# Egypt's Macroeconomic Analysis: Assessing Internal and External Developments

## Feb 2022


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PUBLIC STRATEGY AND GOVERNMENT RELATIONS SPECIALISTS

# GDP Growth

Despite the huge impact of COVID-19 on world economies, the Egyptian economy has managed to withstand the negative effects caused by the COVID-19 outbreak in early 2020. Accordingly, the government's budget has indicated that Egypt has achieved positive GDP growth rates during FY 2020/21, with the Ministry of Planning and Economic Development highlighting that the country's real GDP growth stood at 3.3% by the end of FY 2020/21 and is expected to **double, reaching 6% or more by the end of FY 2021/22 with GDP estimates of EGP 7.9 trillion.**

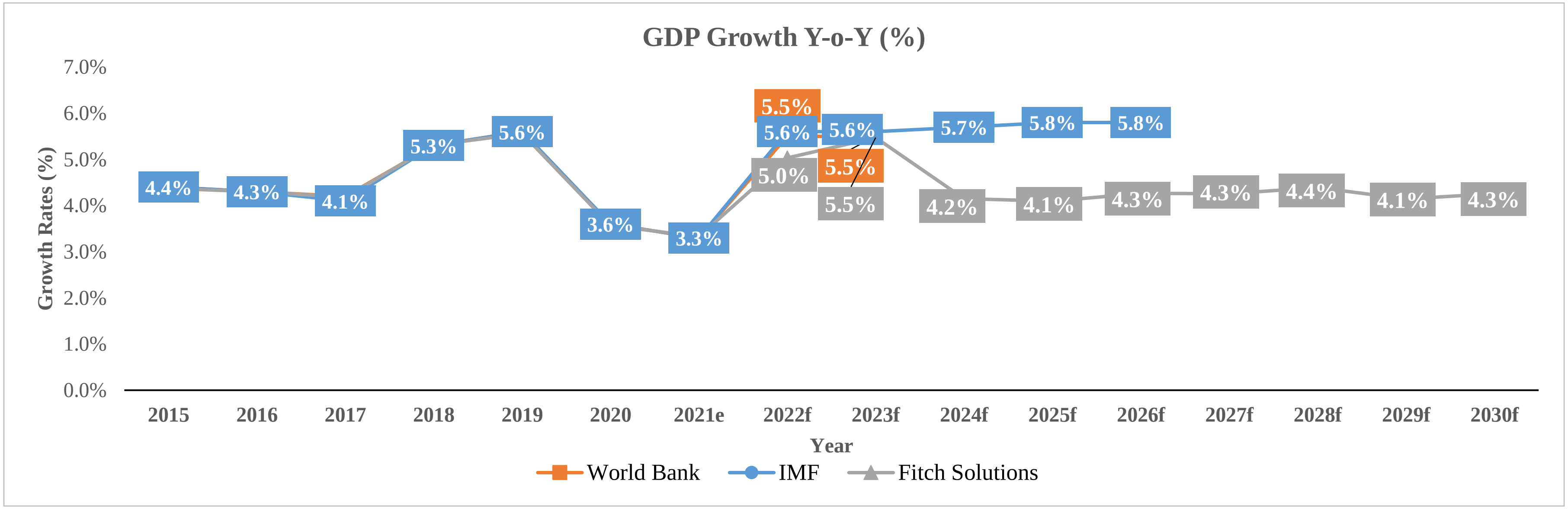



Figure: GDP Growth Y-o-Y (%)
Source: *World Bank, IMF, and Fitch Solutions*

THE WORLD BANK

The World Bank expects Egypt's annual GDP growth rates to rebound in 2022 and 2023 and record 5.5% growth rates in both years.

The IMF estimated Egypt's economic growth in 2021 to amount to 3.3% before going on an upward trend starting 2022, by recording GDP growth of 5.6%, till it reaches 5.8% by 2026.

Fitch Solutions

Fitch Solutions' projections has indicated that Egypt's economic growth will increase in 2022 and 2023, recording 5.03% and 5.47%, respectively; as well as averaging 4.22% for the period (2024-2030). This mainly reflects the economy's strength and stability against external shocks as well as overcoming the hurdles posed by the spread of COVID-19 pandemic.

# Inflation

According to the Central Bank of Egypt (CBE), the annual core inflation rate recorded 6.3% in January 2022 and 7.3% for the annual headline inflation rate during the same month. Moreover, CAPMAS has revealed that the annual inflation rate in January 2022 recorded 8% which is up from the 4.8% recorded in January 2021. The annual and monthly inflation readings are below the Central Bank of Egypt's (CBE) target of seven percent (±2 percent) through the end of 2022.

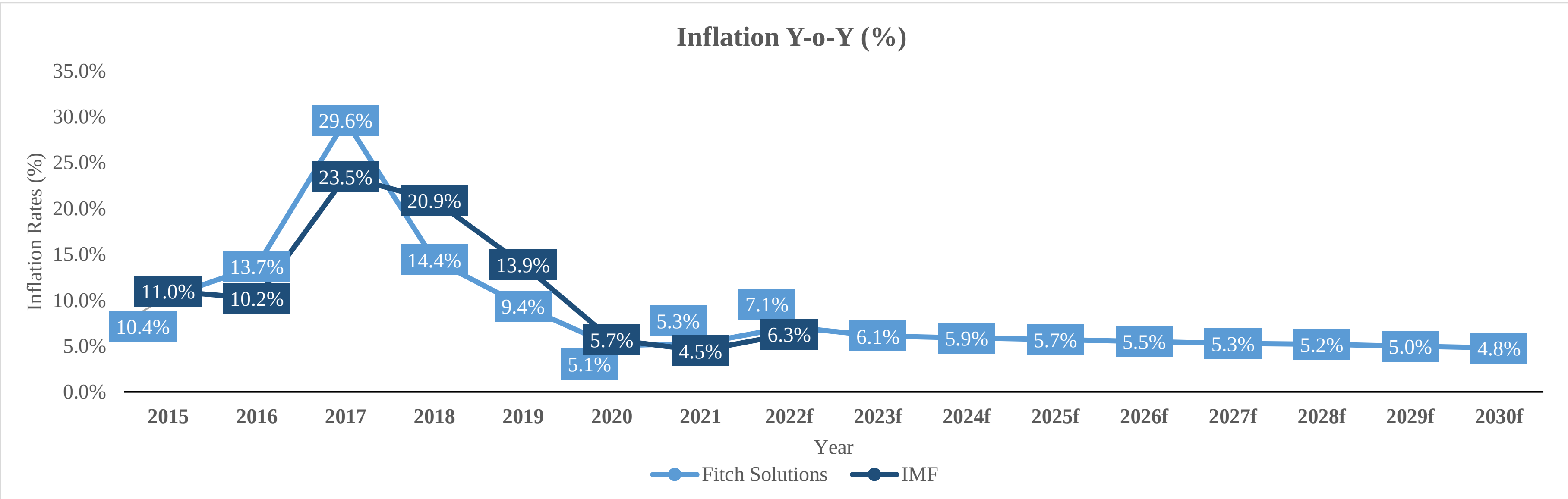



Figure: Inflation Rate (Y-o-Y)
Source: *Fitch Solutions and IMF*

Fitch Solutions has forecasted that Egypt's inflation rates will increase in 2022 recording 7.10%, before declining in the following eight years till it reaches 4.8% in 2030

The IMF estimated Egypt's inflation rate to stand at 4.5% in 2021 before rising to 6.3% in 2022 till it reaches 7.1% by 2026.

