

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

Trade and Investment Developments:

- **During the first half of 2021 (1H2021), EU-Egypt trade increased by 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%).
- According to the statement of Egypt's Trade Minister, in 1H2021 the country's total **non-oil exports augmented by 23% y-o-y** reaching USD 15.4 bn, compared to USD 12.5 bn in 1H2020. Over the same period, **non-oil imports rose by 11%**, from USD 32.9 bn in 1H2020 to USD 36.6 bn in 1H2021.
- The Food Export Council reported that the value of **Egypt's food exports' had increased by 13% y-o-y in 1H2021**, reaching USD 2 bn against USD 1.8 bn in 1H2020. Food accounted for 13% of the country's non-oil exports. More than half of Egypt's food products were exported to Arab countries, 14% was shipped to the EU, 11% to non-Arab African countries, and 5% to the US. As regards exports of **fruit and vegetables**, the Ministry of Agriculture announced that in 1H2021 they had increased to more than 4 million tonnes compared to 3.47 million tonnes in the same period last year. Citrus fruits made up a quarter of total exports (1.72 million tonnes), followed by potatoes (620k tonnes), beet (405k), onions (151k), and grapes (111k).
- On 23 August 2021, Egypt's National Food Safety Authority announced that the **halal certification** company ISEG Halal, created by the Prime Minister Decree No. 35 of 2020, was the sole company that could certify halal products imported into the country. The certification procedure by ISEG Halal seems burdensome and costly. Moreover, the Egyptian government is discussing the possibility of requiring halal certificates for all imported **food products and beverages** (defined on the basis of the Halal Standard no. 4249 of 2014), independently of whether such products request to be labelled as "halal" or not. Halal certification for **dairy products** is set to start on 1 October 2021 and for the rest of food and beverages at the beginning of 2022. The new halal regulations are likely to lead to **severe disruptions in EU exports to Egypt** due to the lack of capacity of ISEG Halal to certify all imports of food and beverages, the immense costs of such an operation, and the fact that the Egyptian government failed to inform the economic operators in time about the new requirements.
- In June 2021, the Egyptian Parliament approved Egypt's Emergency Medical Response bill. The bill orders **2% of the sales of imported cosmetics** to be one of the financing sources for the fund. As domestically produced cosmetics are not affected, the bill seems to violate the national treatment clause of the EU-Egypt Association Agreement (Art. 20).
- On 1 October 2021, the **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 contain 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 with the presence of MTS and Cargo-X, the operators of the platform.
- According to the Decree 367/2021 issued by the Minister of Finance on 31 July 2021, **importers performing an early customs clearance will be able to defer paying 70% of taxes and fees until after the cargo arrives.**

- On 18 August 2021, Egypt's President ratified an **amendment to the law governing the Supreme Constitutional Court**. The changes gave the court the power, at the request of the Prime Minister, to effectively overturn the local implementation of decisions and rulings of international organizations and courts in case the latter are found to violate the constitution. This development might negatively affect the legal security of traders and foreign investors in Egypt.
- According to a statement of the Chairman of the Suez Canal Economic Zone (SCEZ), the management of SCEZ is currently studying the prospect of establishing an **industrial zone in East Port Said dedicated to the automotive industry**.
- On 15 July 2021, **cement producers in Egypt** (including several companies with European capital) **were ordered to cut back production for 12 months** to comply with a decision issued by the Egyptian Competition Authority. The aim of this measure was to address the problem of a 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 i) healthcare, ii) financial services, iii) infrastructure, and iv) 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 bn 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.
- **The IMF expects Egypt's Foreign Direct Investment (FDI) to grow over the coming four years**. Egypt could see a jump of up to 60% in FDI inflows during the current financial year, from USD 5.4 bn in FY2020-21 to USD 8.6 bn in FY2021-22. The fund forecasts that FDI will subsequently rise to USD 11.7 bn in FY2022-23 before hitting USD 16.5 bn in FY2024-25.
- **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 bn 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 bn in 2020, up from USD 1.59 bn in 2019. Korean investment stock in Egypt amounts to ca. USD 581 million.
- 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 bn. 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.

