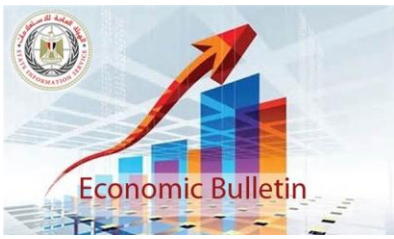


# **STATE INFORMATION SERVICE**

## **Weekly Economic Bulletin**

**(21-27 April 2018)**

**Mohammad Saleh**



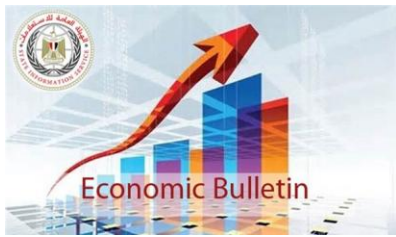
## **Egypt: 100 mn and ready for take-off**

*Charles Robertson, chief global economist at Renaissance Capital, argues that Egypt will become a destination for low- and medium-weight manufacturing plants that in the 1990s were built in Central Europe and Romania.*



In two years, there will be 100 mn Egyptians, better educated than ever before, with competitive wages, able to access decent electricity supply and ready to industrialize. There are two theories that tell us Egypt is poised to industrialize and become one of the world's long-term beneficiaries of Europe's economic recovery. Egypt clearly crossed the 70% adult literacy level that we at Renaissance Capital believe is a precondition for industrialization in 2010; literacy reached 76% in 2015.

For the first time, the country is capable of sustaining a manufacturing sector that is above 20% of GDP and unlike many in Sub-Saharan Africa (SSA), it has the electricity and infrastructure already in place to support that. Meanwhile, as central European wages soar due to economic recovery and a shrinking workforce, Egypt's minimum wage is now one-eighth of

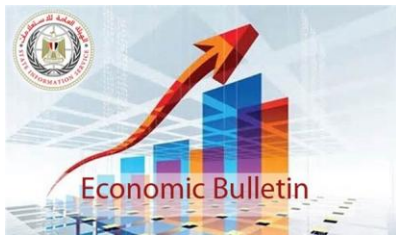


the level in Turkey, one-quarter of that in Morocco and half of the level in Tunisia. Egypt is the only major economy on Europe's periphery with both a fast-growing workforce and where fewer than 50% of adults have a job. We think Egypt can grow its workforce by over 50% through its increasingly educated female population (over 80% of 11-17-year-old females now attend secondary school), and because the overall workforce is set to rise by 9% (an extra 6mn adults) between 2015 and 2020.

Never before has Egypt been so well placed to benefit from growth in Europe. To our pleasant surprise, Vision 2030, the government's plan for Egypt's economic development, has some goals that are achievable. Growth at the bottom end of the 8-10% target range for 2020 is plausible in the 2020s if our theories on literacy and industrialization, and MENA vs. CE3 are correct.

To take advantage of this opportunity Egypt does not have much room to make mistakes. Government debt reached 103% of GDP in June 2017, the budget deficit is expected likely to be 9.2% of GDP, as of June 2018, there is double-digit inflation and the current account deficit is around 4-5% of GDP. However, the direction remains very positive. Inflation has already more than halved since the post-devaluation peak of 33% to 13% in March 2018. This is a considerably better record than Frontier favourite Argentina.

We agree with the IMF that inflation will fall to around 11-12% in June. The budget is expected to show a healthy primary surplus in 2018-2019 (perhaps already in 2017-2018), helped by growth accelerating towards 6%, a figure we, the IMF and the government all agree on. We think the currency at EGP 17-18 per USD is 15% cheap vs. long-term fair value (EGP 15 per USD) and still offers value to foreign portfolio investors buying five-year government bonds in Egyptian pounds at pre-tax yields of 14%. The IMF



expects public debt to fall to 72% of GDP by June 2022, and we think Egypt will receive at least one sovereign rating upgrade this year (it deserves two).