# Foreign Exchange Rates

**The EGP recorded the strongest performance against the USD among emerging market currencies during 2020 despite the challenges and difficulties that the domestic economy faced throughout the year behind the COVID-19 pandemic and its severe impact on the state's foreign exchange resources.**

**Fitch Solutions has demonstrated that the EGP/USD exchange rates might slightly increase in the upcoming years, as it projects that the EGP to depreciate from an average of EGP15.70/USD in 2021 to EGP16.00/USD in 2022 and EGP16.20/USD in 2023 given large current account deficits, tighter monetary policy globally as well as an overvalued currency. Fitch Solutions finally projects that EGP/USD exchange rate will amount to 17.19 on average in 2030.**

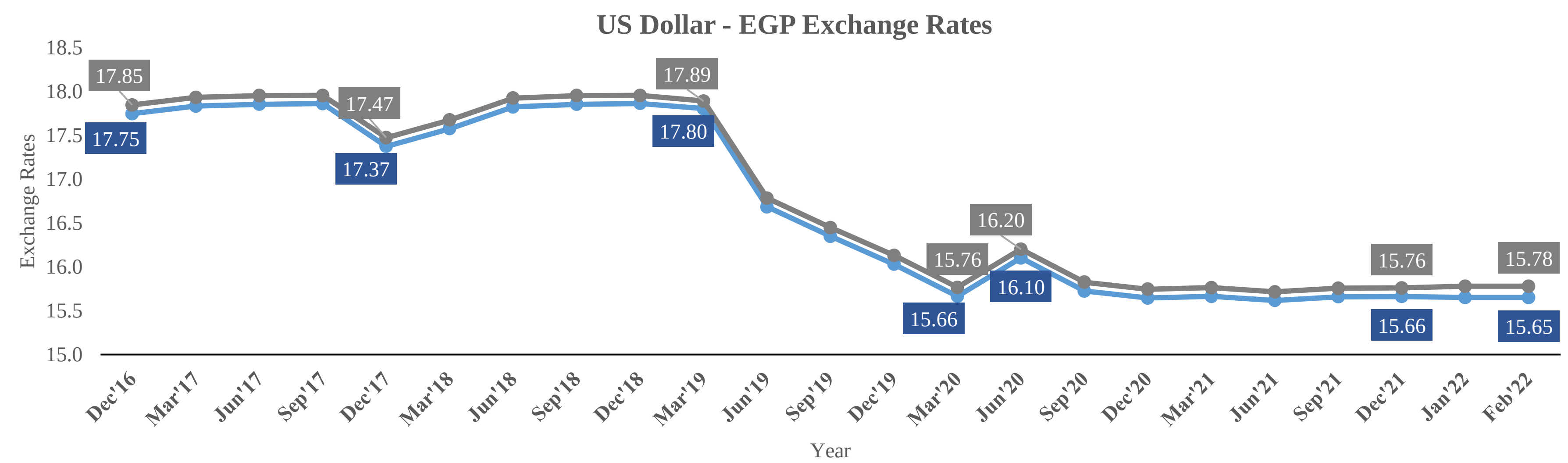



Figure: U.S Dollar-EGP Exchange Rates
Source: *The Central Bank of Egypt*

# Interest Rates

**Over the course of eight meetings held in 2021, the Monetary Policy Committee (MPC) maintained the CBE's key interest rates at the same rates of December 2020, when the committee introduced a 0.5 percent cut. Accordingly, the MPC has decided in Dec 2021 to keep the Central Bank of Egypt's (CBE) overnight deposit rate, overnight lending rate, and the rate of the main operation unchanged at 8.25 percent, 9.25 percent, and 8.75 percent, respectively. This comes in line with the CBE's inflation target set at 7% (+/-2%) by Q4 2022. To note, the interest rate levels were also consistent and balanced with most of the major domestic and global economic indicators.**

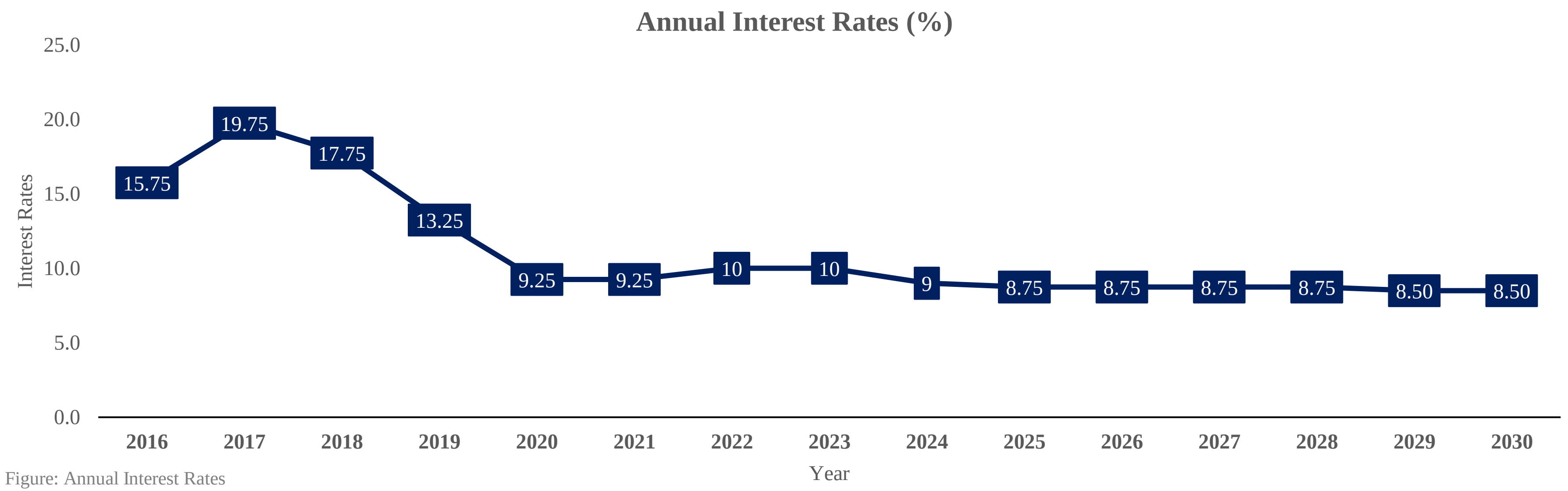



Figure: Annual Interest Rates
Source: *Central Bank of Egypt and Fitch Solutions*

**Globally, central banks are preparing to reverse years of easy-money policies and raise interest rates to fight a resurgence of inflation. A higher interest rate will likely slow spending and narrow the risk of another downturn.**

**Accordingly, the CBE is expected to raise interest rates during 2022 in order to protect Egypt's lucrative carry trade in the midst of global interest hikes.**

Fitch Solutions has forecasted that Egypt's interest rates will increase in 2022 recording 10%, before declining in the following eight years till it reaches 8.5% in 2030.

# Net International Reserves

Egypt's net international reserves have been **rising steadily during 2021 as the effect of COVID-19 started to wither.** Recently, the country's international reserves increased from USD 40.909 bn recorded in Nov 2021 to USD 40.935 bn recorded in Dec 2021 and USD 40.98 bn in Jan 2022.

Accordingly, this has helped Egypt fulfill its financial liabilities and ensures that the country possesses net foreign cash reserves necessary to cover approximately 6.2 months of Egypt's import needs from abroad.

