ANOTHER ROUND OF RISING ENERGY PRICES

- For the second time since floating the Egyptian Pound in November 2016, the government decided on the 29th of June 2017 to raise fuel prices, as part of its strategy to fix its fiscal imbalances. In July 2014, local authorities took an unprecedented decision by starting a gradual cut for energy subsidies to tackle Egypt's long lasting fiscal imbalances. Prices were raised again in November 2016, hours after adopting a free-float exchange rate regime.
- The Egyptian government also announced new hikes in electricity prices for households on the 6th of July, to be effective as of July 2017. Last time electricity prices were raised was in August 2016 by up to around 40%.

New Fuel Prices

EGP/Litre	BEFORE	AFTER	%
95 OCTANE	6.25	6.60	5.6
92 OCTANE	3.50	5	42.9
80 OCTANE	2.35	3.65	55.3
DIESEL	2.35	3.65	55.3
NATURAL GAS FOR VEHICLES*	1.60	2	25
BUTANE CYLINDERS	15	30	100

*EGP/M3

New Electricity Prices

KWH	BEFORE (Piasters)	AFTER (Piasters)	%
1-50	11	13	18.2
51-100	19	22	15.8
0-200	21.5	27	25.6
201-350	42.5	55	29.4
351-650	55	75	36.4
651-1,000	95	125	31.6
0-MORE THAN 1,000		135	42.1

REASONS & TARGETS BEHIND THE DECISION

- **THE AGREEMENT WITH THE INTERNATIONAL MONETARY FUND (IMF):** According to the USD12 billion loan agreement with the IMF, the Egyptian government is committed to fully remove subsidy on most fuel products by FY2018/19.
- **CONTAINING THE BUDGET DEFICIT:** Raising fuel prices would contribute in narrowing the country's budget deficit as the Egyptian government targets reducing it to 9.1% of GDP in FY2017/18 instead of 10.5% in FY2016/17. Oil Minister, Tarek El-Molla, stated that raising fuel prices would save about EGP35 billion, yet fuel subsidies will still cost the government about EGP105 billion annually. On the other hand, electricity Minister, Mohammed Shaker, stated that new price hikes are expected to help the government reduce electricity subsidies to EGP52.7 billion and EGP43.4 billion in FY2017/18 and FY2018/19 respectively instead of the current EGP82 billion.
- **HIGHER COST OF IMPORTATION:** Egypt has been facing an increasing cost for importing oil since floating the Egyptian Pound.
- **BETTER TARGETING FOR THE LOWER INCOME SEGMENTS:** The energy subsidy reform is expected to allow the authorities to allocate more funds for spending on social sectors.
- **MORE EFFICIENT CONSUMPTION:** The current below-the-cost pricing is economically inefficient as it encourages excessive energy consumption.

- **ENCOURAGING INVESTMENT IN ALTERNATIVE ENERGY RESOURCES:** The increasing cost of fossil fuel would make investing in other energy sectors like renewables more appealing, which might help the country diversify the sources of energy it depends on.

MEASURES TO SUPPORT CITIZENS

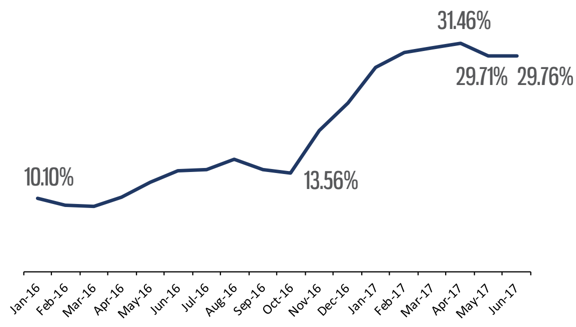
- On the 21st of June 2017, President Abdel-Fattah El-Sisi announced a new set of measures to ease the impacts of the recently applied economic reforms. These measures include:
  - Raising the monthly food subsidy from EGP21 to EGP50 per person, which increases its allocations in the state budget to EGP85 billion from only EGP45 billion.
  - Increasing the minimum income tax threshold to EGP7,200 a year from EGP6,500.
  - Increasing the state's pension payments by 15% for 10 million pensioners, with state budget allocations of EGP190 billion instead of EGP160 billion.
  - Halting agricultural lands taxes for three years.
  - Raising base salaries for public employees not covered by the country's civil service law by 10% and increasing them by 7% for those covered under the law.
  - Increasing financial support provided to the "Takaful" and "Karama"[1] programs for around 1.75 million beneficiaries, with a rise worth EGP8.25 billion. "Takaful" is an income support program for families with children, regarding child health, nutrition, school enrollment & attendance and maternal care. While "Karama" is a social inclusion program for the elderly and persons with disabilities.

- In its meeting held on the 6th of July 2017, the Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) decided to raise the overnight deposit rate and overnight lending rate by 200 basis points to 18.75% and 19.75% respectively. This is the third rise of interest rates after floating the Egyptian Pound in November when the CBE raised core interest rates by 300 and 200 basis points in November 2016 and May 2017 respectively. The MPC targeted curbing inflation through controlling money supply.

RISKS

- **ACCELERATING INFLATION:** Prime Minister, Sherif Ismail, said the government expected inflation, already around 30%, to accelerate by an additional four to five percentage points after this latest reduction of fuel subsidies. The rise in fuel prices affected transportation cost, which would accordingly impact the prices of different goods. Raising electricity prices and increasing the Value Added Tax (VAT) to 14% instead of 13% as of July 2017 would also contribute in further raising inflation rates.

Headline CPI (Y/Y)



Source: Central Bank of Egypt

- **STAGFLATION:** Stagflation is a condition of increasing inflation rate and a decline in GDP. Rising prices are expected to negatively affect the purchasing power of Egyptians and consumption rates in a consumption based economy, where consumption is considered the main driver of GDP growth. On the other hand, the industrial sector is going to continue suffering from the increasing cost of production. These factors are expected to add more pressures on the country's economic growth.