

October 2022

Greetings from Washington,

Two weeks ago, Washington, DC streets were full of government delegations from around the world attending the 2022 IMF annual meetings, the first in-person meetings the Bretton Woods institutions have held since the beginning of the pandemic crisis. Ahead of the meetings, the IMF released the latest World *Economic Outlook Report,* highlighting an expected slowdown in the global economy, including in the Middle East and North Africa (MENA) region.

The report also projected an <u>increase</u> in the level of economic and financial risk globally and in MENA, due to the persistent increase in commodity prices, broadening inflation, and escalating financial instability. Based on these elements, the IMF predicts a slowdown in middle-income MENA economies to approximately 3.6 percent GDP growth in 2023, compared to 5 percent in 2022.

Egypt is one of the main MENA countries already suffering the effects of the global economic slowdown. A couple of days after the meetings, IMF Chief Kristalina Georgieva announced an agreement with the Egyptian authorities, subject to approval by the IMF Executive Board in December, on comprehensive economic policies and reforms to be supported by a 46-month Extended Fund Facility (EFF) Arrangement of \$3 billion. In return, Egypt will be <u>committed</u> to implement a durable flexible exchange rate policy, expand targeted social protection, and anchor private sector engagement.

So, would the new IMF deal resolve Egypt's existing economic problems? The short answer is no. These policies may be necessary, but they are certainly not enough.

Since at least the 1980s, the Egyptian economy has struggled with structural imbalances, including escalating levels of public debt, a mismatch of foreign exchange and monetary policies, and low levels of spending on the social sector, including healthcare and education.

Currently, the level of public debt in Egypt is alarmingly high, at about 89 percent of GDP, with the level of external debt alone representing 35 percent of GDP. As a result, annual foreign debt service is an estimated <u>\$12 billion</u>, which is more than double the total FDI inflows into the country (around <u>\$5.4 billion</u>), and almost as much as Egypt's total estimated tourism revenue for 2022 (around \$13 billion). Unfortunately, taking this IMF loan will likely lead in the future to additional debt distress, higher debt servicing costs, and more importantly, limited fiscal space to promote social development.

Furthermore, the prescribed additional foreign exchange flexibility will likely push the Egyptian pound lower, causing higher inflation, since Egypt is a net oil and food importer. This will worsen the purchasing power of low-middle income Egyptians (about 80-85 percent of the population). Indeed, four days ago, the Egyptian pound lost an additional <u>15 percent</u> of its value once the authorities revealed the IMF deal with a commitment to a "durably flexible exchange rate regime."

Egypt has been engaged with the IMF in multiple reform programs since the early 1990s, which helped the country to implement macroeconomic stabilization policies, and promote fiscal policy reforms. However, in a country of about 110 million people, with an <u>estimated 30 percent</u> poverty rate and with a population growth rate of <u>2 percent</u> (50 percent higher than the global average), economic development solutions need to be creative, responsive to the country's local needs and future-oriented. I would like to propose three solutions herein, in addition to the IMF's prescriptions:

**Promote circular-economy solutions**: As mentioned above, Egypt has a large population that is growing significantly faster than the global average, which means that linear economic growth cannot generate enough jobs and income for its fastgrowing population. Egypt can benefit significantly from promoting circular economy solutions. The leading countries in this field are the Netherlands, France, and Italy, which Egypt has good economic relations with and can benefit through learning from their experiences.

**Teach Egyptians how to code**: As discussed earlier, Egypt's population is large. It is also young, with a median age of 24 years old. Importantly, the country has a high internet penetration rate of <u>72 percent</u>. The Egyptian government should utilize these important characteristics as assets and launch a country-wide campaign to teach young Egyptians how to code. This can be very beneficial to the local economy and can also provide outsourcing capabilities to integrate into the global value chain.

Use the country's massive green energy potential: Egypt possesses an abundance of land, sunny climate, and high wind speeds. The Egyptian Government's Integrated Sustainable Energy Strategy (ISES) set a target for renewable energy to make up close to half of the country's electricity mix by 2035. If Egypt manages to procure the necessary technology solutions from leading economic partners, in addition to working closely with neighboring countries, Egypt can become a hub for green energy in the region and globally. With the right policy/technology mix, solar and wind energy can be produced in Egypt, stored, and exported to Sub-Saharan Africa and Europe.