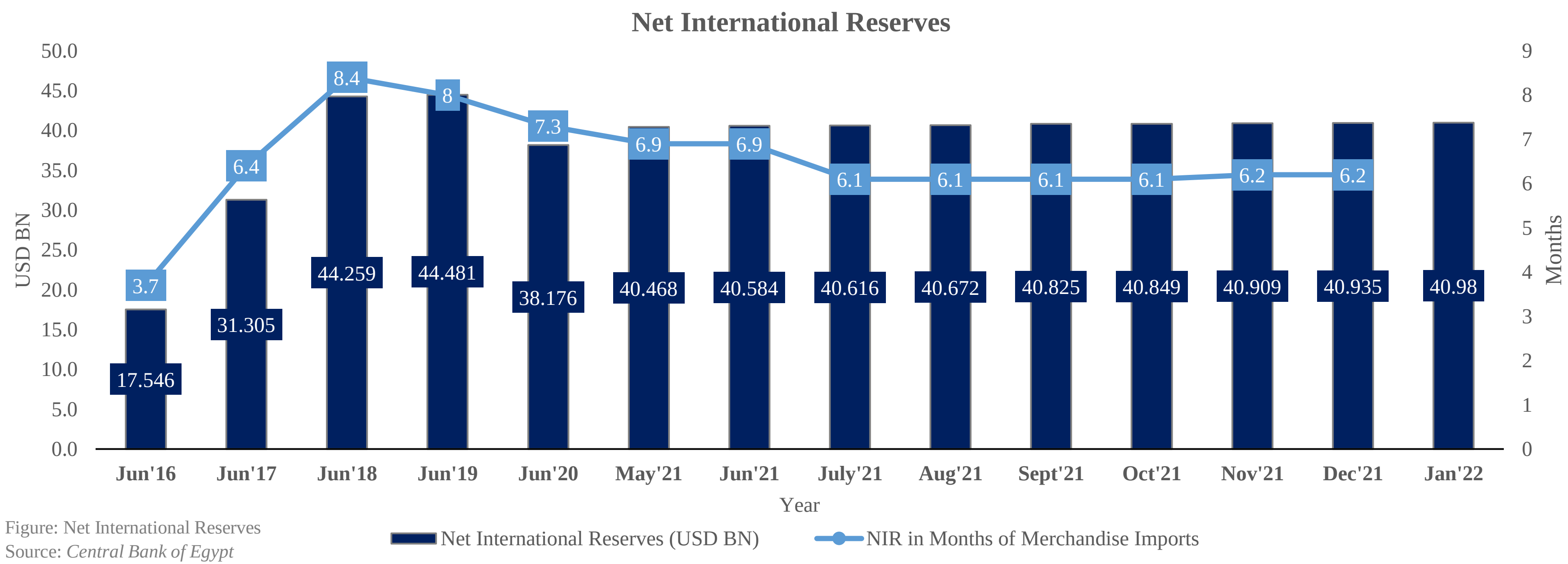



Figure: Net International Reserves
Source: *Central Bank of Egypt*

Fitch Solutions forecasts that Egypt's total reserves excluding gold (the sum of Foreign Exchange, Reserve Position in the Fund, and the US dollar value of SDR holdings by monetary authorities) is set to increase in 2022 recording USD 37.932 bn, which is up from USD 36.473 bn. recorded in 2021. On the same, Fitch Solutions has also forecasted the total reserves excluding gold to reach EGP 45.407 bn by 2030.

# Public Finance

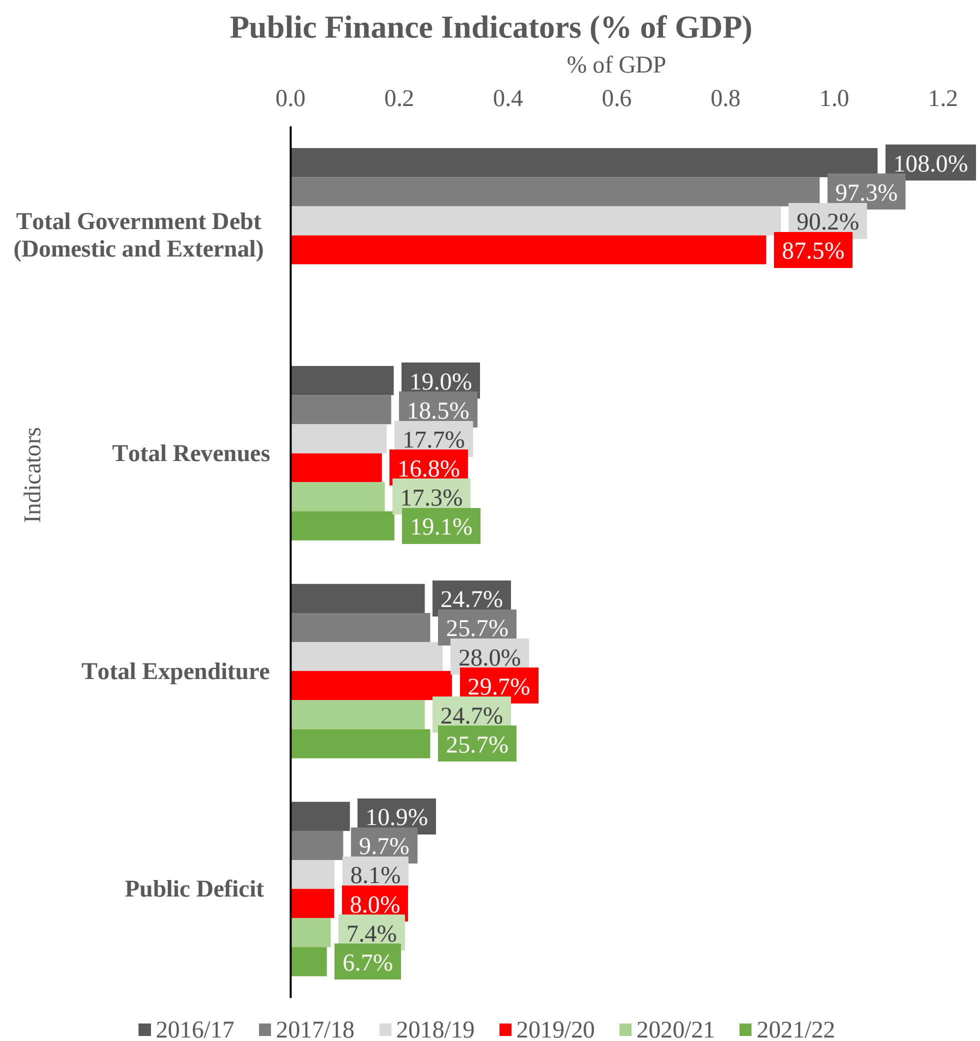



Figure: Public Finance Indicators (% of GDP)
Source: *Ministry of Finance*

**Total Government Debt:** Egypt's total government debt has been steadily declining as a % of GDP since FY 2016/17. According to the Ministry of Finance, the government debt as has decreased from 108% of GDP in FY 2016/17 to 87.50% of GDP in FY 2019/20. On another note, the IMF has reported in January 2022 that Egypt's government debt jumped to 91.4% of GDP by the end of 2021, up from the 89.8% recorded in 2020. However, the IMF projected this ratio to decline to 89.5% in 2022, till it reaches 74.1% by 2026.

Moreover, Egypt's government is aiming to decrease the public debt to GDP ratio to 84% of GDP in FY 2022/2023 and 79% of GDP in FY 2023/2024 by adopting a medium-term debt management strategy, which relies on reducing debt services, prolonging their terms, and improving governmental security in markets to expand the investor base and in turn provide the required liquidity to support the Government's budget.

**Total Revenues:** Egypt's total revenues are expected to increase from EGP 1.108 bn (which constitutes 17.3% of GDP) recorded in FY 2020/21 to EGP 1.365 bn (which makes up 19.10% of GDP) by the end of FY 2021/22.

The increase in total revenues is mainly driven by the tax revenues which is expected to increase from the EGP 833.993 mn recorded in FY 2020/21 to EGP 983.010 mn in FY 2021/22.