- After a 6-year ban triggered by the 2015 crash of a Russian plane in Sinai, on 9 August 2021 **direct flights restarted between Egypt and Russia**. Russia is set to triple the number of weekly flights from Moscow to Sharm El Sheikh and Hurghada, welcoming 15 planes per week at each airport. Moreover, on 4 September 2021, Sharm El Sheikh received the **first direct flight from Switzerland in more than five years**. Swiss Air will run one flight a week from Geneva. According to IMF estimations, Egypt's tourism revenues will rebound to USD 8 bn in FY2021-22, up from a projected USD 4.4 bn in FY2020-21. They are then expected to further increase to USD 15 bn in FY2022-23, reaching USD 25.1 bn in FY2024-25.
- On 9 August 2021, Egypt's Oil Minister discussed in a phone call with his Israeli counterpart future plans to receive and **liquefy Israeli natural gas at Egypt's LNG facilities** in Damietta and Idku before it is transferred to ships for export to other countries. Earlier this year Egypt and Israel agreed to build a pipeline connecting Israel's offshore Leviathan gas field to Egypt's liquefaction plants to help Israel ramp up its exports to Europe.
- On 25 July 2021, the Egyptian Parliament approved in principle a **draft bill to protect and increase the national fish production**. The new law aims to regulate the establishment of fish farms, while protecting lakes and fisheries against pollution and land encroachment. The bill foresees the establishment of a regulatory body, affiliated to the cabinet, to manage Egyptian lakes in order to double their production of fish. Under the bill, the authority will issue licenses for fish farms and fish processing projects, as well as regulate fishing ports and other related operations. Egypt has recently built the biggest fish farm in the Middle East and plans to request access to the EU market for exports of farmed fish. Egypt ranks first in fish farms production in the Middle East and third all over the world, according to a report by the Egyptian Cabinet's Information and Decision Supporting Center. With the new fish farm project, the country has achieved 85% self-sufficiency in fish production.
- DG SANTE audit conducted before the summer 2021, showed **severe shortcomings in Egypt's control system of fish exports to the EU**. In August 2021, Egypt suspended such exports and started work on the implementation of the audit recommendations.
- Over the last two years, there have been several **interceptions of Egypt's fruit and vegetable exports** to the EU due to the exceedance of authorised pesticides residues or the detection of non-authorised pesticides. In July 2021, Egypt implemented a corrective action banning the use of two harmful pesticides. However, interceptions continue and DG SANTE is monitoring the situation in order to decide whether reinforced checks need to be applied to oranges imported from Egypt to the EU.

Economic Developments:

- On 29 July 2021, the international ratings agency **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 forecast of 5.2%.
- Another international ratings agency **Fitch Solutions expects Egypt's real GDP growth to jump to 5% in FY2021-22 and hit 5.5% in FY2022-23**. In August 2021, Fitch Ratings has upgraded its outlook on the Egyptian banking sector's operating environment to stable from negative in July, as pressures on the credit profiles of banks have softened driven by the improvement in foreign currency liquidity.

