EU Delegation to Egypt
Key Trade and Economic Developments in Egypt
January - March 2021

Trade and Investment Developments:

- **In 2020, the value of the total EU-Egypt trade decreased by ca. 10%** compared to 2019. **Egypt's exports to the EU went down by ca. 23%,** with the most relevant decreases observed for mineral fuels and oils (-43%), plastics (-23%), apparel and clothing (-23%), vegetables (-14%), fertilisers (-11%), and electric machinery and equipment (-7%). It is worth noting though that some categories of goods experienced significant increases in their export value, like iron and steel (+24%), fruits and nuts (+20%), and organic chemicals (+19%). **EU exports to Egypt fell by ca. 5%,** mostly due to a reduction in exports of mineral fuel and oils (-52%), optical and medical instruments (-27%), wood (-13%), and electrical machinery and equipment (-10%). The most significant increases in export value were observed for aircraft (+51%), machinery and mechanical appliances (+10%), and motor vehicles (+10%).

- On 1 January 2021, countries that have ratified the African Continental Free Trade Area and submitted their market access offers (among them Egypt), **started trading under the rules of the AfCFTA.** The official launch of trading under the agreement was postponed by 6 months from 1 July 2020 to 1 January 2021 due to the covid-19 pandemic. According to the Secretary General of the AfCFTA, over the coming 15 years the use of the agreement will double the internal trade among African countries. Currently, inter-African trade represents ca. 18% of total Africa's trade, compared to ca. 80% for intra-EU trade.

- On 6 January 2021, **Egypt extended its export ban on broad beans** for another 3 months, justifying the measure with food security purposes. On 4 March 2021, Egypt **prolonged import restrictions for sugar** for additional 3 months.

- According to statements by Egypt's President and Trade Minister, the country has a very ambitious plan to increase its exports over the next 3 years, especially to EU, African and Arab markets. This increase shall be achieved through boosting national industries; helping small enterprises to export; and supporting land, sea and air freight for exports. The **export development strategy** foresees, in particular, raising the competitiveness of the Egyptian industry, providing information and market studies, launching programs and tools to guarantee exports and maximize profits, and benefiting from free-trade agreements signed between Egypt and other countries as well as regional and global economic blocs. In FY2021-22, the government will start the implementation of a **new three-year export subsidy program** accompanying the strategy.

- On 18 January 2021, Egypt's Information Technology Industry Development Agency (ITIDA) has launched a new edition of **IT exports incentive package to tackle the impact of covid.** The program is designed to encourage IT companies based in Egypt to boost their exports, secure their position in existing markets, and increase market penetration capabilities. Companies eligible for the program will receive direct monetary subsidies of up to 20% of value-added exports based on the company's size, capped at EGP 3 mn (ca. USD 191,300) for operators located in new tech parks and EGP 2.5 mn (ca. USD 159,400) for those located elsewhere. Additional incentives will be offered to economic operators exporting e-commerce, e-gaming, or e-design services; new entrants to the program; and companies operating in governorates other than Cairo, Giza, and Alexandria. Approved companies will need to have more than 50% Egyptian ownership, be headquartered in Egypt (only for operators founded before 2016), and export ICT services or IT-enabled services.

- On 1 April 2021, Egypt will start a trial of a **new single window for electronic customs procedures** ("**NAFEZA**"). It is a system of advanced cargo information that shall provide the shipping lines, port operators and governments with real-time information about the arrival of goods. Importers and customs agents will need to set up an account with Nafeza. Once registered, they will be required to submit information on shipments before loading and will obtain a unique advance registration number to identify them as the specific seller, port and country of origin. The NAFEZA system will be mandatory in all ports by July 2021.

- **The number of tourists that visited Egypt in 2020** (3.6 mn) was over 70% lower than in previous year (13 mn), according to the Tourism Ministry's annual newsletter. The majority of them (2.5 mn) visited the country in January and February 2020, before the pandemic brought the industry to a complete halt. Just 1.1 mn tourists visited Egypt in the second half of 2020, after authorities lifted travel restrictions. Egypt's government continues the implementation of relief measures for the tourism industry. Among others, it allowed the exemption of real estate tax for tourism establishments until April 2021, prolonged a debt relief initiative for tourism businesses until June 2021, and extended the loan initiative for tourism companies to pay workers until December 2021.

- Egyptian government is currently developing a **plan until year 2045 to attract 6 million tourists annually to South Sinai**. The plan envisages i.a. the development of local infrastructure, along with the construction of a business center, a medical city, a yacht marina, and a new airport.