# Public Finance

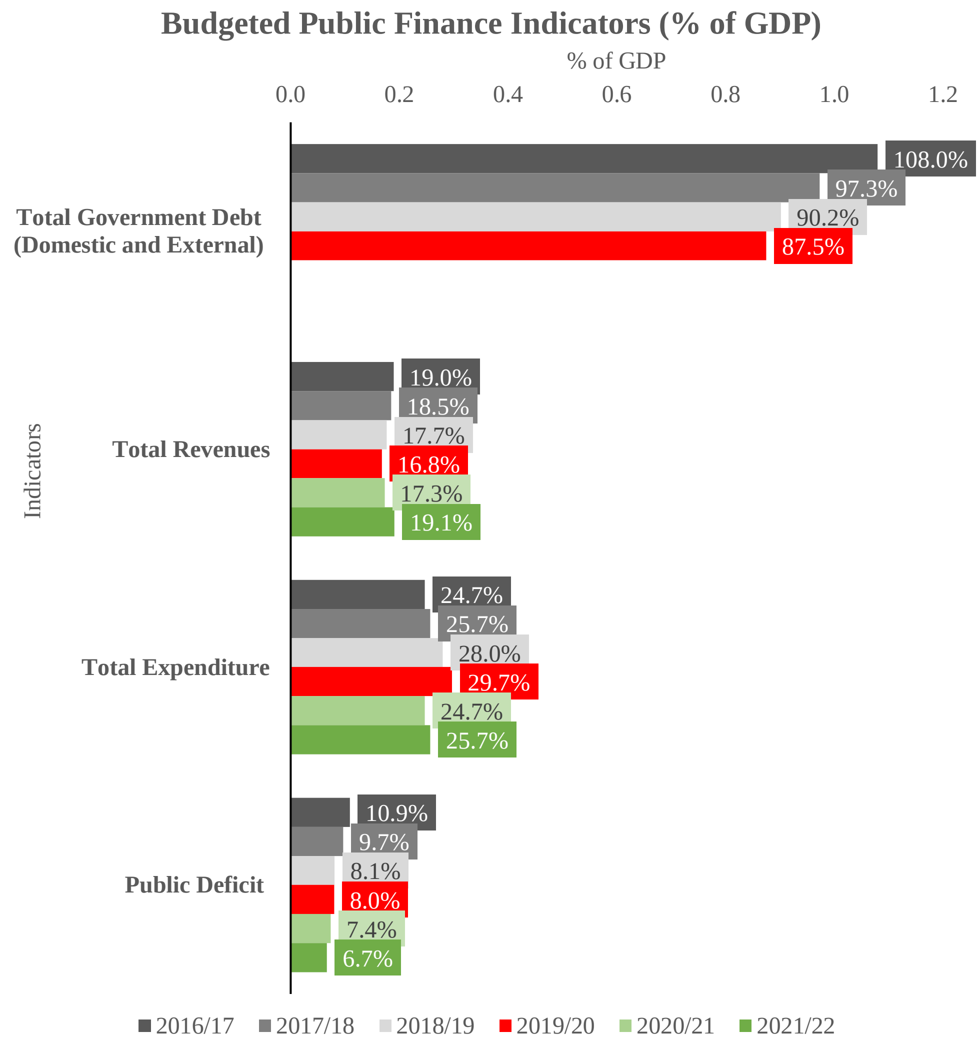



Figure: Public Finance Indicators (% of GDP)
Source: *Ministry of Finance*

**Total Expenditure:** Egypt's total expenditure amounted to EGP 1.578 bn (~25% of GDP) in FY 2020/21 and are expected to increase during FY 2021/22 to amount to EGP 1.837 bn (25.7% of GDP). The Ministry of Finance highlighted in its monthly report that the interest payments is expected to reach EGP 579.582 mn this year, which makes it the largest form of government expenditure during FY 2021/22.

The country's total expenditure includes (wages and salaries, purchases of goods and services, interest payments, subsidies, grants and social benefits, purchases of non-financial assets as well as other expenditures.

**Public Deficit:** According to Egypt's state budget for FY 2021/22, Egypt's budget deficit is expected to decrease by the end of FY to record 6.7% of GDP, compared to the previous year in which Egypt's budget deficit stood at 7.4% of GDP.

Minister of Finance Mohamed Maait announced in January 2022 that the Ministry has revised upwards its prior forecast for the country's budget deficit, with the revision coming on the basis of the data acquired during H1 FY 2021/22. Accordingly, the Minister emphasized that the country's budget deficit is now expected to amount to 6.9% of GDP by the end of FY 2021/22.

## Budget Deficit

Egypt’s budget deficit is expected to narrow in the upcoming years according to the IMF and Fitch Solutions’ recent forecasts.

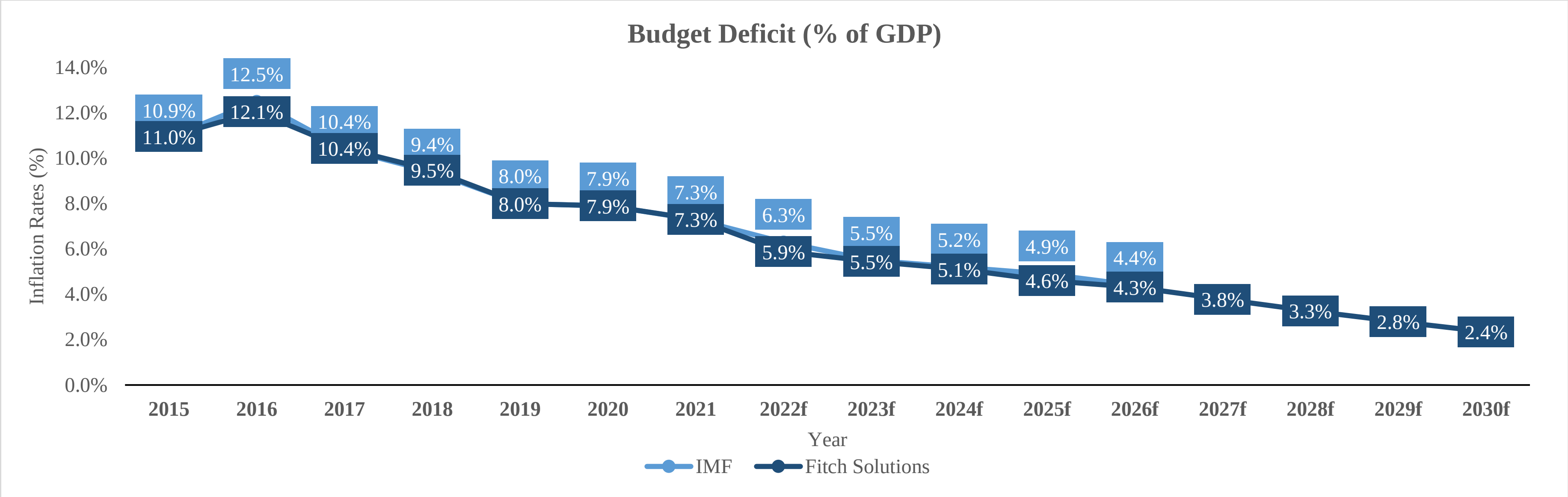
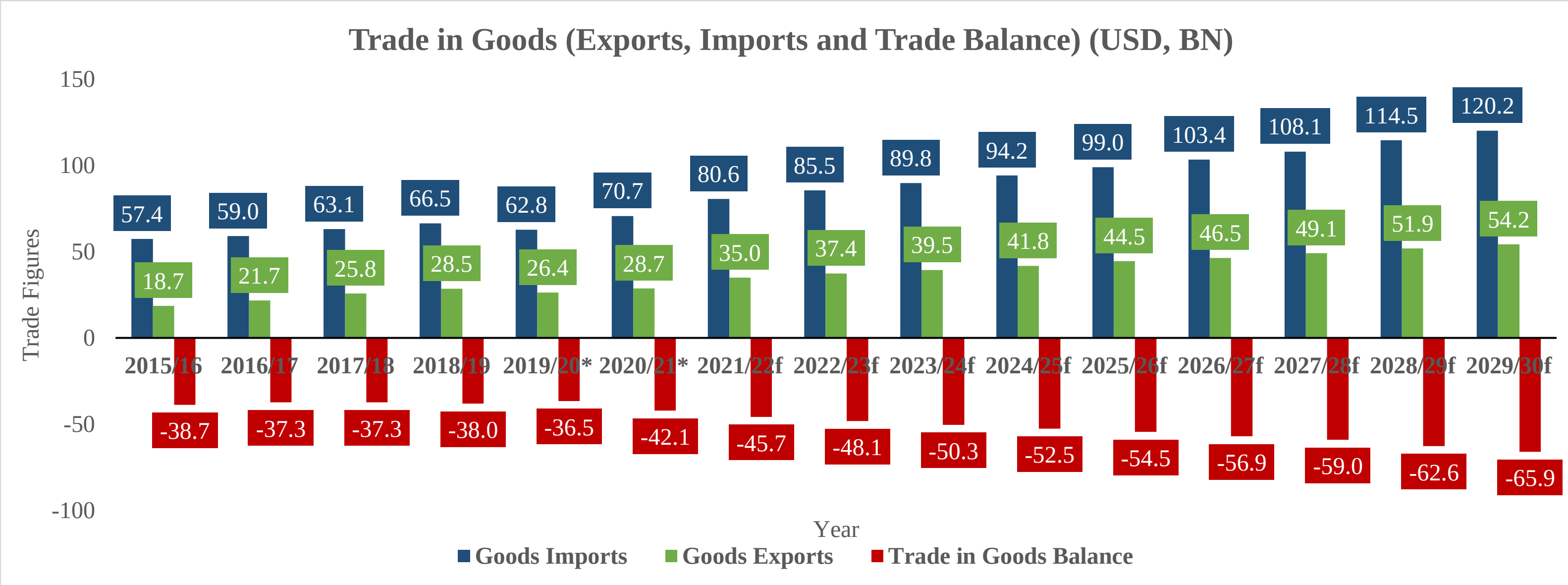



Figure: Budget Deficit (% of GDP).
Source: *IMF; Central Bank of Egypt, Fitch Solutions*

Fitch Solutions has forecasted that the country’s budget deficit will amount to 5.9% of GDP in 2022, which is down from the 7.3% recorded in 2021. In addition, Fitch Solutions also forecasts that the budget deficit will continue to decrease till it reaches 2.4% of GDP by 2030.