In sum, Egypt has significant economic potential that needs to be adequately explored. The \$3 billion dollar loan can provide a temporary short-term solution, but Egypt also needs to address its fundamental sustainable development targets in creative ways, to overcome the structural impediments the country has been struggling with since the 1980s.

Sincerely,

**Racha Helwa** Director, empowerME Rafik Hariri Center for the Middle East Atlantic Council

### empowerME hosts H.E. Hala H. Elsaid and H.E. Mohamad Al-Ississ

In collaboration with the Atlantic Council's GeoEconomics Center, we held a discussion on Wednesday, October 12th, with Egypt's Minister of Planning and Economic Development and Chairperson of Egypt's Sovereign Fund H.E. Hala H.

Elsaid. On Thursday, October 13th, we convened an event with Jordan's Minister of Finance H.E. Mohamad Al-Ississ.



Season 3 of the empowerME Conversations Podcast is Live Listen to all of Season 3 of the empowerME Conversations podcast, hosted by empowerME Chairman Amjad Ahmad! This season was sponsored by UPS.



**Episode 1**: **Palestine** Featuring Palestine Minister of State for Entrepreneurship and Empowerment H.E. Osama Al Saadawi.



**Episode 2:** Featuring the Arab Republic of Egypt Minister of International Cooperation H.E. Rania





**Episode 3**: Jordan

Featuring Jordan Minister of Digital Economy and Entrepreneurship H.E. Ahmad Al-Hanandeh.

**View Episode** 



Al-Mashat.

Egypt

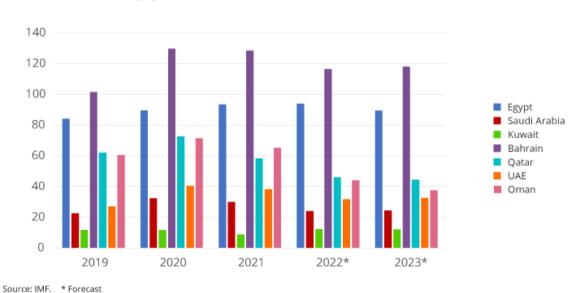


**Episode 4: Middle East** 

Featuring International Monetary Fund Director of the Middle East and Central Asia Department Jihad Azour.

**View Episode** 

**Big Data** 



Debt-to-GDP ratios (%), 2019-23

Graph: Control Risks Data from: International Monetary Fund

## **Previous Events**



On Tuesday, October 4th, we held a virtual event prior to COP 27 in Egypt featuring keynote speaker Columbia University Director of the Center for Sustainable Development Jeffrey Sachs alongside Arab Republic of Egypt Ministry of Environment Minister and COP27 Ministerial Coordinator and Envoy H.E. Yasmine Fouad, COP 28 UAE Organizing Team Executive Vice President Ambassador Majid Al-Suwaidi, United Nations Climate Change High-Level Champion for COP27 and Special Envoy on Financing 2030 Agenda for

Sustainable Development Mahmoud Mohieldin, United Nations Development Program Special Advisor to the Administrator Mourad Wahba, and The Rockefeller Foundation Deputy Chief of Staff and Vice President Eric Pelofsky. This conversation was moderated by empowerME Director Racha Helwa.

Watch Event



On Wednesday, October 12th, we hosted Egypt's Minister of Planning and Economic Development and Chairperson of Egypt's Sovereign Fund H.E. Hala H. Elsaid who discussed the opportunities and challenges faced by the Egyptian economy in 2023 and beyond.



On Thursday, October 13th, we hosted Jordan's Minister of Finance H.E. Mohamad Al-Ississ who discussed the government's plan for approaching the challenges facing Jordan's economy and the potential areas of growth within their

finance sector.

Watch Event

**Entrepreneur of the Month: Dennis Ardis** liwwa - Jordan

CEO Dennis Ardis is bridging the gap between borrowers and investors with Jordan-based fintech liwwa! Watch our short video to learn more.



Watch Short Video

In case you missed it...

