

# Egypt: no relief for the foreign currency squeeze

*Coface*

Recently, the Central Bank of Egypt (CBE) instructed commercial banks to limit credit card use for transactions in foreign currencies. This is the latest manifestation of the lack of foreign currency in the country. Egyptian importers have encountered growing issues in obtaining foreign currency to settle their foreign suppliers.

This started with the Covid-19 pandemic that triggered disruptions in trade and tourism, and intensified with the war in Ukraine, which contributed to boost prices of petroleum products (of which Egypt is a net importer) and food, especially wheat (Egypt is the world's largest importer).

## Substantial foreign currency requirements but limited sources of supply

Egypt continues to have large external financing needs, requiring the procurement of foreign currency. Firstly, to **service its external debt** (USD 165 billion in September), the cost of which could reach USD 29 billion in 2024, according to the CBE. **Maintaining the level of the Central Bank's foreign exchange reserves** is a second constraint (they have already fallen from USD 45.4 billion in 2019 to USD 35 billion in September 2023, equivalent to 4.5 months of goods and services imports), while, at the same time, it must **offset the downward pressure exerted on its local currency** by selling these same foreign currencies.

The country's traditional sources of foreign currency are currently under pressure, making the situation even more complicated. The slowdown in global trade since the start of the year has been **weighing on the traffic of the Suez Canal**, and the proximity of the conflict between Israel and Hamas will lead to a drop in tourism revenues in the region. Expatriates' remittances, mainly from the Gulf and the UK, fell by 38% year to year in the first half of 2023.

## Various strategies to ease the pressure on foreign exchange reserves

**Beyond the compression of imports, achieved by foreign exchange rationing**, there are other strategies to alleviate pressure on foreign exchange reserves, all with their risks and rewards.

A **significant devaluation of the currency**, combined with greater exchange rate flexibility, would be a first option, as it would alleviate pressure on the currency. But the initial rapid depreciation would be accompanied by a surge in already very high inflation.

**Monetary and fiscal tightening** is a second option that would facilitate the adoption of a floating exchange rate, through a slowdown in household consumption and imports, which would not be without dissatisfying the population.

The third option is to look outside the country by **increasing foreign direct investment (FDI)**, but this presupposes that the army reduces its prominent role in the economy through assets disposals.

One possibility is to set up **barter agreements** to facilitate essential imports while not drawing on foreign exchange reserves. This is envisaged for tea imports from Kenya, for example.

Faced with this difficult situation and the risk of a backlash from the population and the army just before the presidential election in December, the authorities are likely to try to delay and mitigate these demanding reforms, aided by the continued support of their partners, both local (Saudi Arabia and the United Arab Emirates) and distant (USA), as well as by the relative fall in world agricultural prices.

Under these conditions, it is illusory to expect a significant reduction on the foreign currency squeeze before the presidential election, a reduction that could only be gradual and not free of backsliding.