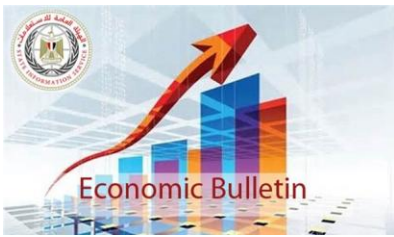
Egypt is very committed to a reform effort, which via subsidy removals in fuel and electricity might keep inflation at around 11-12% from June 2018 to June 2020, and this fiscal effort should allow a re-allocation of government spending towards infrastructure and investment. We think maintaining a cheap or fairly valued currency would support industrialization.

What we expect to see in 2019 and beyond is a rise in manufacturing investment. Today, the focus of foreign direct investment is the revitalized oil and gas sector, where Egypt should soon become self-sufficient again. But once it is obvious that macro stability has been restored, and when demand in Europe has eroded southern Europe's spare capacity, we think Egypt should start attracting the low- and mid-level manufacturing plants that in the 1990s were built in central Europe and Romania.

Security concerns, if they are recognized to be largely regional, need not prevent this. We think that maintaining a fairly valued or cheap currency, sticking to current fiscal plans, improving the business environment and focusing on long-term needs of education and investment will be the key requirements for Egypt to lift GDP growth from 5-6% to 6-8% in the 2020s.

### **Egypt's non-petroleum exports record USD 6.3 billion in 2018-Q1**

Egypt's non-petroleum exports have seen a remarkable increase of 15 percent year-on-year in the first quarter of 2018, Minister of Trade and Industry Tareq Qabil said in a statement.



The exports registered \$6.3 billion in the first quarter of the year, compared to \$5.5 billion during the same period a year earlier, the minister announced according to the latest report received from the General Organization for Import and Export Control on Egypt's external trade indicators.

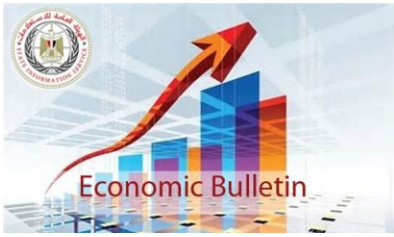


This increase has helped achieve growth in the volume of the country's foreign trade, which rose nine percent in the same period to \$21.2 billion, compared to \$19.5 billion in the previous year, he added.

Qabil also revealed that Egypt's trade deficit improved two percent in the first quarter of the year.

### **WB pres. praises economic reforms, urges investment in education**

President of World Bank Group Jim Yong Kim praised the Egyptian economic reforms in a tweet, saying: **I am glad to see Egypt's recent economic reforms. The country's progress presents an opportunity for more private sector-led job creation and growth and investments in quality #education**



**will equip young Egyptians with skills for a more digitally demanding future.**

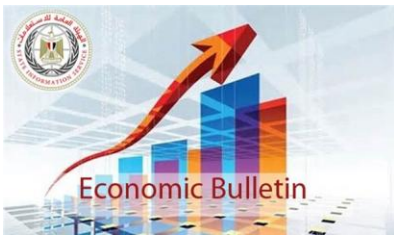
### **Sisi expresses Egypt's appreciation for current cooperation with ABB**

At a meeting with ABB Company CEO Ulrich Spiesshofer, President Sisi expressed Egypt's appreciation for the current cooperation with the Company and keenness on benefiting from its distinguished international expertise, mainly in electricity and renewable energy domains.



Sisi highlighted Egypt's willingness to be turned into a regional hub for energy trading, pointing out to the state's efforts to comprehensively develop the electricity and energy system.

For his part, Spiesshofer hailed Sisi's vision for economic and social development, expressing support for Egypt's goal of becoming an energy hub and a center for export-oriented industrial production.



## **Egypt, EU sign memorandum of understanding in energy field**

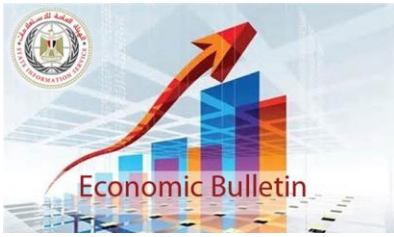
Egypt and the European Union signed in Cairo a memorandum of understanding for strategic partnership in the energy field in the presence of Prime Minister Sherif Ismail.