- According to the initial results announced by Egypt's Planning Minister early September, Egypt recorded a **GDP growth of 3.3% in FY 2020-21**. For FY2021-22, the government estimates a growth of 5.4%.
- In FY2020-21 Egypt achieved a **primary surplus of 1.4% of GDP, which is higher than the 0.9% targeted by the government and better than the IMF expectations** of 1%. In FY2021-22, the Finance Ministry expects the country's primary surplus to increase to 1.5%, before falling to 1.3% the year after. The **budget deficit also narrowed more than expected**, to 7.4% in FY2020-21, from 8% a year prior. This exceeded the ministry's initial target of 7.8%, and was mostly in line with the IMF 7.3% forecast. Moving forward, the budget deficit is expected to narrow to 6.7% of GDP in FY2021-22, before dropping to 6.2% in FY2022-23.
- 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 the country's 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%).
- On 16 September 2021, the **Central Bank of Egypt left interest rates on hold for the seventh consecutive time** since November 2020. Overnight deposit and lending rates were left unchanged at 8.25% and 9.25%, respectively, while the main operation and discount rates remained at 8.75%.
- Egypt's **foreign currency reserves increased** by USD 62.9 million in August 2021 to reach USD 40.67 bn, from USD 40.61 bn in July. Reserves are slowly getting closer to their pre-covid levels - the country's stockpile fell by almost USD 10 bn from the USD 45.5 bn peak in February 2020 largely due to the covid-induced sell-off of emerging-market assets.
- On 23 September 2021, **Egypt successfully sold USD 3 bn of Eurobonds**; the sale was 3 times oversubscribed. Egypt sold USD 1.125 bn worth of 6-year notes at a yield of 5.8%, USD 1.125 bn in 12-year notes at a yield of 7.3%, and USD 750 million in 30-year bonds at 8.75%.
- **Egypt is preparing to issue the first sovereign sukuk offering** in the second half of FY2021-22 to contribute to providing finance for projects implemented by the government. The size of the first issuance will range between USD 1 bn and USD 2 bn. Egypt's President has recently ratified a law which regulates the issuance of sovereign sukuk and allows their sale in both, local and international markets. The executive regulations to this law are expected to be completed in the coming weeks. The issuance of sukuk will be on the basis of assets privately owned by the state, by selling the right of usufruct of these assets, without the right of neck, or by leasing them, or by any other method consistent with the contract for issuing sukuk in accordance with the principles of Islamic Sharia.
- **The number of registered investors on Egypt's Stock Exchange (EGX) has risen by 74% y-o-y** in the first seven months of 2021. According to EGX Chairman, there were 3.3 million registered EGX investors in the January-July period, compared with 1.9 million in the same period last year. The rise can be attributed to the increase in EGX ad campaigns aimed at encouraging bourse activity, as well as new rules that came into effect in February allowing 16-21 year-olds to trade on Egypt's stock exchange. Egypt's Finance Minister confirmed in an interview that, on 1 January 2022, a **10% tax would be imposed on the gains investors make on EGX transactions**. The new tax would not be paid by international investors, it would only apply to investors residing in Egypt.

- **Egypt's commodities exchange (Egycomex) is set to start full operations in 1Q2022.** Egycomex began trading on a pilot basis in spring 2021 to coincide with the start of the wheat harvest, prior to which some 450 wheat collection points were established across the country for farmers wishing to offer their harvest. After the official launch, traders will be able to buy and sell wheat, oil, sugar, rice, gold, steel and cotton. A twinning grant contract is set to be signed with the Belarusian Universal Commodity Exchange to benefit from its expertise in database building, membership requirements, and trading commissions in the mercantile exchange market. The law governing the Egyptian commodities exchange has been in the works since February 2018. It received Cabinet's approval in 2020 and is now in the hands of the House of Representatives.
- In FY2020-21, **remittances of Egyptians working abroad increased 13.2% y-o-y**, reaching USD 31.4 bn compared to USD 27.8 bn the previous year. This rise is mostly caused by the fact that job losses in the GCC countries have been relatively low compared to developed countries, and that travel restrictions made expats send home bigger amounts of their savings. Over 2020, Egyptian expatriates sent home the fifth highest value of remittances in the world, after India, China, Mexico and the Philippines, making up 8.2% of the country's GDP. Remittances are one of the key sources of hard currency for Egypt, besides the Suez Canal, exports and the tourism sector revenues.
- **Suez Canal revenues hit a record USD 5.84 bn in FY2020-21**, up slightly from USD 5.72 bn 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 bn, compared to USD 2.76 bn in 1H2020 (+8.6%).
- **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.
- 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 (ca. EUR 5.4 million) program "Two is Enough". Early July 2021, Egypt's population reached 102 million, rising by 1 million in just the previous nine months.
- According to the Minister of Planning and Economic Development, **by 2024 Egypt aims to increase the agricultural sector production by 30%**, in order to contribute to ensuring food security, creating new job opportunities, and increasing income of small farmers. The government also seeks to increase the sector's share in exports from 17% in 2020 to 25% in 2024.
- 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 bn (ca. EUR 38 bn) "**Decent Life**" 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 the 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.
- The government has defined the **minimum monthly wage for employees in the private sector (EGP 2400 equivalent to ca. EUR 130)** starting as of 1 January 2022. The relevant regulation does not include penalties for companies that fail to implement the minimum wage.