

LOGIC
INSIGHTS

What's _____ Coming on Egypt's Economic Horizon?

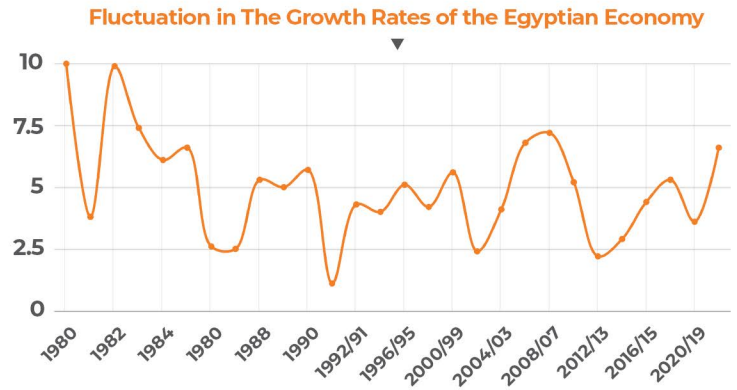
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خارطة طريق.. لاقتصاد أكثر تنافسية
The Egyptian Economic Conference 2022

LOGIC
CONSULTING

The Egyptian economy has undergone a series of fiscal and monetary reforms over the past years, resulting in substantial improvements in macroeconomic indicators. However, still deeper structural reforms are necessary to improve the overall economic situation.



If Egypt is to make a full recovery, it needs to adopt policies that structurally reform the economy, improve the business climate, support the private sector, and reprioritize government spending. Implementation is already underway. Many of the designed programs are off the ground, and more will be forthcoming.

Egyptian Economic Conference (EEC) 2022:

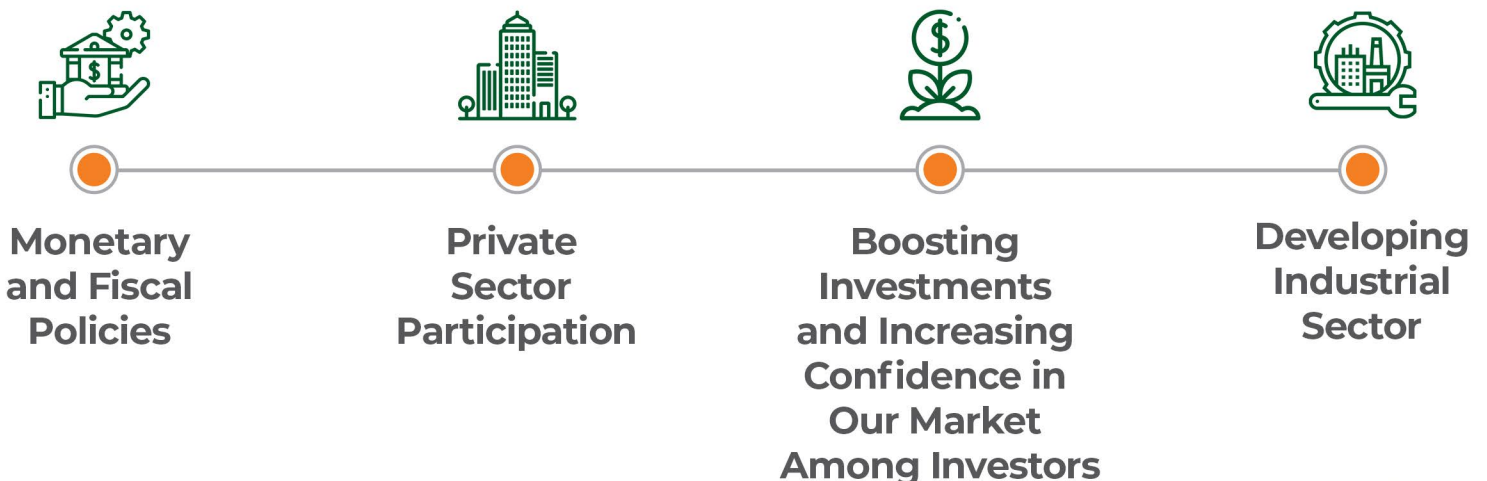
Egyptian Economic Conference 2022 came amid one of the worst global economic crises in 80 years, and was centered around the theme: “a roadmap to a more competitive economy”.
The conference included 3 main tracks:



- 1. Macroeconomic Policies**
- 2. Private Sector Empowerment**
- 3. Economic Roadmap for the Egyptian Economic Priorities in the Coming Stage**



Some of the Main Recommendations Concluded During EEC Touched Upon the Following:



1. Monetary and Fiscal Policies:

Debt-to-GDP Ratio:

Decreasing the debt-to-GDP ratio, to attain the overall budget deficit at 6% of GDP and to raise the initial surplus by 1.6% in FY 2022/2023.