- **FDI inflows into Egypt decreased 39% in 2020**. Egypt attracted USD 5.5 bn of FDI in 2020, down from USD 8.5 bn in 2019, which was a sharper drop than the 32% average among North African economies and 18% across Africa. Notwithstanding the above, **in 2020 Egypt kept its position as the top recipient of FDI in Africa,** according to UNCTAD report**.**

- On 18 January 2021, the state-owned car manufacturer El Nasr Automotive signed a contract with China's Dongfeng to **locally assemble electric vehicles**. The assembly line shall be installed in Q2 of 2021 and produce 25k vehicles yearly. This target will be increased to 53k vehicles within three years, with plans to export to Europe. The first electric vehicle should be ready for sale beginning of 2022, with 58% of its components manufactured locally. The price of the vehicle will be in the range of EGP 300-320k (USD 19,100-20,400). The car will have a maximum speed of 150 km/hr and travel 400 km on a full charge.

- The Egyptian Minister of Petroleum and Mineral Resources announced a plan to raise the contribution of the mining sector to the country's GDP to 5% from the current 0.5% over the coming 5 years. On 18 February 2021, the Minister launched the **first 2021 international tender for exploration and exploitation of gas and petroleum.** The bid covers 24 areas around the Mediterranean Sea, the Western Desert and the Gulf of Suez. The tender was launched via the digital portal "Egypt Upstream Gateway", a new platform that provides geological data for petroleum industry exploration and production activities in Egypt. Ten international companies, including Italian "Eni" and German "Wintershall DEA", have signed membership agreements to join the gateway.

- On 9 March 2021, the **4th ministerial meeting of the Eastern Mediterranean Gas Forum** (EMGF) took place in Cairo, with Energy Ministers of the founding members: Greece, Cyprus, Egypt, Israel, Italy, Jordan, and Palestine. The member countries announced the entry into force of the EMGF Statute as of 1 March 2021, and reaffirmed the Forum's objective as a platform for structured dialogue on natural gas policy. They noted that the EMGF would help unlock the full gas resources potential in the Eastern Mediterranean region. The member states will exchange information and seismic data on potential gas finds; cooperate on the development of existing resources, infrastructure and regional policies; and negotiate ownership of fields that cross maritime borders.

- According to Bloomberg, **Egypt might become one of the world's top 10 natural gas exporters** once it reaches full capacity in 2021 thanks to the re-opening, in February 2021, of the Damietta plant for liquefied natural gas that had been idle for 8 years.

- Egypt's President announced the **establishment of direct lines between the Egyptian ports and African ports.** He instructed the government to develop a system of maritime transport services, including the maritime transport fleet, and the ports on the Red and Mediterranean seas, in line with the latest international standards. The move aims at increasing trade exchange with the various countries of the continent, especially with regard to raw materials needed for domestic production.

- The Suez Canal Authority announced that the **revenues generated by the canal had decreased by 3% in 2020** to USD 5.61 bn compared to USD 5.8 bn in 2019. The authority decided to extend into 2021 incentives and reductions introduced last year in the context of a trade slowdown caused by the pandemic. LNG, LPG, and oil carriers will receive reductions on their Suez Canal transit in the range of 30%-75%. Moreover, transit fees for all ships will be fixed in 2021 at the same price as the previous year. The authority's revenues in Q1 of 2021 are expected to be negatively affected by the **blockage of the canal by a big container ship** that occured at the end of March 2021. The closure of the vital waterway serving 12% of world seaborne trade caused a traffic jam of hundreds of ships and led to the disruption of global value chains.

- According to a report released by the Suez Canal Economic Zone early 2021, over the next three years about **24 new projects will start operations in Al Ain Sokhna Industrial Zone**. Negotiations are on-going with a group of specialized national and foreign companies to set up targeted projects for the petrochemical, iron, tires, stainless steel, and optical fibre cables industries, along with logistical areas for storing cars.

- **In 2020, Egypt held the second-biggest share of venture capital investment in the MENA region,** according to Magnitt's MENA Venture Investment Report. Egypt accounted for almost a quarter (24%) of the region's VC transactions, coming just short of the UAE's 26% and ahead of third-placed Saudi Arabia at 18%.

- **International and private schools in Egypt will no longer face limits on foreign ownership** after the Education Ministry reversed the 20% cap imposed in 2019. All school owners, Egyptian and international, will be however subject to security checks, and the ministry will still hold the right to refuse to issue a license on a case-by-case basis. The public education system needs a substantial capital inflow to meet its new classroom construction targets, a problem which is compounded by the influx of an estimated 800k students each year.

Economic Developments:

- **Egypt recorded a primary budget surplus of EGP 18.1 bn** (ca. USD 1.2 bn) after the first 7 months of the FY2020-21. State revenues rose 16% y-o-y, overall public spending increased by 12.4% and spending on social security programs by 24%. The overall budget deficit narrowed to 4.4% from 4.6% during the same period of the previous year.

- According to Egypt's Central Bank, **remittances from Egyptian expatriates increased by 10.5%** in 2020 reaching USD 29.6 bn, up from USD 26.8 bn in 2019. Egypt ranked 6th in the classifications of the World Bank regarding the world's top recipients of remittances.

