of supply chains, ensuring continuity in the face of global disruptions.

Export Opportunities

Exporting provides investors with the chance to leverage favorable trade agreements, tap into larger or emerging consumer markets, and capitalize on higher foreign currency values, particularly during periods of local currency devaluation.

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