New Currency Index:

The central bank will introduce its own EGP index, which will measure the EGP against certain currencies and potentially also gold.

Derivatives Market:

Accelerate efforts to activate the derivatives market for currency and futures contracts as a tool against the risks of exchange rate fluctuations.

Flexible Exchange Rate:

The importance of having a flexible exchange rate to reflect market dynamics of supply and demand as a tool to absorb external shocks.

Coherence Between the Monetary and Fiscal Policies:

To navigate the ongoing global economic crisis, especially the accelerating inflation.

Finalizing IMF Deal:

This is very critical for the local economy in the current phase. The delay in reaching a deal means a higher cost going forward.

2. Private Sector Participation:

Maximizing the private sector's participation in the development process, and raising the percentage of its contributions to economic activity from 30% to 65% within the next 3 years.

Transferring the ownership of several state-owned companies to Egypt's sovereign wealth fund (SWF) to add further strength to its influence.

Expediting the disbursement of export subsidies to the sectors eligible for support once the supporting documents are submitted.

3. Boosting Investments and Increasing Confidence in Our Market Among Investors:

Responding to investors who have pending requests to push forward existing projects.

Expediting Implementation of Laws:

Implement the helpful legislation that has already been passed (like the Bankruptcy Act).

Having Main Point of Contact:

Have the General Authority for Investments (Gafi) be the main point of contact for investors.

Improving Legal & Regulatory Predictability:

The Egyptian economy lacks the necessary predictability and certainty for businesses to make long-term investments due to the fact that regulatory structure changes frequently. Businesses, and especially foreign investors, depend on long-term planning, which is complicated given the regulatory uncertainty in Egypt.

Enhancing Governance:

Protecting investments is a crucial area where laws need to be streamlined and simplified. The universal application of the rule of law and even-handed involvement from the state as a credible arbitrator provide investors with the confidence and assurances that they need.



4. Developing Industrial Sector:

Completing The Integrated Vision of The National Industry Strategy:

The speedy completion of the integrated vision of the national industry strategy, targeting some important industries, and deepening local manufacturing, especially in the engineering, chemicals, textile, and food industries.

Boosting Industrial Exports:

Through programs that tackle export burdens and facilitate procedures for accessing new markets while activating the role of commercial representation offices and international exhibitions.

Transforming Industrial Areas into Integrated Residential Cities:

While providing more housing for workers to reduce the cost of their transportation and grant land to factories.

Activating the law of local product preference in governmental contracts.



The entity responsible for fiscal policy -Ministry of Finance- is the main reason behind the success or failure of any investment as it's responsible for coordinating it, whether in terms of customs, taxes or any other facilitations that promote investment. Investments can't take place without the support of the Ministry of Finance as fiscal policy is what reflects the state's direction.

-Mahmoud Mohieldin, Former Minister of Investment

Referring to LOGIC Insights article on "Egypt's Economic Rise: Boosting Exports", there are 4-pillars to ensure a sustainable long-run export growth:

01 Growing Industrial Sector:

- Facilitating acquisition of land with necessary utilities.
- Engaging with private sector, including SMEs.
- Developing & Promoting of Land clusters.
- Focusing on Medium and High-Technology exports.

02 Improving Investment Climate:

- Better communication with investors.
- Attractive Programs.
- Competitive Incentives.

03 Boosting Export Promotion:

- Export Promotion Agency.
- National Champions Program.

04 Enhancing Regulatory Environment:

- Less Governmental Entities to regulate trade and reduce bureaucracies.
- Involvement of macro-economists in the decision making on the optimal level of Trade Protectionism.
- Having Planning & Execution Entity for Export Strategy.



Emphasizing on Industrial Sector Development...

Industrial sector constitutes 11.7% of Egypt's GDP, and the government is aiming to boost this ratio up to 15%. According to the Ministry of Planning, Egyptian exports have recorded their highest levels in 2021 of US\$ 43.6 billion, out of which US\$ 32.3 billion were attained from industrial exports. The future path for the Egyptian industrial sector is to become the engine of growth, employment creation, and export development with the objective of deepening Egypt's integration into the global economy as a competitive player.

