Egypt Economic Report

I. Egypt's economic performance during COVID-19 pandemic:

1- CAPMAS releases a study on the repercussions of COVID-19 on the Egyptian economy

The Central Agency for Public Mobilization and Statistics (CAPMAS) issued a study on the repercussions of the novel Corona virus on the Egyptian economy through tracking changes in some key aggregate macro-economic indicators at the peak of the virus, encompassing the economic growth rate, unemployment rate, inflation rate, exchange rates and interest on Egyptian Pound, as well as foreign trade including imports and exports of non-petroleum goods.

According to CAPMAS, the real GDP for 2019/2020 declined by 0.6% compared to 2018/2019 (5% and 5.6% respectively), whereas the price change rate witnessed a continuous deterioration between February-April 2020, recording an annual decrease of 18.8% by the end of that period. This declination is due to the price drop of agricultural activities and fishing, mining and quarrying, and food and accommodation services by 4.5%, 67.7% and 8.1% respectively.

Moreover, the Egyptian Pound witnessed a value drop of about 1.8% between February-May 2020, simultaneously with the decline in cash flows due to various reasons, such as the decrease in goods exports by 39,4% during the same period.

Given the consequences of the pandemic on international trade, the Suez Canal revenues in US Dollars decreased as of April 2020 compared to the corresponding levels in the last two years (2018-2019), and the monthly change rate of inflows reached its lowest level in May 2020 (7.5%) compared to the same month in the last two years (4.5% and 6% respectively). The actual impact of the pandemic on the Suez Canal could be attributed to the change in net tonnages and in the number of ships crossing the canal before and after February 2020, whereby the tonnages decreased from 1731 to 1382 ships between April-June 2020.

Moreover, the tourism and railways sector has been struck by a massive damage, as the number of tourists dropped by 100%, from 0,9 million tourists in February 2020 to 0 tourist in April 2020.

In addition, net international reserves decreased by 9.5 Billion USD between February-May 2020, whereby the monthly net international reserves declined with the outbreak of the pandemic in Egypt, recording a monthly decrease rate of 11,9% and 7.7% in March and April 2020 respectively, before decreasing to 2.8% in May 2020.

Regarding foreign trade, the annual change rate for imported non-petroleum goods (in USD) witnessed its biggest decrease since January 2029 in the months of February-April-May 2020 (25.5%, 35% and 35.8% respectively), whereas the annual change rate for exported non-petroleum goods (in USD) decreased by 19,9% and 36% in April and May 2020 respectively. Furthermore, the Egyptian stock market indicator declined drastically due to the pandemic especially in March and May 2020, closing at 9395,9 points and 10220,1 points respectively, thus recording the highest monthly declination since January 2020.

Several indicators that had previously declined at the peak of the pandemic have witnessed some changes with the regression of the crisis in Egypt, whereby the decrease in the annual producers' price change was recorded at 15,2% in May 2020,an increase by 3.6 percentage points. The period between May and August 2020 also witnessed a slight increase in the value of the Egyptian Pound by 0.2%, and the monthly change for Suez Canal revenues inclined significantly by 8.7% in July 2020. The railways sector also witnessed a significant improvement in the real revenues value by 96.9% between April and July 2020, and the monthly change rates for international net reserves increased during June and July 2020 by 6.1% and 0.3% respectively.

2- The performance of the tourism sector in Egypt during the Corona crisis:

According to the World Tourism Organisation, the number of incoming tourists to Egypt on an annual basis decreased by 62.3% during the first half of 2020 as a result of the decline in international aviation, as Egypt suspended flights to and from the country for almost four months (March-July 2020), in compliance with the travel restrictions and closure of borders put in place to contain the outbreak of the epidemic. Tourism revenues declined by 11% on an annual basis in the first quarter of the year 2020 before slumping further by 90.4%, knowing that the number of tourists arriving in Egypt reached a record number of 13 million tourists last year before the COVID-19 pandemic. Moreover, international inbound tourism traffic decreased by more than 65.6% on an annual basis in the first half of 2020. Despite the slight recovery in July and August 2020, the World

Tourism Organization predicts a total decline by 70% on an annual basis in the number of international travelers. Analysts surveyed in the report expect a revival in international tourism in the third quarter of 2021, ruling out the feasibility of returning to pre-pandemic levels before 2023.

3- Foreign Cash Reserves:

The Central Bank of Egypt reported an increase by approximately 790 million USD in net foreign reserves, which reached 39,22 billion USD in October 2020 compared to 38,435 billion USD at the end of September 2019.

4- Egypt prepares for issuing the first sovereign bonds:

On November 4th 2020, the Egyptian Ministers Cabinet approved the draft law "governmental sovereign bonds". The government is preparing for the issuance of the first sovereign bonds upon the endorsement of the House of Representatives and the approval of Mr. President Abdel Fattah Al-Sisi of the new legislation.