In a statement, the EU delegation to Egypt said the memorandum of understanding comes as a result of intensified talks at the ministerial level, as well as a number of high-level visits and a series of coordinated meetings and expanded talks.

The memorandum of understanding is considered to be an important development in the fruitful relations between Egypt and the EU. It also reflects the joint understanding for the importance of boosting bilateral cooperation in the energy field, which contributes to achieving EU's strategic goals in enhancing the security and diversity of energy supply, in addition to boosting sustainable development of the two sides, according to the statement.

The government welcomed the high-level visit by EU Climate Action and Energy Commissioner Miguel Arias Canete to Egypt from April 22 to 24.



The EU delegation to Egypt said President Abdel Fattah El Sisi would receive Canete and discuss the distinguished relations between both sides.

During the visit, several important events will be held, including the launch of the first business forum and exhibition between the EU and Egypt on sustainable energy, as well as visiting Zohr field.

High-level talks were also held between the EU delegation to Egypt, Ismail and Minister of Petroleum and Mineral Resources Tarek El Molla, the statement read.

The statement underlined Egypt's recent achievements in the energy sector, pointing out to Egypt's strategic location and infrastructure, which have made Egypt eligible to become a major player in energy supply.

### **Eni boosts production of Egypt's Zohr gas field with start-up of second unit**

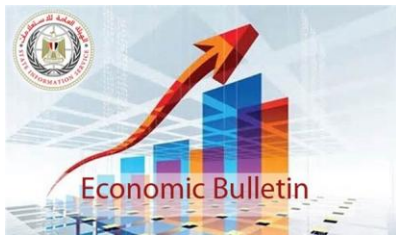
Italian multinational oil and gas company Eni announced in a statement the start-up of the Zohr gas field's second production unit (T-1), which will increase production capacity by 400 million standard cubic feet per day (MMSCFD).

Zohr now has a capacity of 800 MMSCFD, or 150,000 barrels of oil equivalent (BOE) per day, the statement said.

The step comes four months after gas production started at Egypt's giant offshore gas field.

Production increases are set to continue in order to reach 1.2 billion cubic feet per day (BCFD) in May 2018, 2 BCFD by end 2018, finally plateauing at 2.7 BCFD in 2019.





The Zohr field, the largest natural gas discovery ever made in the Mediterranean Sea, is located off Egypt's northern coast within the Shorouk block some 190 km north of Port Said.



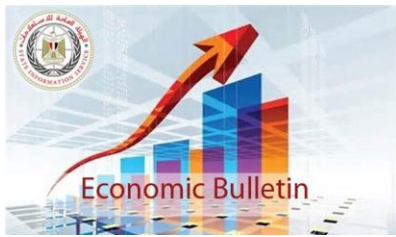
The field was discovered in August 2015 and production began in December 2017 with a time-to-market of 2.3 years.

The mammoth gas field is set to transform Egypt's liquid natural gas (LNG) industry, ending Egypt's importation of the product by 2018.

Eni holds a 60 percent stake in the Shorouk block, while Russian Rosneft owns 30 percent and British Petroleum BP owns 10 percent.

### **IFC reaffirms commitment to supporting private sector in Egypt**

The International Finance Corporation (IFC), a member of the World Bank Group (WBG), reaffirmed on Sunday its commitment to stimulating Egypt's economy, given the strong economic reforms taken by the government.



The IFC is keen to support the private sector in Egypt, as evidenced by its investments in this field, which hit about one billion dollars during the current fiscal year, its Chief Operating Officer Stephanie von Friedeburg asserted.



Friedeburg made the remarks during a meeting with a high-profile Egyptian delegation led by Investment Minister Sahar Nasr.