The Egyptian Economic Conference kicked off its final day with a special session titled "A roadmap for developing the industrial sector: challenges and mechanisms to stimulate the sector.", with a focus on tackling the challenges facing the industrial sector in Egypt.

The Industrial Sector is Best Positioned as a Potential Growth Driver Because:

A. It enjoys strong forward and backward linkages with other important economic sectors such as agriculture and services.

C. It acts as a catalyst for technology transfer and attraction of FDI.

B. It offers high prospects for employment creation especially in labor-intensive industries.

D. It offers high prospects for deepening Egypt's drive to integrate further into the global economy.



What Does the National Industry Strategy Entail? How Will the Strategy be Implemented?

Egypt's industrial development strategy is mainly about achieving higher growth in industrial production through an aggressive utilization of export development and FDI attraction where both are vehicles for deepening Egypt's regional and global integration drive. The Minister of Trade and Industry has presented the strategy of developing the Egyptian industrial sector in the form of **4 main pillars**:

01 Boosting Privatization and Private Sector Involvement:

The Ministry of Finance is modifying almost 30% to the state ownership policy document based on feedback from private sector representatives. The government aims to augment the role of the private sector to encompass more than 65% of all economic activity (more than double the initial private sector participation ratio).

02 Boosting Investment in the Manufacturing:

Of goods which could be highly competitive in the international market. The government is essentially providing the necessary infrastructure for encouraging private and foreign investment by:

- Establishing 13 industrial complexes for SMEs in 2021/2022
- Offering 10 million square meters of industrial land for investors
- Offering 17 industrial complexes with more than 5000 industrial units in 15 governorates for investors manufacturing substitutes for typically imported goods.

03 Cooperating with the Ministry of Planning and Economic Development:

To achieve institutional development in the industrial sector in Egypt. This involves the creation of a database for all industrial plants in Egypt to enable the identification of plants requiring financial, technical, or legislative support.

04 Encouraging FDI in the Industrial Sector:

GAFI seeks to attract more FDI through two pillars: a) Establishment of a nation-wide promotional strategy to attract investments; and b) Removing challenges facing investors and enhancing coordination between ministries and automation of processes.

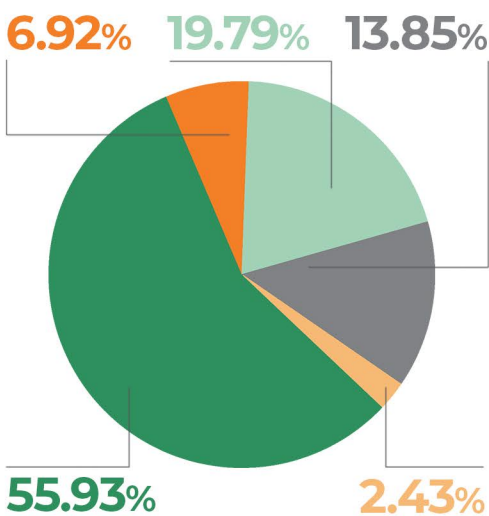
Milestones and KPIs Concerning Industrial Development:

- ▶ **Attracting** USD 40 bn in FDI over the next 4 years through privatization policies.
- ▶ **Defining** Egypt as a main gateway for emerging automotive markets in Africa.
- ▶ **Empowering** the Egyptian Competition Authority to take more proactive measures towards reducing market barriers and boosting competitive neutrality.
- ▶ **Boosting** exports and reducing the gap between exports and imports while increasing the share of exports with complex technological features to more than 20%.
- ▶ **Increasing** the percentage of the productive sectors' contributions to the growth to 35% by the fiscal year of 2023-24 from 26% in 2019/2020.

Import Substitution Strategy:

Encouraging local production doesn't necessarily dictate import substitution. It's better for a country to produce where it has a competitive advantage, thus increasing exports and bringing in foreign currency. Putting the emphasis on liberalizing imports should be at the heart of Egypt's development strategy. That should foster the development of a productive sector and be a good base for promoting exports. Egypt's balance of trade problems lies not only in the volume of imports but rather in the below-par volume coupled with the complexity of exports, where more than half of exports are primary commodities as for the finished goods, they rely on inputs from other countries.

