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Executive Summary

For a number of years, the macroeconomic reform agenda of the Egyptian government after the first IMF loan programme in 2016 contributed to an optimistic outlook. But the "perfect storm" that arose in the global economy after the hike of interest rates in the US and Europe as well as the Russian invasion of Ukraine have highlighted the vulnerabilities of the Egyptian economic model, which is not yet resilient enough to withstand external shocks.

Egypt relies heavily on foreign debt and is vulnerable to portfolio outflows. After a USD 22 billion outflow from the market in early 2022, Gulf Cooperation Council (GCC) countries needed to bail out Egypt once again. The currency reserves have since stabilized, but the severe shortage of US dollars in the market continues, with negative impacts on Swiss businesses.

In December 2022, the International Monetary Fund (IMF) approved a new loan of USD 3 billion, with the conditions to 1) shift to a flexible exchange rate regime, 2) reduce public debts, 3) enhance social safety nets to protect the vulnerable, and 4) reduce the state footprint in the economy. After three devaluations in 2022 and early 2023, the Egyptian pound has lost more than 50% of its value, leading to a steep inflation of over 33%. This comes to the detriment of the population, which is pushed further into poverty. If the impoverishment of Egyptians continues, the risk of social unrests increases.

The Egyptian authorities have taken steps to increase competitiveness, attract more foreign direct investment (FDI), and boost exports. Egypt's "State Ownership Policy" aims to privatize public companies in an effort to attract FDI and resolve short-term liquidity needs. The ambitious privatization plan still falls short to date.

Despite the challenges, Egypt remains attractive for Swiss companies due to its large domestic market, its unique position as a "gateway to Africa", substantial energy reserves, and investments in (green) infrastructure and energy. Opportunities for Swiss companies exist in the textile, food, agriculture, and pharmaceutical industries as well as in the cleantech, infrastructure, and energy sectors.

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1 ECONOMIC OUTLOOK AND ECONOMIC POLICY DEVELOPMENTS

In 2022, while the global economy was recovering from the ramifications caused by the COVID-19 pandemic amid challenges of increasing inflation – which prompted the central banks in Europe and the US Federal Reserve to raise interest rates – the Russian invasion of Ukraine meant **another shock** to the world economy. Both the war in Ukraine and rising interest rates in Europe and the US have had a **profound impact on the Egyptian economy**: waves of foreign reserve outflows, which led to a foreign currency shortage; a hit to the tourism sector; increasing prices of imported products, particularly of wheat and other food items; and rising inflation.

To make matters worse, **war broke out in Sudan** in April 2023. The country is Egypt's second largest trading partner on the African continent, and one of Egypt's most important sources for meat imports. The longer the armed conflict goes on, the higher the risk that the region further destabilizes with negative effects on trade in the Red Sea and through the Suez Canal, one of the key foreign revenue-generators for Egypt.

This "perfect storm" has brought to light the **challenges of the Egyptian economic structure**, which is not yet sufficiently resilient to external shocks. **First**, Egypt's economic model is characterized by a **heavy reliance on foreign debt**. According to the Central Bank of Egypt (CBE), external debt almost doubled in five years from USD 82.9 billion in December 2017[1] to USD 162.9 billion in December 2022.[2] Roughly half of the USD 100 billion that Egypt needs to pay back over the next five years (by 2027) is owed to the IMF or the Gulf countries.[3] The dependence on debt becomes prominent in the budget for the fiscal year (FY) 2023/24, due to begin on 1 July. **Debt service constitutes 56% of the total expenses** in the state budget of the FY 2023/3024. Still, the government plans to continue borrowing, 49% of planned revenues come from new debts. [4]

Second, Egypt's economy is **vulnerable to portfolio outflows** of short-term investments ("hot money"). The decisions by the US Federal Reserve and the European Central Bank in late 2021 to increase interest rates led many investors to reduce their exposure in emerging markets. In early 2022, within a period of a few weeks, a staggering USD 20 billion of investments in local debt instruments – approximately 50% of Egypt's official foreign reserves – exited the market.[5] As in the past, **the Gulf countries needed to bail out Egypt.** Short-term deposits of about USD 13 billion (USD 5 billion each from Saudi Arabia and the UAE, and USD 3 billion from Qatar) were placed at the CBE.[6] Foreign reserves have stabilized. The CBE reports USD 34.7 billion in international reserves, including USD 26.7 billion in foreign currencies and USD 8.0 billion in gold.

Related to the previous point is the **third challenge** of the economic model: Egypt faces a **significant shortage of hard currency**, resulting in negative consequences for individuals and companies alike, including Swiss businesses. In 2022, the CBE announced a series of measures to control foreign currency outflow related to imports. Among others, the issuance of "letter of credits" (LCs) and approvals for imports was introduced. Although the strictest import restrictions were lifted in December 2022, companies continue to face significant constraints due to the delays of banks issuing release forms for shipments. The severe lack of US dollars in the market persists. Companies are faced with delays in payments and difficulties in accessing their foreign savings worth millions of USD.

