

EU Delegation to Egypt
Key Trade and Economic Developments in Egypt
1 October – 8 November 2021

Trade and Investment Developments:

- Egypt's government announced the **establishment of a new committee on import substitution and development of domestic manufacturing**. The committee shall propose steps to encourage industrial investments in the sectors specified by the Ministry of Trade and Industry where domestic manufacturing is the most lacking. The strategy will be prepared with input from the private sector. The committee, headed by the Minister of Trade and Industry, will provide quarterly reports on its activities to the Prime Minister.
- **In November 2021, the Finance Ministry will launch a fourth phase of its export subsidy program**. The program allows exporters to receive overdue subsidies in a single payment rather than in instalments over four to five years, in return for a 15% cut. Some 2.5k exporters have received a combined EGP 30 bn (ca. EUR 1.6 bn) in overdue subsidies since the program was launched in November 2020. The current export subsidy system is **set to be replaced by a new program** in the framework of which the government will pay EGP 8 bn (ca. EUR 439 mln) in subsidies this fiscal year. The new system will focus more closely on the performance of exporters and introduce a set of incentives that will depend on the use of local components.
- Between 1 January and 12 October 2021, **Suez Canal revenues increased by 12.4%** on an annual basis, to record USD 4.862 bn. The canal ranked second among the top ten logistics institutions in the Middle East for the year 2021, according to the Forbes classification. Starting in February 2022, **Suez Canal transit fees will increase by 6%** as the Suez Canal Authority (SCA) looks to capitalize on rising traffic (expected to grow by 7% in 2022). The increase exempts LNG and cruise ships, which will continue paying discounted tariffs.
- The Ministry of Petroleum and Mineral Wealth announced works on **a new natural gas pipeline in the Western Desert**. The pipeline is expected to have a capacity of 15 million cubic feet per day. **Egypt is also considering connecting its gas grid to Israel** through a new USD 200 mn onshore pipeline in the Israeli lands. The pipeline could be operational within two years and is expected to boost exports by 3-5 bn cubic meters annually; eventually, it can increase supplies to Europe.
- **Egypt plans to start exporting natural gas to Lebanon by the end of 2021**. An agreement between Egypt, Lebanon, Jordan and Syria signed in October 2021 paved the way for Egypt to send emergency gas supplies to Lebanon, which is suffering crippling power shortages amid a severe economic and financial crisis. The four countries agreed to bring online the Arab Gas Pipeline connecting Egypt to Lebanon via Jordan and Syria, which will be used to feed a power plant in the north of the country.
- For the fourth year in a row, **Egypt has been chosen as the most attractive country for investment in Africa**, followed by Morocco, South Africa, Rwanda and Botswana, according to the 2021 Rand Merchant Bank "Where to Invest in Africa" report. The ranking is based on a 50% weighting given to the market size and market growth, and 50% relating to the operating environment (including corruption perception, global competitiveness ranking, and economic freedoms). The report indicated that, although the Egyptian economy was affected by the pandemic, Egypt was one of the first countries to return to the growth path, thanks to the rapid measures taken by the Egyptian state.
- According to a statement by Egypt's Minister of Communications and Information Technology, **investment in Egyptian start-ups has more than doubled in 2021**, rising to USD 390 mn from USD 190 mn in 2020.
- **Tourists shopping in Egypt will soon be able to claim VAT drawback** via a digital system prior to departure. Tourists will need to spend at least EGP 1500 (ca. EUR 80) on an item to reclaim VAT; only visitors who stay in Egypt for less than three months can claim a drawback. The system will be gradually rolled out across the country - the project will begin in Sharm El Sheikh and Hurghada before the end of the year, before being extended to Luxor and Aswan and then all of Egypt's cities and ports.

Economic Developments:

- Early October 2021, the **International Monetary Fund has maintained its forecast for the Egyptian economic growth to reach 5.2% in FY2021-22**, which is slightly lower than the expectation of the Egyptian government (5.4%).
- **Standard & Poor's Global Ratings has maintained Egypt's B credit rating with a stable outlook**, while forecasting a return to pre-covid levels of economic growth in two years. The ratings agency, which kept the country's sovereign rating unchanged despite covid, sees Egypt's economy growing at a 5.5% clip in FY2023-24. It expects the overall budget deficit to narrow to 6.8% at the end of the current fiscal year, compared to 7.3% in FY2020-21, thanks to a wider tax base. According to S&P, Egypt will achieve a primary surplus of 1.5% in FY2021-22.
- Egypt's Ministry of Finance is currently planning a **series of incentives to help businesses in sectors that are considered as key for the country's growth**, in order to raise tax revenues. The main incentives shall include: a) extending the current freeze on electricity prices for industry, b) a new incentive program for local automotive assembly, c) "Economic Reform Program 2.0," which shall build up on the results of the IMF-led program Egypt completed two years ago, and d) a revamped export subsidies program.
- The Ministry of Finance launched a **pilot program of electronic invoicing for business-to-consumer transactions**. This step is part of the government's efforts to bring more Egyptian businesses into the formal economy. The trial will last 6 months and include 100 companies (e.g. Carrefour, Kia, El Araby). All sales will be logged in a central database using sales data controller devices installed in traders' point-of-sale machines, enabling the Tax Authority to monitor and verify transactions. The first phase of the implementation of this new system will include hypermarkets, grocers, pharmacies and auto distributors.
- According to the statement of Egypt's Oil Minister at COP26 climate summit, **Egypt plans to increase the renewable energy capacity to cover 42% of the country's electricity needs by 2030**. The new target shortens the timeline for the clean energy transition by five years (in 2016, the government announced that it was aiming to reach the 42%-mark by 2035). Currently, about 10% of Egypt's electricity comes from renewable sources. In 2018, the International Renewable Energy Agency said it would be technically and economically feasible for Egypt to aim for 53% of power generation from renewable sources by 2030.
- **Egypt's sovereign wealth fund has issued tenders for private companies to build 17 solar-powered desalination plants**. This initiative is part of a USD 2.5 bn plan to quadruple the country's desalination capacity in the next five years.
- On 17 October 2021, **the House of Representatives gave preliminary approval to a range of amendments to the Public-Private Partnership (PPP) Act**. Among others, these amendments explicitly state that government authorities are allowed to partner with private companies on infrastructure and utility developments in sectors including transport, energy, communications, and healthcare. Moreover, the proposed changes cut the time to issue tenders for PPP projects and introduce new mechanisms for private sector contracting, including allowing private sector players to submit unsolicited proposals. The government will also be allowed to negotiate directly with a sole bidder without needing to take the project through a competitive bidding process. These amendments are said to encourage private sector involvement in infrastructure, public services, and utility developments, particularly in the new cities.
- On 26 October 2021, Egypt's Prime Minister signed a **MoU with OECD for a three-year country program to support Egypt's structural economic reform agenda**. The program lays out a plan for Egypt and the OECD to roll out 35 projects under five pillars: i) inclusive and sustainable economic growth, ii) innovation and digital transformation, iii) governance and anti-corruption, iv) statistics, and v) sustainable development. All pillars will have a strong focus on gender equality and the inclusion of women and young people in the economy and society, as well as on supporting the formalisation of SMEs.