Merchandise Imports by Sector



- Food Imports (% of Merchandise Imports)
- Fuel Imports (% of Merchandise Imports)
- Agricultural Raw Materials Imports (% of Merchandise Imports)
- Manufactures Imports (% of Merchandise Imports)
- Ores and Metals Imports (% of Merchandise Imports)

More than 50% of Egypt's imports are manufactured imports, and with boosting exports to USD 100 bn a year by 2025, this will push Egypt's total imports as well. Thus, the country shall accelerate its efforts to support and localize national industries to reduce dependence on imported components and bring this percentage down.

The government signaled its focus on growing local manufacturing to limit Egypt's imports. On the export side of the equation, Egypt is aiming to increase exports to USD 100 bn a year by 2025 as part of the government's plan to increase the private sector's role in the economy. Out of >6.8k import categories, the ministry shortlisted 4.8k industrial categories that are viable for local manufacturing. These industrial categories cost us USD 60 bn in 2019 — or 85% of the year's total import bill (USD 72 bn).

The government is targeting 9 industries (الصناعات المغذية) that have a combined 141 product categories under their umbrella which together accounted for 23% of our 2019 import bill. *These industries include:*

1. The Chemicals Industry:



Chemicals industry imports accounted for US\$ 10.3 billion in 2021, but they were also the largest contributors to Egyptian exports at US\$ 6.8 billion. The government identified 6 end-products to manufacture fully in Egypt (including epoxy, paints, and varnishes), alongside 25 intermediary products that can be used as inputs for other industries such as rubber transmission belts and tires for supporting the automotive industry. The chemical industry could also boost manufacturing of electric vehicles by providing lithium batteries, increasing the value added to the production in Egypt. Hence, the target strategy is to bolster the production of end and intermediary products to grow the chemicals' industry itself and increase its competitiveness while supporting dependent industries.

2. The Engineering Industry:



With the aim to manufacture 10 complete products (mobiles, tablets, and broilers are all on the suggestions list), Egypt also has the capacity to locally produce 10 intermediary components (including door hinges and solar cell chips); some of which could benefit other industries, such as manufacturing electric motors. In 2021, engineering imports were the largest contributors to imports at US\$ 22 billion, which have led to only US\$ 3.4 billion of exports. Egypt could also expand into manufacturing less-complex semiconductors that support the manufacturing of household appliances, which require less fixed capital investment.

3. Building Materials and Metallurgical Industry:



This sector necessitates large capital greenfield investments but will enable the manufacturing of a variety of products including steel columns and plates, rebars and stainless-steel sheets. Imports for this sector reached US\$ 11.4 billion in 2021, while exports added up to US\$ 6.6 billion, accounting for the second-largest contributor exports during the year.

4. Pharmaceuticals and Medical Equipment Industry:



The target is to manufacture diagnostics equipment, raw constituents for medicines, and oncology treatment chemicals and devices. This will help the government meet its goal of “100 Million Healthy Lives” by providing all required medicinal drugs whenever needed and free of import customs. This will also help treat the public budget deficit by reducing the import subsidies for the medicines with no local alternatives. The difference between pharmaceutical and medical exports and imports was significant last year, with exports recording US\$ 692 million compared to US\$ 5.12 billion of imports.

5. Food and Agriculture Industry:



The government is targeting introducing facilities to increase agricultural products such as dates, dried fruits, and dried onions while expanding their production of medicinal and aromatic oils, as well as dairy products. The food industries sector accounts for 14% of Egypt’s total exports and contributes 24.5% of GDP.

6. Wood & Furniture Industry:



The government has made attempts to promote local alternatives for manufacturers and others, notably by setting up the Higher Committee for Wood (HCW) in 2021. Also, the government is currently looking to exit the wood products and furniture industry as it aims to transform the sector into a more lucrative investment avenue for foreign investors. Wood manufacturing will see increased MDF and plywood production.

7. Printing and Packaging Industry:



The government still needs to play an active role in supporting manufacturers in the printing & packaging industry through developing more export markets and helping older companies modernize their industrial processes. Despite the challenges facing the industry, import substitution might become an unanticipated source of growth, considering the rising cost of importing paper.

8. Textiles Industry:



Egypt’s textiles manufacturing industry is the second-largest industry in the country. Textiles and ready-made garments (RMGs) contributed 11% to the country’s non-oil exports in 2021. The state shall play a greater role in producing synthetic fibers, as 55% of these are currently imported.

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