

Egypt: New republic, new reality

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- Egypt's growth is anticipated to reach 5.2% in 2022; this compares with the 3.3% forecast for 2021, and suggests that pre-pandemic momentum is returning.
- Five years after the initial announcement regarding the creation of 'New Cairo', the first official meeting in Egypt's new capital was held last month. However, construction plans are far from over.
- FDI targets and international ambitions may mean that President Abdel Fattah Al-Sisi will have to shift his focus to diplomacy and domestic politics; the latter may well involve improving human rights.

Canal opens gates for growth

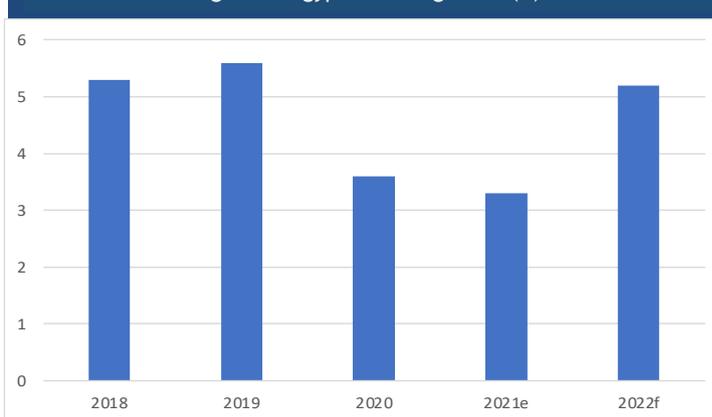
Despite the recent surge of Omicron-related disruption, Egypt's finance ministry forecasts 5.7% growth for FY 2022. This is even more optimistic than the IMF's prediction of 5.2%.

- The COVID-19 pandemic stung Egypt's economy, which is traditionally reliant on tourism, revenues from the Suez Canal and remittances from Egyptians working abroad.
 - Despite its GDP having contracted, Egypt's economy demonstrated huge resilience during the pandemic; it is one of the few MENA countries to post positive growth despite a COVID-related downturn.
- In line with the global recovery, remittances from Egyptians living abroad jumped to USD 31.4B in FY 2020/21, a 13% YoY increase.
- Reaching pre-pandemic growth levels could soon be a reality, especially in light of rising exports.
 - In FY 2020/21, export revenues ramped up to USD 28.7B. Revenues are anticipated to more than double to around USD 60B by 2025.
 - Following the presidential direction to support the exports sector, Mohamed Maait, the finance minister, announced the start of a fourth phase of export subsidies.
 - The government has so far invested just under USD 2B as part of this initiative to support over 3000 exporting firms.
- Elsewhere, booming canal-related revenues are anticipated to support growth.
 - The canal is a key source of foreign currency for Egypt and a critical channel for global trade.
 - Around 10% of total global trade, 25% of containerised goods trade and 100% of seaborne container trade between Europe and Asia passes through the canal.
 - Suez Canal Authority revenues are forecast to reach almost USD 7B in 2022. This compares with USD 5.9B and USD 5.8B in 2021 and 2020, respectively. This projection comes despite a 6% increase in transit fees as of February 2022.
 - Additionally, canal expansion set to continue.
 - Canal expansion began in May 2021 and is expected to finish by July 2023.
 - In line with Egypt's latest green initiatives, the Suez Canal Authority is considering offering fee reductions of 10-20% to vessels using cleaner forms of energy.

Table 1 - Egypt macroeconomic indicators¹

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	5.3	5.6	3.6	3.3	5.2
CPI Inflation (%)	14.4	9.2	5.4	7.0	8.0
Fiscal Balance (% of GDP)	-9.6	-7.9	-7.0	-7.5	-6.0
C/A Balance (% of GDP)	-2.4	-3.6	-3.1	-4.0	-4.0
Total Gov't. Gross Debt (% of GDP)	92.5	84.2	90.2	92.9	88.9
Total Gross Extr'n'l Debt (% of GDP)	37.4	34.1	34.3	38.1	33.4
Gross Official Reserves (Mos. of Imports)	6.7	7.0	6.4	6.3	6.0
Nominal GDP (USD B)	250.3	302.3	361.8	394.3	429.6
Population (Millions)	97.1	98.9	100.9	102.9	105.0

Figure 1: Egyptian GDP growth (%)²



- Egypt has had green ambitions for some time now. In September 2020, Egypt was the first MENA country to issue sovereign green bonds. They amounted to around USD 750M, a considerable sum given the relatively small size of the green bond market compared to the standard market.
- Green bonds will be used to fund green projects listed under the finance ministry's Green Financing Framework, which was launched in September 2020.

Public sector projects pave the way

Egypt's public sector is a key catalyst for the country's strong economic growth. Egyptian infrastructure projects continue to forge ahead, as does the construction of the country's new administrative capital.

- Unemployment dropped to 7.3% in FY 2020/21 after reaching 9.6% in FY 2019/20. Much of this can be attributed to public sector construction projects, which initially experienced a pandemic-induced pause.
 - In response to the soaring demand for national road projects, asphalt production has ramped up by 50%.
- The construction of the new capital began five years ago at an initial cost of at least USD 60B. It is the flagship of a construction boom that has seen Egypt build a number of new cities, thousands of kilometres of new roads, mega housing projects and the transformation of arid areas into farmland.
 - The new capital has prompted the president to coin the phrase 'New Republic' as a tribute to Egypt's development drive since he took office in 2014.