The IMF has forecasted that the country’s budget deficit will amount to 6.3% of GDP in 2022, which is down from the 7.3% recorded in 2021. In addition, the IMF has also expected in their latest Fiscal Monitor Report, released in October 2021 that the budget deficit will continue to decrease till it reaches 4.4% of GDP by 2026.

# Trade Balance




According to the Cabinet, Egypt's **exports hit a record of $45.2 bn worth of goods in 2021**, marking an 80% increase from 2020.

Non-oil exports constituted 71.5% of the total, while oil and gas exports constituted the remaining 28.5%.

Source: *Central Bank of Egypt and Fitch Solutions*
** Provisional*

**Non-Oil Exports:** Trade and Industry Minister Nevine Gamea remarked that Egyptian non-oil exports achieved **unprecedented positive indicators in 2021, reaching $32.13 bn**, compared to $25.43 bn in 2020, an increase of 27%.

This unprecedented increase in exports was attributed to be due to the efforts of the Egyptian government, especially the Export Subsidy Program with its multiple phases that aimed to support exports, reduce burdens and pay overdue export dues.

CAPMAS reported by the end of 2021 that Egypt's trade deficit declined by 22.5% percent during September 2021, recording $2.39 bn, compared to $3.08 bn in the same month of 2020.

CAPMAS attributed this decrease to the increase in exports by 36.6%, which recorded $3.45 bn in September 2021, compared to $2.53 bn during the same month of 2020.

This noted increase in exports was led by the rise in the exports of various commodities, such as: fertilizers by 90.2%; iron rods, rods, angles and wires by 57.0%; food dough and preparations by 31.5%, and ready-made clothes by 22.6%.

FitchSolutions

Fitch Solutions forecasts the country's non-oil exports to reach USD 35 bn in 2021/22, up by 22% compared to FY 2020/21. Furthermore, Fitch Solutions also forecasts that both the imports and exports in non-oil goods are set to continue to grow at an average rate of 5.1% and 5.6%, respectively, starting FY2022/23 till 2030.

Accordingly, Fitch Solutions predicts that the trade balance in goods will continue to widen, reaching USD 65.9 bn in FY 2029/30.

# Trade Balance

## Top Imports in FY 2020/21

| | | | |
|---|---|---|---|
| 1st | EU | USD 19.3 bn | ▲ 7.7% YoY Growth |
| 2nd | Asian countries (excluding Arab countries) | USD 17.4 bn | ▲ 20.0% YoY Growth |
| 3rd | Arab countries | USD 13.2 bn | ▲ 5.0% YoY Growth |

| EU | Asian countries | Arab countries | Others |
|---|---|---|---|
| 27.3% | 24.6% | 18.7% | 29.4% |

Share out of Total Egyptian Imports in FY 2020/21 (%)

Source: *Central Bank of Egypt*

**According to CBE data, the EU, Asian countries and Arab countries were the top geographic clusters that contributed to Egypt's imports.**

Moreover, significant growth in imports was also observed from the USA, which grew by 14.6% in FY 2020/21 compared to the prior year, and from 'Other European countries', which marked a 12.8% growth in FY 2020/21.

**Similarly, the CBE data showed that Egypt's top export markets were, the EU, Arab countries and Asian countries.**

Egypt's exports grew significantly in:

- Asian countries, with a growth rate of 35.1%
- Other European countries by a growth of 29.4%
- Australia with an annual growth of 25.1%
- USA with annual growth of 20.3%
- Russia by a growth of 15.4%

## Top Exports in FY 2020/21

| | | | |
|---|---|---|---|
| 1st | EU | USD 8.8 bn | ▲ 7.6% YoY Growth |
| 2nd | Arab countries | USD 6.7 bn | ▼ -0.6% YoY Growth |
| 3rd | Asian countries (excluding Arab countries) | USD 4.4 bn | ▲ 35.1% YoY Growth |

| EU | Arab countries | Asian countries | Others |
|---|---|---|---|
| 30.6% | 23.5% | 15.4% | 30.6% |

Share out of Total Egyptian Exports in FY 2020/21 (%)

Source: *Central Bank of Egypt*

# Assessing Internal and External Developments

# CBE Decision 49/2022

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# CBE Decision 49/2022

## What is the New Policy?

In a letter to banks operating in the country, the Central Bank of Egypt (CBE) issued Decision 49/2022 on February 13th entailing banks to stop accepting documentary collections from importers and to work only with Letters of Credit (LC's). The CBE attributed this measure to come within the framework of the Cabinet's directives regarding the governance of import operations and the activation of the system of pre-registration of shipments (Advanced Cargo Information system), which will be applied compulsorily as of the beginning of February 22, 2022.

## ! EXEMPTIONS

**The CBE revealed that the following exemptions apply to this decision:**

- Branches of foreign companies and their subsidiaries will be exempted from this decision
- Imports of goods worth up to USD 5k (or the equivalent in any other foreign currency)
- Shipments delivered via express post
- Imports of medicines, vaccines and active ingredients required to manufacture them locally
- Imports of tea, meat and poultry products, fish, wheat, oil, milk powder, baby formula, fava beans, lentils, butter, and corn
- Banks are allowed to accept documentary collections for goods that were already shipped before the issuance of this decision.

## What is new compared to the old system?

### 1. Bank's Role

- Most manufacturers usually used documentary collections, where the transaction is between the importer and exporter directly. In this case, banks act as intermediaries between the importer and the bank of the supplier of goods, guaranteeing that the former obtain the goods conforming to the specifications, and assisting the supplier in obtaining full financial rights as soon as the importer receives his goods.
- However, when using LC's, the transaction becomes executed between the importing and exporting bank, where the commission for a 3-month LC could stand at around 1% (depending on the bank) versus 0.003% for documentary collections.

### 2. Payment

- It is customary for the importer to pay the entire value of the commercial transaction to the bank before completing the import process if they deal through documentary credits (LC's), unlike the case with collection documents, where the value of the transaction is paid in several payments.
- Hence, an importer who agrees to buy goods worth $1 mn would normally pay between 20 to 30% of the value in advance and the rest upon receiving the shipment. However, under the new rules, the importer would need to pay the whole amount to the bank upon agreement with the supplier.

# CBE Decision 49/2022

**Why is the new policy being imposed?**

**The government considers the decision an important step to:**

- Ensure control over the quality of goods
- Ensure better import regulation and governance within the banking sector and the foreign trade system
- Preserve the state's financial resources and protect the national industry
- Complement the implementation of the ACI system through which it seeks to raise the level of goods imported from abroad and eliminate excessive profit margins
- Protect the citizens health, energy, and the climate via raising the quality level of goods imported from abroad
- Enable better standards of examination, validity, quarantine, and other rules to ensure product safety as importers are required to submit applications to the customs authorities a month in advance of the arrival of imports
- Limit the abuses committed by some importers whether in committing fraud through invoices or by evading customs

**Policy Implementation Facilitations**

- The CBE launched an initiative to guarantee import operations by covering the risks associated with issuing documentary credits through banks
- The initiative targets customers who have a history of importing through collection documents only and from the same bank.
- The Credit Risk Guarantee Company will guarantee the bank's portfolio under this initiative by 100% for the part not covered by these credits.
- The banks will be exempted from the guarantee commission for a period of 6 months from the date of activating the initiative, provided that the Credit Risk Guarantee Company provides the banks with the determinants and framework of this initiative.

