

EU DELEGATION TO EGYPT
Key Trade and Economic Developments in Egypt

1 April – 15 May 2019

Trade and investment developments:

- 4-7 May, **European Commissioner for International Cooperation and Development** visited Egypt and met with Egypt's President, Minister of Foreign Affairs, and Minister of Investment. Among other subjects, the potential organization of a **high-level EU-Africa Economic Forum** was discussed, to take place in Egypt in Q4 of 2019.
- On 2 April, Gambia ratified the **African Continental Free Trade Agreement (AfCFTA)**, bringing the number of ratifications to 22, the required threshold for the agreement to go into effect. AfCFTA will enter into force 30 days after the ratifications are officially filed with the African Union Chairperson's Office. The 55 states that signed the agreement have a cumulative GDP of \$2.5 trillion and a market of 1.2 billion people.
- Armenian Ambassador in Cairo revealed that Egypt is expected to sign a **free trade agreement with the Eurasian Economic Union** (currently under the Presidency of Armenia) before the end of 2019.
- **Ergot troubles could be making a comeback:** Egypt rejected a 63,000-ton shipment of French wheat, saying it contained higher levels of ergot than legally allowed.
- Egypt's **auto sales witnessed** an increase of 2.4% during the months of January-February 2019. While demand for locally assembled cars dropped by 12.4%, sales of imported cars increased by 21.5%.
- End of April, Egypt's Prime Minister instructed the Cabinet to set up a **working group to attract foreign investments** to the country. The group shall consist of officials from the Ministries of Trade, Investment and Finance, and is expected to mostly focus on attracting FDI into non-oil sectors.
- The value of **trade exchanges between Egypt and China** is dynamically increasing. In 2018, it jumped to USD 13.8 billion, up from USD 10.7 billion in 2017. Egypt's exports to China also significantly augmented to hit USD 1.6 billion. In the course of 2018, China pumped investments into Egypt worth USD 8 billion, mostly in the fields of infrastructure and energy (source: Chinese Embassy to Egypt).
- On 8 May, Egypt's Cabinet approved the establishment of the **New Aswan Free Zone**. The zone is expected to comprise 160 projects with targeted total investments of USD 2.3 billion.
- The **economic cluster of Sub-Committees** under the EU-Egypt Association Agreement has been provisionally scheduled to take place in Cairo on 16-17 June. The cluster will include Sub-Committees on Trade, Customs, Agriculture, Transport, Environment, and Energy, and will be organized back-to-back with the **UfM Business Forum** of 18 June.

Economic developments:

- On 6 April, **IMF published the 4th review of Egypt's reform program**. The institution acknowledged that the program performance had been broadly on track and that public debt was the only target missed. IMF sees **debt-to-GDP** ratio falling to 86% by the end of FY2018-19 and continuing to decline to reach 71% in FY2023-24. Meanwhile, the government is on track to hit its 2% FY2018-19 **primary surplus** target, and the overall **deficit** is expected to narrow to 8.3%. The outlook remains favorable in the medium-term "supported by strong policy implementation". **Inflation** forecasts have improved slightly since the 3rd review, with the IMF now predicting 10.7% by the end of the upcoming fiscal year compared to a previous forecast of 10.9%. **Foreign currency reserves** are expected to rise to USD 44.9 billion by the end of FY2018-19 before hitting USD 50.8 billion in FY2022-23. **Net FDI inflows** are forecasted to moderately grow over the coming years to USD 16.9 billion in FY2022-23 from USD 9.5 billion in FY2018-19. **Fuel subsidy** reforms are on track, with the government expected to lift all subsidies (apart from fuel oil used for electricity, bakeries and homes) by the end of FY2018-19. The recent indexing of the price at the pump to global fuel prices for 95-octane petrol will result in the first price adjustments at the end of Q3 of 2019. Plans to fully eliminate **electricity subsidies** by the end of FY2020-21 are also on course. The average **unemployment** rate is anticipated to decline to 8.3% in the coming fiscal year. In the first half of May, IMF conducted a 10-day mission to Egypt to carry out the **5th and final review** before disbursing the last USD 2 billion tranche of the USD 12 billion extended fund facility.
- The Central Bank of Egypt announced positive results as regards Egypt's **balance of payments**. Over July-December 2018, the country's exports of goods jumped by 18.4% to record USD 14.3 billion, compared to USD 12.1 billion in the same period of previous year. As regards inflows of **FDI** to Egypt, they remained stable, but net FDI fell by 24.4%. The Bank announced also that Egypt's **foreign reserves** went up to USD 44.2 billion at the end of April 2019.
- **Egypt was the world's fifth top recipient of remittances in 2018**, with inflows reaching USD 29 billion, up 17% y-o-y from USD 18.2 billion last year, according to the World Bank's latest Migration and Development Brief.
- In April, Fitch Ratings **raised Egypt's credit rating** to "B+" and Moody's to "B2", with a stable outlook.
- **Egypt's tourism revenues** grew by 50% in 2018 to USD 11.4 billion, from USD 7.6 billion in 2017. The growth resulted from an increased number of tourists (11.34 million visitors in 2018) and their augmented average daily spending (USD 100/night against USD 92.6/night the previous year). European tourists accounted for the largest bloc (ca. 7 million), followed by visitors from the Arab countries and Asia. Germans alone accounted for 1.7 million of the tourist arrivals in 2018. Tourism Minister predicts a "strong" tourism growth for 2019. The forecast of the World Travel & Tourism Council is ca. 11.7 million.
- Egypt has moved up 10 places in the **Global Innovation Index** report, from position 105 in 2017 to 95 in 2018. The jump occurred due to increased governmental expenditure on scientific research, higher number of international research papers, and bigger quantity of issued patents.