II. Evaluations of international companies and agencies of the performance of the Egyptian economy

1- "Reuters" survey expects a 3,3% growth in Egypt's economy for 2020/2021

According to a survey conducted by Reuters news agency, economists predict that the Egyptian economy will grow by 3,3% for the financial year 2020/2021, a more positive outlook compared to the survey conducted previously in July, which expected a growth by 3,1%. This outlook is in accordance with the prognoses of the International Monetary Fund (IMF), Fitch Solutions and Deutsche Bank, whereas the Ministry of Finance predicts an economic growth by up to 5%.

The survey also highlights the fact that the recession in the tourism sector has weakened economic growth. HC Company also bases its assumptions for the current financial year on the expectations of a 50% decline in tourism revenues on an annual basis, which would lead to a drop in employment rates and a weakened real growth in household consumption. In addition, the EGP-USD exchange rate is expected to decline:

1 USD= 16,5 EGP by the end of December 2021 and 17 EGP by the end of December 2022. Experts also predict that the Central Bank of Egypt will lower the Overnight Lending Index Average to 8.5% by the end of June 2022 and to 8% by the end of 2023.

On the bright side, the survey predicts an acceleration in Egypt's economic growth rate for the upcoming two financial years of around 5% and 5,5% for 2021/2022 and 2022/2023 respectively.

*2- **Bloomberg: strong performance for Egypt's business climate, highest growth in 6 years***

According to Bloomberg Agency, the Egyptian business climate continues its strong performance to record in October 2020, and for the second month in a row, its highest growth in 6 years, backed up by an increase in new orders and production levels. However, the current challenge lies in maintaining this high performance as worldwide economies have started re-imposing lockdowns and isolation and precautionary measures to confront the second wave of COVID-19.

3- Beltone: unpegging exchange rate restored trust of investors in Egypt's economy

"Beltone Financial", one of the biggest investment banks in the Middle East and North Africa region, affirmed that the decision of the Central Bank of Egypt (3 Nov. 2016) to unpeg the exchange rate has succeeded in regaining the trust of international investors in the Egyptian economy and has rendered Egypt the most appealing emerging market to foreign investments. "Beltone Financial" added that this decision was very important at the time because of the deterioration of many financial indicators and circumstances on the level of cash reserves as well as foreign investment, in addition to the existence of two foreign exchange rates in the country and transactions being mainly carried out in the black market.

III. Reports of international organisations and agencies on the Egyptian economy

World Bank report on the performance of the Egyptian government during COVID-19

According to the World Bank, isolation and social distancing measures imposed to contain the spread of COVID-19 have resulted in decreasing local production and international demand, interrupting worldwide supply chains, imposing international travel restrictions, and disruptions in financial markets, which in turn led to massive outflow capital, especially from emerging markets and developing countries. This has also led to an economic slowdown, costing the Egyptian economy around 2,7 million jobs during the last quarter of the financial year 2020 and an unemployment rate reaching 9,6% compared to a 7,7% rate in the previous quarter. Retail and wholesale trade, manufacturing industries, tourism, transport and construction were among the most affected sectors in terms of losing jobs, especially among employees of the informal sector.

Efforts to tackle the repercussions of the pandemic included increasing expenditure on the healthcare sector (buying appliances and test kits to detect the virus), salary raises and bonuses for employees in the medical sector, imposing social distancing and temporarily suspending air traffic in Egyptian airports.

Moreover, the Egyptian government implemented various measures to sustain the economy and social protection and strengthen financial inclusion during the crisis. As such, a budget of 100 billion EGP equivalent to 1,7% of the GDP in the financial year 2019/2020 was allocated for funding some exceptional health-related expenses strengthening social protection programmes, so as to offer partial protection to categories most in need among those affected by the economic repercussions of the pandemic. This includes spending 500 EGP on irregular employment for a period of three months (1,5 million citizen approximately). The government also unified the price of natural gas, supported and stabilized electricity prices for all industries for a period of 5five years, and took some measures to support the stock market, such as delaying capital gains tax and permanently repealing it for foreigners, and reducing the tax on stock dividends and stamp tax on stock exchange transactions.

In light of the persistence of the pandemic until the beginning of 2021, its impact is expected to last over two financial years and to be severer in the financial year 2021. In this regard, the World Bank predicts a positive growth despite declining from 5,6% in the financial year 2019 to 3,5% in the financial year 2020 and further to 2,3% in the financial year 2021, before recovering in the financial year 2022.