**According to a statement by the Federation of Egyptian Banks (FEB), banks are required to commit to:**

- Providing the Credit Risk Guarantee Company with the necessary data on the portfolio on a weekly basis in accordance with the requirements set to be shared
- Reducing their commission for opening documentary credits to be equal to the commission paid for collection documents
- Raising credit limits for existing customers and set new limits for new customers, depending on their import volumes
- Taking the necessary steps and provide LC's to all customers who request them as quickly as possible.

# Implications Assessment on CBE Decision 49/2022

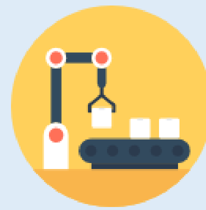
Despite of the benefits that the government argues would result from this decision, numerous stakeholders pointed out certain shortfalls and hinderances that this decision would entail on the economy and operating businesses. **According to our assessment and other concerns shared by the business community, this decision could result in the following detrimental implications:**

### Commercial Transactions

- Reduce commercial transactions at the international level as LCs usually lead to such impact
- Make the process more difficult, which will lead to an increase in the prices of some goods and delay the completion of some deals

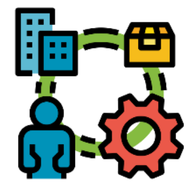

### Exports and Competitiveness Decline

Hinder Egyptian exports, as production costs will increase, which will reduce the competitiveness of Egyptian products



### Production Decline and Price Hikes

- Lead to a decrease in production and an inflation in prices, which will negatively impact both the producer and consumer
- Confusion on policy implementation could cause the prices of some goods to increase by 20%, according to the Alexandria Chamber of Commerce.



### Supply Chain

Exacerbate problems within supply chains as the decision is expected to directly impact businesses by disrupting the importation of raw materials and spare parts for machinery and production lines

### Investor Confidence

Negatively affect the confidence of the foreign investors in the Egyptian industry behind the alluded need to preserve the state's financial resources of foreign currency

# Implications Assessment on CBE Decision 49/2022 (cont.)

### Liquidity and Cashflow Problems

- Affect the businesses' ability to provide foreign currency needs to cover the LCs, which would increase demands for foreign hard currency and open room for the black market
- Lead to a cashflow problem for importers, as banks freeze funds in importers’ accounts equivalent to the LC’s full value until being settled
- Make importers liable for the entire value of deals


### Pressure SMEs

Small and medium-sized companies may be unable to obtain bank facilities that enable them to deal with bank documents, in addition to not being able to provide full pre-deal value

### Favored Treatment

- As the decision excludes foreign companies, this might limit the Egyptian companies’ ability to compete with their foreign counterparts, which violates the principle of ensuring a level playing field for all
- Impact the Egyptian companies’ ability to export their products abroad compared to their foreign counterparts, as many of the former rely on imported raw materials

### Border Trade

Hinder and limit border trade with nations, including Libya which its imposed sanctions impede Egypt from dealing with Libyan banks, and Sudan which Egypt relies on dealing with cash in its imports, especially in camels, Arabic gum, etc.

### Smuggling

Imposing restrictions on imports usually leads to increasing opportunities for smuggling owing to a scarcity of goods on the market and the subsequent higher prices.

# Russia-Ukraine Crisis

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# Russia-Ukraine Crisis Timeline

**Dec 1991**

**Ukraine became independent** shortly after the Soviet Union's fall.

**Dec 1994**

The **Budapest Memorandum on Security Assurances** was signed entailing the transfer of all nuclear weapons in Ukraine from the Cold War to the Russian Federation, making Ukraine a non-nuclear power.

**Dec 2004**

A presidential election between Viktor Yushchenko, popular pro-democracy opposition leader, and Viktor Yanukovych, supported by Russia, creates a massive controversy, with the later winning the election amid accusations of rigging. Massive protests follow, becoming known as the **Orange Revolution.** After a third vote, Yushchenko prevails.

**April 2008**

A NATO summit began with intense debate about **extending a Membership Action Plan (MAP) to Ukraine**, but Putin opposes such measure, ultimately leading the NATO not to offer Ukraine a MAP.

**Feb 2014**

Just days before an association agreement is signed with the EU, President Yanukovych refuses to sign, citing pressure from Russia, which then leads to mass protests, known as the **Maidan Revolution**. Ahead of a scheduled impeachment vote, Yanukovych flees to Russia and Ukraine's parliament votes to install an interim government.

**Mar 2014**

Russia declares the change in Ukraine's government as an illegal coup and **seizes Crimea**, a Ukrainian peninsula with a predominantly ethnic Russian population.

**April 2014**

**Russian-supported separatist forces declare Donetsk and Luhansk independence** from Ukraine as the Donetsk People's Republic and Luhansk People's Republic, though they remain internationally recognized as part of Ukraine.

**Sept 2014 – Feb 2015**

To negotiate an end to the violence in the Donbas, the **first Minsk agreement is signed**, a deal between Ukraine and Russia to for a cease-fire. After the cease-fire failed, Minsk II agreement was signed.

**Apr 2019**

**Volodymyr Zelenskyy becomes elected president,** overwhelmingly defeating the pro-Russia candidate in a presidential election.

**Dec 2021**

**Putin issues a set of security demands**, including asking NATO to permanently bar Ukraine from membership and withdraw forces stationed in countries that joined the alliance after 1997, including Romania and Balkan countries.

**Feb 2022**

On Feb. 21, Putin **formally recognizes the independence of the Donetsk People's Republic and the Luhansk People's Republic** — including territory claimed by separatists but controlled by the Ukrainian armed forces and peacekeeping troops.

**Feb 2022**

**On Feb. 24, Russia launched a full-scale invasion of Ukraine**, beginning with the eastern Ukrainian territory of Donbas. Zelenskyy declared martial law in Ukraine and officially broke diplomatic ties with Russia.

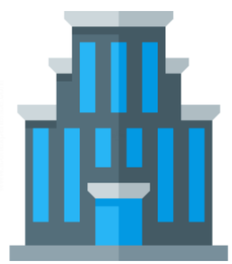
# Russia-Ukraine Crisis

# Russia-Ukraine Crisis – Sanctions

On February 26 after the Russian attack on Ukraine, western allies including USA, UK, and the European Union announced new sanctions on Russia. These sanctions included restrictions on Russia's central bank and the expulsion of key banks off the main global payments system. Such measures were designed to cripple Russia's economy, punish its government for taking military action, and impede Russia from having the means to finance its attack on Ukraine.

The European Union, US, UK and allies have agreed to remove selected Russian banks from the Swift messaging system, which enables the smooth transfer of money across borders, in order to cut Russia off from the international financial system and to "harm its ability to operate globally".

- **Background:** Created in 1973 and based in Belgium, Swift links 11,000 banks and institutions in more than 200 countries by acting as an instant messaging system that informs users when payments have been sent and arrived. The system typically sends more than 40 mn messages/day. Having been originally created by American and European banks in order to avoid a single institution from developing its own system and having a monopoly, Swift is now jointly-owned by more than 2,000 banks and financial institutions.
- **Implications:** A ban from Swift will delay the payments that Russia gets for exports of oil and gas. However, experts note that Russia could get paid through other systems, such as China's Cross-Border Interbank Payment System or its very own 'National Payment Card System', known as Mir, that has few foreign countries using it.
- **Counter Implication:** The ban is also expected to affect companies owed money by Russia, thereby causing disruption to some countries' energy supplies and leading to international banking chaos.



**Russia's Central Bank**

Western leaders have also agreed to freeze the assets of Russia's Central Bank, to limit its ability to access its $630 bn international dollar reserves. Moreover, in coordination with the US and the EU, the UK government has also banned British people and businesses from making transactions with the Russian Central Bank, Finance Ministry and its wealth fund.

**Russia Adjusts Monetary Policy:** Accordingly, after Russia's currency, the rouble, slumped by 30% against the US dollar, the country's Central Bank has more than doubled its key interest rate in an attempt to stem the decline.