[1] Central Bank of Egypt: External Position of the Egyptian Economy, Jul-Dec 2019-20
[2] Central Bank of Egypt: External Position of the Egyptian Economy, Jul-Dec 22
[3] Ahram Online: Towards reducing the debt, 22 July 2022
[4] Ministry of Finance, Draft Budget FY-2023/24, May 2023, p.12
[5] Carnegie Middle East Center: Crowding Egypt's Private Sector In, Not Out, 23 May 2023
[6] Reuters: Egypt gets Gulf help again as eyes turn to currency flexibility, 4 April 2022

To resolve its short-term liquidity problem, **Egypt is again turning to "hot money"** through several bond offerings. Egyptian banks introduced different high-yield saving certificates. With a 25% yield, the National Bank of Egypt (NBE) and Banque Misr offer the highest on record.[7]

The "State Ownership Policy" document that PM Mostafa Madbouly presented in May 2022 aims to generate new revenues and attract additional foreign direct investment (FDI). The policy presents a roadmap to **sell state-owned assets**, including some historic hotels. In February 2023, it was announced that 32 state-owned companies would be listed on the Egyptian stock exchange within a year or sold to strategic investors, 25% of them within six months. The list included three banks and two military-owned companies – the water company Safy and the petrol station operator Wataniya.[8]

So far, the government's ambitious plans have fallen short. **Egypt continues to suffer from an annual liquidity deficit of around USD 20 billion.** The target to generate USD 2 billion in foreign revenues through the sale of state-assets by June 2023 was not achieved. Stakes were sold in only two companies – Telecom Egypt and Pachin. Despite the former not being on the original list of 32 companies up for sale, the state sold 9.5% of Telecom Egypt, retaining the main ownership of the company. 81% of Pachin was sold to an Emirati buyer.

The lack of transparent book-keeping in state-owned companies and the overvaluation of the Egyptian pound make it **difficult for investors to evaluate the real market price of companies.** Many in the private sector would therefore prefer privatization through the Egyptian Stock Exchange, which has a good reputation and requires proper financial disclosure. It is seen as more beneficial than selling to unknown investors through the Egyptian Sovereign Wealth Fund, which is under state control.

Fourth, the Egyptian pound is overvalued. Egypt's currency shortage brings up memories from 2016, when the last devaluation was carried out to boost exports and to limit high imports. Since March 2022, Egypt has introduced gradual adjustments in the exchange rate, but has not allowed it to float freely. After three devaluations, the Egyptian pound has lost more than 50% of its value against the USD, from around EGP 15.7 in March 2022 to EGP 31.0 in June 2023. Evidence suggests that the black-market exchange rate lies between EGP 35 and 38. In May 2023, it briefly approached EGP 50 in the gold market.[9]

The devaluation led to **steep inflation**, accelerated by the fact that Egypt imports most of its consumer goods, including food products. In its April 2023 World Economic Outlook, the IMF estimated the inflation rate to be 21.6% for 2023. According to the Central Agency of Public Mobilization and Statistics (CAPMAS) inflation is significantly higher, having reached 33.7% in May 2023, up from 31.5% in April.[10] **Inflation is taking a heavy toll on the lives of Egyptians** and pushes many further into poverty. The latest official poverty survey from 2019 put the poverty rate at 29.7%. In the same year, the World Bank estimated that 60% of Egyptians lived near or below the poverty line and were vulnerable to external shocks.

The depreciation of the Egyptian pound also means that **subsidies weigh heavier on the state budget**. The effect is compounded by the fact that global wheat prices have increased. Food subsidies, mainly for wheat, increased from USD 2.9 billion in the previous fiscal year to USD 4.1 billion in the FY 2022/23. At the same time, fuel and electricity subsidies more than doubled in comparison to the previous year, despite a global drop in oil prices.[11] The impoverishment of the population and the resulting elevated risk of social unrest (bread riots) has led the government to question floating the Egyptian pound. It sees a need to first build up a liquidity buffer to better counterbalance the negative impacts of the devaluation.

[7] https://english.ahram.org.eg/News/483675.aspx
[8] Ahram Online: 32 Egyptian state companies' shares to be sold within a year, 8 Feb. 2023
[9] Ahram Online: Gold rush: Why Egyptians are paying sky-high prices for gold, 4 May 2023
[10] Ahram Online: Egypt raises minimum wage for private sector workers by 11%, 20 June 2023
[11] Ahram Online: Egypt's FY 2023/24 budget: Key points at a glance, 30 June 2023

In December 2022, the **IMF approved a 46-month USD 3 billion Extended Fund Facility (EFF)** for Egypt, under the conditions that Egypt 1) shifts to a flexible exchange rate regime, 2) reduces public debts, 3) enhances social safety nets to protect the vulnerable and 4) reduces the state footprint in the economy. The EFF aims to attract new financing from international partners, including from GCC countries, through the selling of state-owned assets, as well as traditional forms of financing from multilateral and bilateral creditors. So far, only USD 347 million has been disbursed. A review of the first tranche is a prerequisite for disbursement of the second tranche, but this review has been delayed since March.

