

EU Delegation to Egypt
Key Trade and Economic Developments in Egypt
July – mid-September 2021

Trade and Investment Developments:

- **During the first half of 2021, EU-Egypt trade increased by ca. 18%** compared to the same period of last year, with a pretty similar growth for both, EU exports to Egypt (+19%) and Egypt's exports to the EU (+18%).
- **In November 2021, Egypt plans to host the fifth round of trade negotiations with the Eurasian Economic Union** comprising Russia, Belarus, Kazakhstan, Armenia, and Kyrgyzstan. The agreement is meant to promote cooperation with the above states in the fields of trade, industry, and joint investments. Bilateral trade between Egypt and the region reached USD 4.69 billion in 2020.
- **Egypt and South Korea are currently negotiating the signing of an economic partnership agreement.** Korean products represent ca. 90% of Egypt's electronics imports. South Korean government has recently classified Egypt as one of its core priority countries for Official Development Assistance for the coming 5 years. In addition to bilateral economic cooperation, the two sides are also looking into exporting products to third countries (especially African market) that would combine Korean technology and Egypt's local manufacture. The volume of trade exchanges between Egypt and South Korea reached USD 2 billion in 2020, up from USD 1.59 billion in 2019. Korean investment stock in Egypt amounts to ca. USD 581 million.
- On 1 October 2021, the recently introduced **Advanced Cargo Information (ACI) System** for electronic pre-registration of shipment information, will become obligatory for all shipments arriving at Egyptian seaports. On 31 August 2021, the Finance Ministry issued the **final executive regulations of the Customs Act**, which lay out how the Nafeza Single Window platform and the ACI pre-registration system will work. They also outline instructions for economic operators on how to access and use the platform to pay shipping dues, and file shipping documents and cargo data digitally ahead of arrival. On 2 September 2021, the EU Delegation held a **workshop for ca. 250 EU economic operators** on the use of the ACI system.
- Approximately **3.5 million tourists visited Egypt during the first six months of the year**, almost the same number as during the entire year 2020. This brought in revenues worth USD 3.5-4 billion. Hotels in Cairo, Alexandria and the North Coast are now allowed to operate at 70% capacity, the highest level since the start of the pandemic. A 50% cap on hotels had previously been in place for more than a year, after being raised from 25% in June 2020.
- As of 15 July 2021, **cement producers in Egypt** (including several companies with European capital) **have to cut back production for 12 months** to comply with a decision issued by the Egyptian Competition Authority. The aim of this measure is to address the problem of severe oversupply in the market. The new quotas set a 10.69% baseline cut and give additional room for cuts of 2.81% per production line and more for older factories. The proposal was submitted by 23 industry players to "preserve market plurality" and save their businesses
- The **Sovereign Fund of Egypt (SFE)** will soon launch a **new sub-fund to invest in the education industry**. The fund plans to finance the construction of hundreds of schools across the country targeted at middle-class families. This will be the SFE's fifth sub-fund, along with sub-funds covering healthcare, financial services, infrastructure, and tourism and real estate. According to the CEO of SFE, **the country is also looking for investment partners to build 17 water desalination plants** powered by renewable energy at a value of USD 2.5 billion by 2025. The Fund will build, own, and operate these plants in partnership with a group of local and foreign investors. This initiative will start in the first quarter of 2022 with a tender to produce ca. 1 million cubic meters of desalinated water per day.

Economic Developments:

- On 29 July 2021, **Moody's affirmed Egypt's credit rating at B2 with a stable outlook**, for the third consecutive time since the outbreak of the pandemic. The agency explained that the country's "significant shock exposure" was balanced with the track record of successfully weathering volatility. In particular, Egypt's very weak debt affordability and rising gross borrowing requirements were balanced out by improving shock resilience backed by the state's economic and fiscal reforms, the country's broad funding base, growth of foreign reserves and narrowing budget deficit. Moody's expects the Egyptian economy to grow at a rate of 5.5% during the FY2021-22, slightly higher than the 5.4% targeted by the government and the IMF's forecast of 5.2%.
- **Suez Canal revenues hit a record USD 5.84 billion in FY2020-21**, up slightly from USD 5.72 billion the year before, according to a statement of the Suez Canal Authority. During the first half of 2021, 9546 ships crossed the canal, which corresponds to an increase of 2.3% compared to 1H2020. The canal's revenues in 1H2021 amounted to USD 3 billion, compared to USD 2.76 billion in 1H2020 (+8.6%).
- According to a statement of the Planning Minister, the **government is targeting a 6% inflation rate in FY2021-22**, down from 13.3% in FY2018-19, under its medium-term fiscal plans. In August 2021, the headline urban inflation rate increased to 5.7%, up from 5.4% in July, on the back of rising food, fuel and transportation costs; this is its highest level since the start of the year. The inflation rate remains within the Central Bank of Egypt's target range, which is currently set at 7% (+/-2%).
- Egypt's **foreign currency reserves increased** by USD 62.9 million in August, reaching USD 40.67 billion, from USD 40.61 billion in July. Reserves are slowly getting closer to their pre-covid levels; the country's stockpile fell by almost USD 10 billion from the USD 45.5 billion peak in February 2020 largely due to the covid-induced sell-off of emerging-market assets.
- **Foreign holdings in Egyptian debt hit a record USD 33 billion in August 2021**, continuing their rebound following the covid-induced market crash last year, according to a recent report from S&P Global Ratings. Prior to covid, foreign holdings had risen to around USD 28 billion before falling to as low as USD 10 billion during the pandemic.
- According to a statement of the Planning Minister, **the government is looking to bring down the population growth rate to 2% by the end of FY2021-22** from the 2.56% recorded in 2017, through a further extension of the government's family planning programs, including the 100 EGP million program "Two is Enough". Early July 2021, Egypt's population reached 102 million, rising by 1 million in just the previous nine months.
- On 15 July 2021, **Egypt's President launched the second phase of the biggest rural development project** in the modern history of Egypt, the EGP 700 billion (ca. EUR 38 billion) "**DecentLife**" initiative. By 2025, this project aims at developing 4584 villages in all governorates housing 58% of the Egyptian population. It focuses on upgrading the social, health, educational, economic and housing levels as well as services provided to those villages. The President said this plan included also the launch of a large number of mega projects that provided promising opportunities for investment in many productive and services sectors.
- **Business activity in Egypt's non-oil private sector contracted for the ninth consecutive month** in August 2021, but a record surge in corporate spending and an increase in demand softened the decline, according to IHS Markit's Purchasing Managers' Index. The index rose to 49.8 in August, up slightly from 49.1 in July, but still below the 50 mark that separates contraction from expansion.