# Russia-Ukraine Crisis – Sanctions (cont.)

## Other Financial Measures

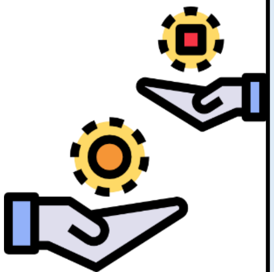
- **UK Measures:** The UK announced that all major Russian banks are being excluded from the UK financial system, in order to stop them from accessing sterling and clearing payments through the UK. Moreover, all Russian banks will have their assets frozen, the UK has said.
- Furthermore, the UK also announced laws to stop major Russian companies and the state from raising finance or borrowing money on UK markets, in addition to placing a limit on deposits that Russians can make to UK bank accounts.
- **EU Measures:** Separately, EU measures have been announced targeting 70% of the Russian banking market and key state-owned firms, including defense firms.
- **USA Measures:** U.S. banks were directed to sever correspondent banking ties with Russian banks and were allowed to make payments between one another and move money around the globe with Russia's largest lender, Sberbank, within strictly 30 days.
- The US also added VTB, Otkritie, Novikombank and Sovcombank to the Specially Designated Nationals (SDN) list, effectively ousting them out of the U.S. financial system, banning trade with Americans and freezing their U.S. assets.

## Targeting Individuals

Western governments have imposed sanctions on some individuals, including a "hit list" of powerful, wealthy businessmen and women known as oligarchs.

- Russian President Vladimir Putin and Foreign Minister Sergei Lavrov assets in the US, EU, UK and Canada will be frozen and, in the case of the US, a travel ban imposed.
- **UK Measure:** The UK also announced sanctions on more than 100 Russian individuals and entities.
- **EU Measure:** The EU has already imposed sanctions on five people who were involved in a Russian parliamentary election in annexed Crimea, but said that it would blacklist all lawmakers who voted to recognize the two regions controlled by pro-Russian separatists in eastern Ukraine, freeze any assets they have in the EU and ban them from travelling to the bloc.
- The EU, UK, US and Canada have launched a transatlantic task force to identify and freeze the assets of sanctioned individuals and companies.
- The UK is limiting the sale of citizenship via "golden passports", which will inhibit wealthy Russians from becoming citizens.

# Russia-Ukraine Crisis – Sanctions (cont.)



**Exports to Russia**

- The UK, EU, US and other countries have announced curbs on products that can be sent to Russia. These include dual-use goods, items that could have both a civilian and military use.
- The EU is also aiming to make it impossible for Russia to upgrade its oil refineries by placing an export ban on certain materials. In addition, the EU is also banning the sale of aircraft and equipment to Russian airlines in an attempt to damage its economy and connectivity.

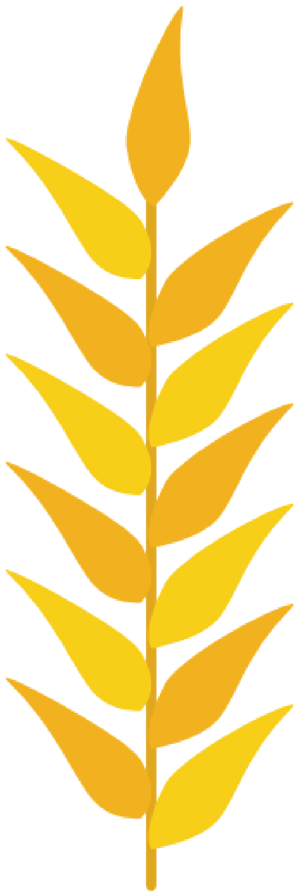
## Curbing Technology

The U.S. Commerce Department remarked that it was implementing export controls that will severely restrict Russia's access to semiconductors, computers, telecommunications, information security equipment, lasers, and sensors that it needs to sustain its military capabilities.

The EU has vowed to introduce measures to crimp Russia's technological position in key areas - from high-tech components to cutting-edge software.

# Impact Assessment of the Russia-Ukraine Crisis on Egypt

The Russia-Ukraine conflict has led to a variety of repercussions including causing an increase in the prices of oil, gold and wheat, a decline in stocks, and a stumble in global trade.



## 1. Wheat Prices

- **Inflated Grain Prices:** With Russia and Ukraine being top wheat exporters and together accounting for 29% of the world's wheat exports according to USDA, the crisis between them led to a rise in global grain prices, especially wheat which witnessed an 18% price increase, thereby negatively affecting the prices of food commodities globally and specially wheat importing countries.
- **Supply Problems:** Being the world's largest wheat importer, Egypt is expected to be affected by the repercussions of this conflict, with the greatest impact being on food commodities, especially wheat, as the two countries are the largest wheat exporters to Egypt. To note, Egypt imported 80% of its wheat last year from Russia and Ukraine; 50% from Russia and 30% from Ukraine, according to Cabinet Spokesman Nader Saad.
- **Pressure on State Budget:** Moreover, the rising wheat prices globally due to the crisis are expected to affect and pressure the Egyptian Government's budget and increase its burdens by bearing the costs of the price increase, since wheat from Russian and Ukraine costs 10% less than global prices, and they are geographically closer to Egypt with shipments taking only ten days to reach Egyptian shores. In comparison, shipments coming from the US take 24 days, and they take 28 days from Argentina.
- **Additional Import Cost Estimate:** Former Adviser to the Minister of Supply Nader Noureddin expects the Egyptian government to pay an additional EGP 1 bn in extra costs to import wheat, yellow corn, and cooking oil if the Ukraine crisis continues. This comes in light of Egypt being the largest importer of wheat in the world, the fourth-largest importer of corn, and the fifth-largest importer of cooking oil
- **Inflated Meat Prices:** With Ukraine being a major source of wheat, corn and barley in the world, the lack of yellow maize imports is set to raise the prices of fodder in globally and thus raise meat prices.

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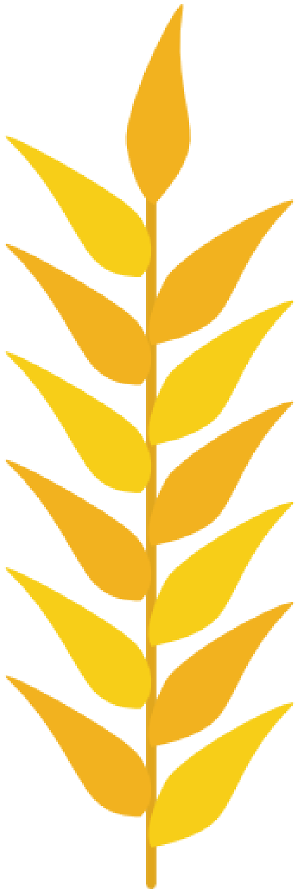

- **Government Efforts:** The Egyptian Government, during the last period, took important measures to increase the strategic stockpile, which will help reduce the severity of impacts and absorb shocks. Prior to Russia's attack on Ukraine, the government held discussions on importing wheat from 14 other countries to diversify wheat imports in the event the crisis escalates. With the country currently having a strategic stockpile of wheat sufficient for 5 months, the government also discussed, during its Cabinet meeting, raising the strategic stock of local production starting from mid-April to 9 months.
- **Government Diversifies Imports:** Egypt has imported wheat from four countries so far in 2022; 43% from Romania, 29% from Russia and 23% from Ukraine, with the rest coming from France and others, Minister of Supply Ali Moselhi remarked, adding that. Egypt's contracts to import wheat from Russia are still valid and that both Russia and Ukraine are trying to fulfil their wheat export commitments.
- **Government Increases Local Production**: Minister of Supply and Internal Trade Ali Moselhi highlighted that Egyptian farmers are expected to produce 5.5 million tonnes of wheat during the next season – 2 million tonnes more than the 3.5 million tonnes locally supplied in 2021. Such increase in local production is expected to offset the dire need for wheat imports which reached 5.5 million tonnes in 2021. This measure is not only going to aid closing the supply gap but also significantly save costs, as Egypt's wheat imports usually cost EGP 20-22 billion, while locally produced wheat costs around EGP 18 billion.
- **Other Government Facilitations:** Prime Minister Mostafa Madbouly has recently issued instructions to increase the number of wheat collection points and ease procedures in order to facilitate the delivery of wheat from small farmers.
- **Government Lifting Bread Subsidy:** Prime Minister Mostafa Madbouly recently announced that the price of subsidized bread is being reviewed, with a potential slight adjustment expected in the near future.