Standard and Poor's maintains Egypt's credit rating and stable outlook

Standard and Poor's credit rating company maintained Egypt's sovereign ranking in local and foreign currency at level B, with a stable outlook for the Egyptian economy for a second time in 2020. This reflects the continuous trust of international credit companies, especially that of credit rating companies in the stability and resilience of Egypt's economy and its ability to tackle internal and external repercussions of COVID-19 pandemic. The company also predicts a positive growth of 2,5% in the Egyptian economy for 2020-2021 despite the challenges posed by the pandemic, contrary to its estimation of a negative growth on an international level and in most countries for the current financial year. Several economic, financial and cash indicators are likely to improve significantly in the short and medium term, with the recovery of the tourism sector and the continuous improvement in the business climate due to structural reforms. As such, the Egyptian economy is expected to achieve a sustainable initial surplus of 2% of GDP as of the financial year 2020-2021 a real growth rate of 5% in the medium term and 5,4% by 2022, and public debt is expected to decline.

Standard & Poor's, Fitch: Egypt's foreign cash reserve can cover external financing needs

Standard and Poor's affirmed that Egypt's foreign cash reserve and its capacity to reach local and foreign debt markets allow it to cover high external financing needs for upcoming maturities over a period of twelve months. The company also predicted an increase in foreign debt as a percentage from the current balance of the financial year 2021, to decrease gradually afterwards with the recovery of the current balance in June. Standard and Poor's added that Egypt's financing needs are under control in spite of some risks, and that despite the pandemic, Egypt was capable of increasing its foreign reserves since last June to reach 39 billion USD in October. Egypt's monetary policy continued with its vigilant approach, and the Central Bank maintained a wide margin of real interest despite the decrease in inflation, which renders Egypt among the top emerging markets. In case inflation does not increase, the Central Bank would have the option of lowering the interest to support the economy; however, the Central Bank would not haste to do so, considering risks on portfolio investments and on the exchange rate and given the pressure on traditional revenues in light of the pandemic.

Fitch Solutions: Egypt records highest real GDP growth in the MENA for 2020-2024

Fitch Solutions indicated that economic growth in Egypt is expected to drop from 3,5% in the financial year 2019/2020 to 3,3% growth in the current financial year 2020/2021, to rise again to 4% for 2020-2024, thus recording the highest real GDP growth in the MENA region for that period. The company also sees that the weak prospects in tourism, investments and money transfer flows will continue to weaken the growth performance in Egypt, whereas the funding from the International Monetary Fund and the issuance of Eurobonds the country's foreign position despite the persistence of risks of recurring fluctuations.

ECES: Egypt's Indicators improve on an international level in 2020

In a recent publication by the Egyptian Institute for Economic Studies (ECES) entitled "Egypt's International Ranking", a series issued yearly by the institute to monitor Egypt's world ranking based on a number of indicators, Egypt achieved an improvement in some of the most prominent indicators, ranking 93 among 141 countries in the Global Competitive Index 4.0, 65 among 140 countries in Travel and Tourism Competitive Index, and 114 among 190 countries in the ease of doing business (ranked 120 in 2019).

Central Bank of Egypt lowers lending rates

In its meeting on 12 November 2020, the Monetary Policy Committee at the Central Bank of Egypt decided to cut CBE's overnight deposit rate, overnight lending rate, and the rate of the main operation by 50 basis points to 8.25%, 9.25%, and 8.75%, respectively.

IV. **Green Economy**

Dr. Hala Saeed, Minister of Planning and Economic Development, stated that the Egyptian government is working on funding the green investment projects included in the investment plan for the financial year 2020-2021, through the "green bonds" initiative, which was launched by the government to diversify the sources of funding investment projects. Around 691 green projects of an approximate total cost of 447,3 billion EGP and credits worth 36,7 billion EGP are encompassed in the plan for the financial year 2020-2021, that is 15% of total public investments. Saeed added that the aim is to increase this percentage to 30% in the plan for the financial year 2021-2022 to reach 100% within three years.

European Bank for Reconstruction and Development funds green investments

In cooperation with the European Union and the Green Climate Fund, the European Bank for Reconstruction and Development (EBRD) launched two programmes worth 220 million Euros, intended to support the Egyptian economy in overcoming the ramifications of the COVID-19 pandemic, by means of strengthening green funding and enhancing green value chains of the private sector. The two programmes aim at working with local funding corporations, by making funds available for re-lending to companies, allowing it to expand in green investment in the energy, water, and resources efficiency solutions sectors. The transition impact of the recently launched "Green Value Chains" programme, with a budget of 70 million Euros, stems from its contribution to the continued functioning of the Egyptian economy by assisting small and medium enterprises (SMEs) and corporates in investing in advanced technologies and solutions to minimize the consequences of climate change. This serves to improve the competitiveness of these enterprises and strengthening the development of green value chains. The second project, which is complementary to the "Green Economy Funding" programme, seeks to provide an additional 150 million Euros for funding SMEs investments in the agriculture, construction, trade and manufacturing sectors, as well as for environmentally friendly investments. This mechanism provided indeed funds of 140 million Euros by four participating banks: National Bank of Kuwait- Egypt, National Bank of Qatar, Alexandria Bank and the International Arab-African Bank, all of which benefited from grants by the European Union.