- In February 2021, Egypt's **net foreign reserves recorded a slight increase** to USD 40.2 bn, up from USD 40.1 bn the month before. This was the ninth month in the row of foreign reserves' increase. Analysts agree that, over the coming months, Egypt's international reserves are likely to remain stable at the current level, supported by the inflow of remittances, investments by foreigners in debt tools, and the increase in natural gas exports, which are expected to offset decreases in non-oil exports, tourism earnings, and FDI inflows.

- In February 2021, the annual core **inflation stabilized** at 3.6% and the consumer price inflation at 4.9%, according to the Central Bank of Egypt. The Consumer Price Index has recorded a monthly rate of 0.3%, compared to 0.2% for the same month last year and 0.5% in January 2021.

- **Non-oil private sector conditions worsened for the third consecutive month** in February 2021, but at a milder rate than over the past two months, as new exports supported demand, according to IHS Markit's monthly survey of businesses. The purchasing managers' index (PMI) gauge rose slightly to 49.3 in February from 48.7 the month before. The gauge remained below the 50.0 mark indicating private sector contraction.

- Egypt's Prime Minister revealed the main features and objectives of the **State draft budget project for the FY2021-22**. The budget aims at reducing the total deficit and achieving a primary surplus, maintaining stability of financial conditions, stimulating economic activity (especially in industrial and export sectors), advancing human development activities (incl. in the health and education sectors), and supporting national projects (such as improving services and infrastructure in villages, and raising the efficiency of drainage networks and canals). The draft budget foresees also financing of the due export subsidies and of the replacement of vehicles to work with natural gas. Moody's, which rates Egypt at B2 stable, said that draft budget projections were broadly in line with its expectations.

- Early January 2021, the **IMF has bumped its FY2020-21 growth outlook for Egypt to 2.8%,** up from the 2% forecast in June 2020, as the lifting of lockdown measures has helped the economy to show "early signs of recovery". Following the approval by the Executive Board of the first review, Egypt was authorized to draw the second USD 1.67 bn tranche, bringing the total amount disbursed under the Stand-By Arrangement to USD 3.6 bn. For the FY2021-22, IMF predicts Egypt's growth of 5.8%, slightly above the forecast of Egypt's Finance Minister (5.5%).

- **The World Bank expects Egypt's economy to end the FY2020-21 with 2.7% growth,** which will be milder than the 3.6% recorded last fiscal year, but higher than previous WB's forecasts of October 2020 (2.3%) and June 2020 (2.1%). The economy has avoided sliding into contraction thanks to reforms, solid policy buffers, "resilient" consumption patterns, international help, and mega-projects, but nonetheless has been "heavily disrupted" by covid-19. The collapse in tourism, natural gas extraction, and manufacturing negatively affected growth. The latter is expected to return to pre-pandemic growth levels (5.8%) in FY 2021-22.

- **Fitch Solutions estimates that Egypt's economic growth will move back towards 5% by the end of the 2021 calendar year**, helped by the vaccine rollout and continued public investment. In its latest MENA macroeconomic update, Fitch forecasted FY2020-21 GDP growth to amount to 3%, slightly below its 3.3% estimate of November 2020.

- Early March 2021, **Fitch Ratings kept Egypt's credit rating at B+ with a stable outlook.** Fitch attributed this assessment to Egypt's recent track record of fiscal and economic reforms as well as the country's large economy, which has demonstrated stability and resilience throughout the covid pandemic.

- **Foreign investment in EGP bonds has continued to rebound** through the beginning of 2021, with total holdings standing now at USD 28.5 bn, which is slightly over the USD 27.8 bn seen in February 2020, before the emerging markets were swept by a covid-inspired sell-off. Low inflation and high yields lured foreign investors back to Egypt's debt markets offering some of the highest real return rates in the world, second only to Vietnam, according to Bloomberg indexes.

- **Egypt is best in class in terms of debt manageability when it comes to the world's most indebted countries,** according to Morgan Stanley, which has categorized the nations with the weakest credit ratings into three groups depending on the level of risk. Egypt - along with Jordan, Nigeria, Ivory Coast and Senegal - all make it into the first category, having manageable debt levels, no issues accessing the debt markets, and existing funding streams with the IMF.

- **Egypt has been classified as world's second country most reliant on cash,** after Romania, in the Merchant Machine's Countries Most Reliant on Cash report. Cash transactions account for 55% of all transactions, with card transactions representing 27%. About 67% of Egypt's population is unbanked. Credit card penetration stands at 3%.

- In a statement to the Parliament delivered on 18 January 2021, Egypt's Prime Minister announced that the country's priority was getting the economy back on track after last year's covid shock. **Over the next three years, the government plans to achieve an annual growth rate of 6%, double exports, and complete a raft of infrastructure projects.**

- According to a statement by Egypt's Minister of International Cooperation, during the first 10 months of 2020, the country signed development agreements worth USD 7.3 bn. **Egypt's development funding represents about 10% of public debt and around 25% of external debt.**

- **Egypt ranked #117 out of 180 in Transparency International's 2020 Corruption Perception Index**, falling 11 spots from #106 last year.