## 1. Wheat Prices

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## 2. Oil Prices

Oil prices surged above $100 per barrel for the first time in more than 7 years after Russia launched the invasion of Ukraine, piling pressure on a global economy.

- **Increase Price: O**il prices are expected to rise much higher than $100 a barrel due to the ongoing war between Russia and Ukraine, with Capital Economics estimating a worst-case scenario of an escalating conflict and sanctions that could send oil prices up to as much as $140 a barrel.
- **Exacerbate Inflation:** Aside from benefiting oil producing countries, oil price increases would negatively affect the rest of the world, thereby increasing the global inflationary wave.
- **Increase Food Production Cost:** In addition, increasing oil prices worldwide would lead to a hike in the cost of food production in general, since energy constitutes 33% of the cost of agricultural production.
- **Pressure State Budget:** The state's budget for FY 2021/22 was drafted based on oil estimates of $60 per barrel, hence, the rising petroleum prices caused by the crisis is expected to place pressure on Egypt's state budget. This could however be offset by the similar global increase in natural gas prices.

## 3. Energy Prices

- Experts forecast that energy prices will also witness an accelerating rise with the escalation of the war.
- **Opportunity:** Such hikes in energy prices globally opens the opportunity for Egypt to increase its exports of natural gas abroad, in addition to attracting more investments in the oil and gas sector to increase discoveries and production.
- **Opportunity:** Accordingly, the energy shortage crisis for Europe, an energy importer that receives close to 40% of its natural gas from Russia, represents an opportunity to put Egypt on the European energy map and secure part of Russian gas supplies.
- **Opportunity:** Moreover, Egypt has the necessary capabilities to become one of the alternatives for energy in Europe in light of the important and vital role it plays in the East Mediterranean Gas Forum.

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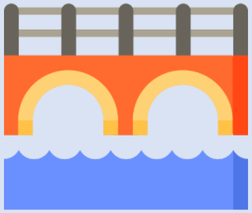

## 4. Suez Canal

- The Suez Canal is expected to be impacted in terms of navigation movement with the ongoing turmoil between Russia and Ukraine, especially for ships crossing from the Black Sea and then passing through the Suez Canal.
- **Opportunity:** On another front, the increased demand for oil is expected to increase the traffic of ships transiting the Suez Canal.
- **Opportunity:** On a similar note, a rise in energy and oil prices is expected to prompt European countries to look for a source of gas other than from Russia, which would positively impact the Suez Canal as more ships would be passing through it.
- **Opportunity:** Experts also suggest that this crisis could positively impact the Canal since the ships that usually sail the Russian Northern Sea Route would have to divert their course to pass through the Suez Canal (fastest and safest passage), which would lead to more revenues.

## 5. Tourism

- **Lower Tourist Flow:** The flow of Russian and Ukrainian tourism is expected to be negatively impacted as the ensuing war will halt the Russian and Ukrainian tourist delegations, which come to Egypt in large numbers and are considered the main exporters of tourists to Egypt.
- **Tourism Sector Impact:** With Egypt relying on tourism revenues as a vital source of foreign currency and with the industry accounting to 15% of the GDP prior to the pandemic, the country’s tourism sector is expected to suffer a serious blow from such crisis.

# Impact Assessment of the Russia-Ukraine Crisis on Egypt

## 6. Trade and Exports Impact

Egyptian imports from and exports to both Ukraine and Russia face significant risk should the conflict continue to escalate and with the imposed sanctions placed on the latter.

| Product Code | Top Egyptian Imports from Russia | Value in 2020 (USD MN) |
|---|---|---|
| **Total Egyptian Imports from Russia** | | **2,522.1** |
| '100119 | Durum wheat (excluding seed for sowing) | 1,626.7 |
| '440710 | Coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded ... | 150.4 |
| '441231 | Plywood consisting solely of sheets of wood <= 6 mm thick, with at least one outer ply of tropical | 118.3 |
| '720719 | Semi-finished products of iron or non-alloy steel containing, by weight, < 0,25% of carbon, ... | 96.2 |
| '151211 | Crude sunflower-seed or safflower oil | 59.8 |
| '270400 | Coke and semi-coke of coal, of lignite or of peat, whether or not agglomerated; retort carbon | 40.7 |
| '271019 | Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ... | 38.7 |
| '721391 | Bars and rods, hot-rolled, in irregularly wound coils, of iron or non-alloy steel, of circular ... | 24.7 |
| '720839 | Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils, simply ... | 24.5 |
| '260112 | Agglomerated iron ores and concentrates (excluding roasted iron pyrites) | 20.4 |

| Product Code | Top Egyptian Exports to Russia | Value in 2020 (USD MN) |
|---|---|---|
| **Total Egyptian Exports to Russia** | | **406.0** |
| '080510 | Fresh or dried oranges | 119.8 |
| '070190 | Fresh or chilled potatoes (excluding seed) | 55.3 |
| '080520 | Fresh or dried mandarins incl. tangerines and satsumas, clementines, wilkings and similar citrus ... | 27.7 |
| '070310 | Fresh or chilled onions and shallots | 25.0 |
| '080610 | Fresh grapes | 22.5 |
| '081110 | Frozen strawberries, uncooked or cooked by steaming or boiling in water, whether or not sweetened | 17.3 |
| '852872 | Reception apparatus for television, colour, whether or not incorporating radio-broadcast receivers ... | 16.4 |
| '070320 | Garlic, fresh or chilled | 10.3 |
| '081090 | Fresh tamarinds, cashew apples, jackfruit, lychees, sapodillo plums, passion fruit, carambola, ... | 8.4 |
| '081010 | Fresh strawberries | 6.7 |

Source: *ITC Trade Map*

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Egyptian imports from and exports to both Ukraine and Russia face significant risk should the conflict continue to escalate and with the imposed sanctions placed on the latter.

| Product Code | Top Egyptian Imports from Ukraine | Value in 2020 (USD MN) |
|---|---|---|
| **Total Egyptian Imports from Ukraine** | | **1,582.7** |
| '100119 | Durum wheat (excluding seed for sowing) | 690.4 |
| '100590 | Maize (excluding seed for sowing) | 491.6 |
| '720719 | Semi-finished products of iron or non-alloy steel containing, by weight, < 0,25% of carbon, ... | 86.3 |
| '999999 | Commodities not elsewhere specified | 72.9 |
| '720890 | Flat-rolled products of iron or steel, of a width >= 600 mm, hot-rolled and further worked, ... | 48.3 |
| '230630 | Oilcake and other solid residues, whether or not ground or in the form of pellets, resulting ... | 27.9 |
| '720230 | Ferro-silico-manganese | 24.1 |
| '151211 | Crude sunflower-seed or safflower oil | 17.1 |
| '720837 | Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils, simply ... | 9.7 |
| '720839 | Flat-rolled products of iron or non-alloy steel, of a width of >= 600 mm, in coils, simply ... | 9.2 |

| Product Code | Top Egyptian Exports to Ukraine | Value in 2020 (USD MN) |
|---|---|---|
| **Total Egyptian Exports to Ukraine** | | **64.2** |
| '080510 | Fresh or dried oranges | 23.4 |
| '080520 | Fresh or dried mandarins incl. tangerines and satsumas, clementines, wilkings and similar citrus ... | 10.0 |
| '390760 | Poly"ethylene terephthalate", in primary forms | 3.4 |
| '070190 | Fresh or chilled potatoes (excluding seed) | 2.8 |
| '851610 | Electric instantaneous or storage water heaters and immersion heaters | 2.7 |
| '070320 | Garlic, fresh or chilled | 2.0 |
| '070310 | Fresh or chilled onions and shallots | 1.4 |
| '121190 | Plants, parts of plants, incl. seeds and fruits, used primarily in perfumery, in pharmacy or ... | 1.3 |
| '851690 | Parts of electric water heaters, immersion heaters, space-heating apparatus and soil-heating ... | 1.2 |
| '392020 | Plates, sheets, film, foil and strip, of non-cellular polymers of ethylene, not reinforced, ... | 1.1 |

Source: *ITC Trade Map*

# Thank You

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