¹ Arabia Monitor; IMF.

² Arabia Monitor; IMF.

- The project's development has largely been arranged via a partnership between the armed forces and the New Urban Communities Authority.
- The city will have a population of around 6.5M when it is fully inhabited.
 - o This is about a third of the (at least) 20M people who live in Nile-side Cairo.
- Besides a government district, the new city boasts a diplomatic quarter, the largest Christian cathedral in the Middle East and a state-of-the-art culture and arts centre. The presidency will move to the new capital along with Egypt's government ministries. It will also be home to Africa's tallest skyscrapers, while its public services will be entirely digital.
- A six-month trial period for the new government headquarters and facilities will commence in the coming weeks.
- New virtual technologies are also being employed in the new capital, which will help to reshape Egypt's property landscape and to accelerate financial transactions.
 - Mohamed Khalil, the head of the technology sector at the Administrative Capital for Urban Development (ACUD), revealed that the project allows customers to take virtual tours inside residential units.
 - Although it may take some time for the domestic buyer to adjust, a new real estate sector platform will draw both young and international buyers.
 - o This will help to boost sales in the medium-to-long term.
- China has had a massive hand in the capital's construction and will continue to play a vital role in its operations.
 - The People's Republic will spend around USD 3B to help build a central business district which will be constructed by the China State Construction Engineering Corporation (CSCEC).
 - o As part of its contribution, CSCEC is building 20 towers, one of which will be the tallest building in Africa.
 - It was also announced that an Egyptian construction company has teamed up with CSCEC to operate and manage the largest hospital in the new capital.
 - o Both the Alameda Healthcare Group and the Al-Hazeq Construction Company have signed a memorandum of understanding with CSCEC in terms of developing the facility.
- Despite this already momentous progress, new projects are frequently being announced.
 - This week it was announced that Egypt's HMD Developments will launch two mixed-use projects at a cost of about USD 57B. Construction, which is set to begin this year, will take about three years to complete.
- Sisi intends to attract more FDI for a second phase of building works; construction projects are therefore clearly far from over.

Sisi bids for international stage

President Sisi is eager to revive Egypt's economy and its international standing; the country therefore intends to take part in various upcoming global events.

- Egypt is set to host this year's international climate conference (COP 27).

Figure 2: Egypt's unemployment rate (%)³

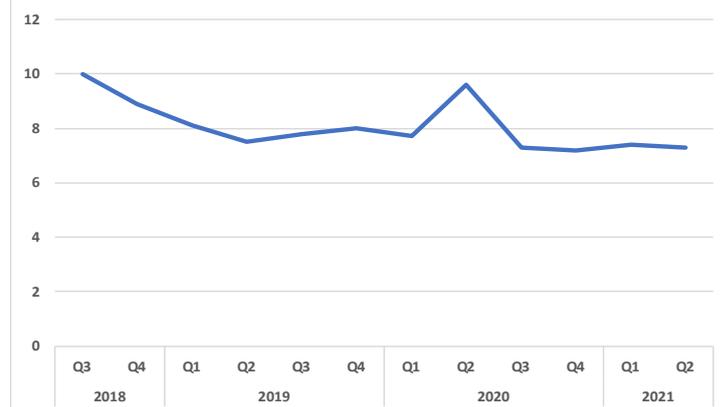
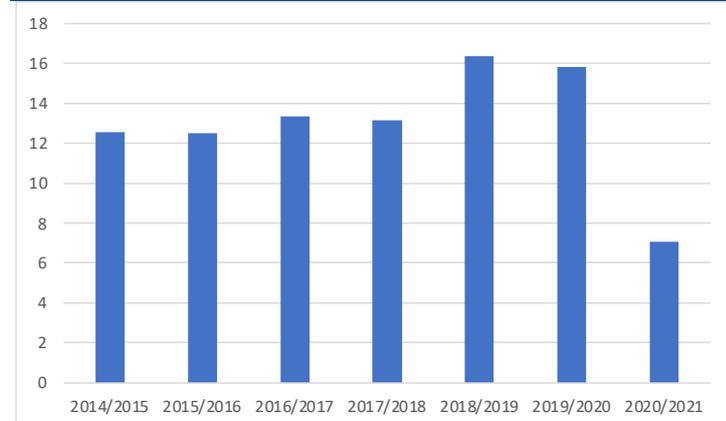


Figure 3: Value of FDI inflows (USD,B)⁴



- The event will take place from 7-18 November 2022 in Sharm el-Sheikh.
- According to the youth and sports minister, Ashraf Sobhi, the country also intends to submit an official bid to the International Olympic Committee (IOC) for the right to host the 2036 Olympic Games.
 - If successful, Egypt would be the first African country to host the games.
 - In anticipation of a successful bid, work on an Olympic City in New Cairo is already underway.
 - o It will include a 90K-seat stadium and two indoor halls with a combined capacity of 23K spectators, as well as facilities to host swimming, equestrian, tennis and squash tournaments.
 - o In the event that Egypt's bid is successful, further projects will almost certainly be necessary, meaning even more construction.
- On the back of this direction, we may see a change in tone with regard to Sisi's diplomacy and domestic politics.
 - While his record on human rights has not earned Sisi a favourable standing within the international community, Egypt does not want to be a rogue state. Any improvement in the field of human rights will help Egypt to achieve its ambitious goals.

³ Arabia Monitor; Central Agency for Public Mobilization and Statistics, Egypt.

⁴ Arabia Monitor; Statista.

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