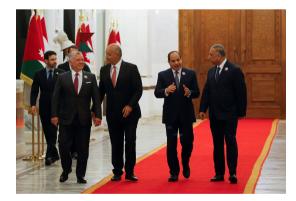


Egypt is hosting COP27. What are the expectations? By Lama El Hatow

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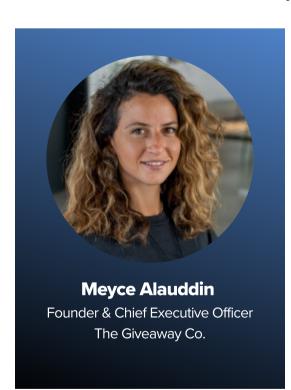
By <u>Racha Helwa</u>, Barik Schuber, and Ibrahim Saif



**Read More** 



What are the primary near-term risks to your business, and how are you adjusting?

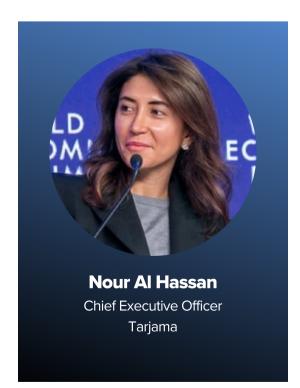


"Having gone through exponential growth and becoming the largest online destination for flowers and gifts in the

"Since The Giveaway Co. is all about designing and curating unique, affordable and chic giveaways that are suitable for all occasions, I feel that the primary near-term risks to my business are mostly sourcing the products for our collection because of the increase in prices of raw materials. So, we've had to adapt by curating our collections based on creatively designing and choosing items that are made using cheaper raw materials, while making sure that we produce them in closer countries so that shipping costs are also reduced."



MENA with operations across nine countries, some of the near-term risks we face at Floward are supply chain interruptions and negative market sentiment resulting in a slowdown in consumer spending. We are constantly adjusting to mitigate these risks; first by vertically integrating all that we can across all geographies to lower the chances of any interruption in the supply chain. Additionally, we are actively growing our market share to adjust to negative market sentiment."



Abdulaziz B. Al Loughani Chief Executive Officer & Chairman Floward

"The burgeoning technological evolution we've been experiencing in the past few years has undoubtedly disrupted our industry. This has been evidenced by the increased need for translation services that are not only accurate, but that can be utilized on-demand, with fast turnaround and at competitive costs. As early as 3 years ago, our team foresaw this looming change and in keeping up with our tenet of continuous adaptability, set out to build our very own Machine Translation Engine that sufficiently addresses these pain points. Our proactive response to this dynamic landscape has significantly improved client retention and satisfaction in regards to volume and scalability of our services."

"We are living in a very uncertain global economic climate, still with undefined recovery timelines. In a couple of years, there will be a totally new definition pack for a successful rising-up business term; hence, the very near-term risk is the "speed of reaction." A dynamic pivoting strategy mindset with clear risk assessments adapting to the current economic climate is required to come out of this phase as a winner."



"With the economy restarting post-Covid coupled with unprecedented global fiscal stimulus, many essential commodities and costs of new construction are at punishing levels and the Russia-Ukraine-conflict has added fuel to this fire. We at Pure Harvest Smart Farms do not face the same level of exposure as traditional agriculture; however, we are not immune to these inflationary pressures. This has created pressure as we ascertain what costs to share with consumers versus those, we can combat with management actions."

Mahmoud Ibrahim Co-Founder & Chief Executive Officer Homzmart

## **Big Reads**

- Venture Funding Boom in the Middle East Cools Just as First Startups Hit Maturity (The Wall Street Journal)
- Wall Street Is Heading to Saudi Arabia as US Oil Spat Simmers (Bloomberg)
- <u>The gender gap in startup investment</u> (Wamda)
- Made in KSA the female entrepreneurs helping to grow Saudi Arabia's economy (Arab News)



#### Learn about empowerME

empowerME is changing the conversation about the Middle East by focusing on economic prosperity. Watch this video to learn more about empowerME and its unique chairman, regional venture capital pioneer Amjad Ahmad.

#### WATCH VIDEO

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empowerME shapes solutions to empower entrepreneurs, women, and the private sector and builds influential coalitions to drive regional economic integration, prosperity, and job creation.

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