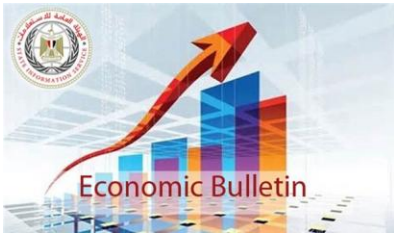
During the meeting, the two parties probed means of giving more space for the private sector to contribute to achieving the economic development.

In the IFC statement, Friedeburg said the strong economic reforms, especially in the energy area, helped the country to lure a large number of investors and financiers.

The continuation of economic reforms will encourage the private sector, which is a key factor to the improvement of the economic growth, to play a role in cementing further sectors, she noted.

Egypt is one of the IFC's largest investment portfolios in the Middle East and North Africa, with investments of \$ 2.9 billion between fiscal year 2006/2007 and fiscal year 2017/2018.

IFC's investments aim to back the private sector in Egypt, create job opportunities and promote economic growth.



The IFC portfolio includes investments in various sectors, including financial markets, infrastructure, oil and gas, agribusiness, manufacturing and healthcare.

In the fiscal year 2017/2018, IFC pumped investments into various domains in Egypt, notably a historic financing of \$ 653 million to develop 13 solar power plants in Upper Egypt.

### **EGX market cap exceeds EGP 1 trillion for first time**

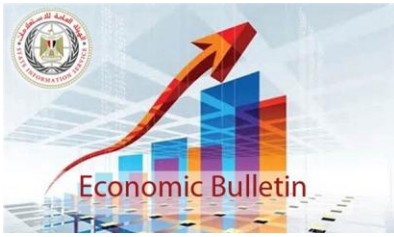
For the first time in its history, the Egyptian Exchange (EGX) market cap exceeded EGP 1 trillion.



EGX indexes collectively went up at the beginning of Thursday's trading amid purchase operations by investors.

The market capital gained EGP 6.3 billion to exceed EGP 1 trillion.

The EGX 30 benchmark index ratcheted up by 0.77 percent to close at 18,262.36 points.



The broader EGX 70 index of the leading smaller and mid cap enterprises (SMEs) increased by 0.04 percent to close at 860.96 points.

While, the all-embracing EGX 100 index rose by 0.92 percent to stand at 2,287.44 points.

### **Tourism Minister praises flock of Arab tourists into Egypt**

Egypt is currently witnessing a remarkable tourist flock by Arab nationals, Tourism Minister Rania el Mashat said.

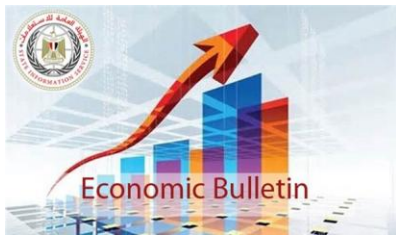


Egypt has always been welcoming Arab tourists with open arms, the minister said during her inauguration of the Egyptian pavilion at the Arabian Travel Market (ATM), currently held in Dubai.

Mashat stressed that her ministry was keen to take part in this event to exchange expertise with Arab tour operators.

### **Tourism Minister welcomes cooperation with UAE Happiness Ministry**

Minister of Tourism Rania al-Mashat held a meeting with the UAE's State Minister of Happiness Ohoud Bint Khalfan al-Roumi



during the Arabian Travel Market's (ATM) Exhibition in Dubai discussing ways of spreading happiness among tourists visiting Egypt.



Mashat welcomed cooperation with the UAE's Ministry of Happiness and Forgiveness to implement an experiment of happy tourist destination at Egyptian tourist sites.

Mashat further reviewed the current situation of Egyptian tourism, asserting that Arab tourists are important to Egypt.

Meanwhile, Roumi discussed the UAE's national program of happiness and positivity which will turn the country into a global center for happiness.

Roumi added that the government is adopting plans, programs, policies, laws, initiatives and projects to establish a culture of happiness and positivity in the UAE.

Mashat further met the UAE's State Minister of Artificial Intelligence (AI) Omar Ben Soltan, discussing ways of exchanging expertise in the field of Artificial Intelligence.