The rating agencies Fitch, S&P Global, and Moody's all downgraded Egypt and changed their outlooks from stable to negative. All three institutions share similar rationales behind their decisions: 1) Egypt's high external financing needs have not yet been met by multilateral and bilateral lenders; 2) there is uncertainty over the current monetary policy; and 3) the transition towards a flexible exchange rate is delayed.

The IMF has downgraded its estimates for Egypt's GDP growth to 3.7% in 2023.[12] Growth is still largely driven by government spending on infrastructure. Ever since 2016, when the IMF agreed to the first of four support packages for Egypt, the **state has prioritized construction, real estate,** and other non-productive sectors. The private sector outside oil and gas is shrinking. Manufacturing and export industries need more access to financial and physical capital, and to technology transfer, so that the currency devaluation can eventually pay off.

It is important to note that the **government is undertaking steps to add confidence to the investment climate**. For example, the General Authority for Investment and Free Zones (GAFI) is working on a unified electronic platform for the establishment and operation of projects. The steps undertaken by GAFI are positively acknowledged, also by Swiss companies.

2 PRIORITY SECTORS AND OPPORTUNITIES FOR SWISS COMPANIES

Egypt is now the second-largest economy in Africa by GDP, behind Nigeria and before South Africa,[13] with activities in the service industry, construction, manufacturing, agriculture, infrastructure, and energy. So far, and despite the challenges, **no market exit of Swiss companies** has been observed. A domestic consumer base with over 100 million people, Egypt's strategic position as a "gateway to Africa", its substantial oil and gas reserves, the government's efforts to localize production, and continuous large investments in (green) infrastructure and energy projects add to the potential of Egypt's economy.

The **services** sector accounts for the largest share of the Egyptian economy, at 52.2% of the GDP in the FY 2021/22. Two of the four main sources of foreign income in Egypt are in the service industry: **1) the travel and tourism industry and 2) services offered at the Suez Canal**. The other two main sources of foreign income are remittances, which constitute the largest source with USD 28.3 billion, and the export of liquefied natural gas (see page 7). Political turmoil in the early 2010s as well as the COVID-19 pandemic put dents in the tourist industry, but visitors have surged back and the government plans to substantially enlarge the tourism industry (see page 10). Some of the current foreign investments and acquisitions from Gulf countries target tourism infrastructure, including hotels.

Meanwhile, **the information and communication technology (ICT)** sector in Egypt is growing rapidly, achieving a growth rate of an estimated 16.7% in the fiscal year 2021/2022

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[12] Ahram Online: IMF downgrades its projections for Egypt's real GDP growth in 2023, 11 April 2023
[13] Wikipedia, List of African countries by GDP (nominal), 2022 estimates

and contributing to more than 5% of GDP.[14] The government undertook steps to promote the growing ICT sector early on, creating a Ministry of Communications and Information Technology as far back as 1999. More recently, it created an Egyptian ICT 2030 Strategy. Egypt has the potential to become a global outsourcing destination. Its demographics could work to its advantage: 60% of the population is younger than 30. However, the brain-drain is a challenge. With the devaluation of the Egyptian pound, ICT companies struggle to offer competitive salaries for the highly-mobile and well-educated digital natives.

The manufacturing industry accounted for 31% of Egypt's GDP in 2021 (Annex 2). The main sectors include textile processing and garment manufacturing as well as the petrochemical, automotive, construction, and electrical industries. The **textile sector** is a historic one that is still important today. It makes up 3.5% of the country's GDP, employs around 15% of the manufacturing labor force[15], and accounts for 10.2% of all exports.[16] The devaluation of the Egyptian pound and the proximity to Europe gives the textile industry an advantage over Asian exporters. In March 2022, the state-owned Cotton, Spinning, Weaving & Garment Holding Co. signed a loan agreement with UBS, Credit Suisse, and HSBC Bank Middle East that included the **purchase of Swiss textile machinery** worth EUR 260 million (the entire deal included Swiss, German, and Italian machinery with a total value of EUR 355 million).

Another important manufacturing sector is the **pharmaceutical industry**. Egypt is among the largest producers and consumers of pharmaceuticals in the Middle East and in Africa. It is also one of the oldest strategic sectors in the country, with the establishment of the Misr Company for Pharmaceutical Industries in 1939. The government invests heavily into improving the entire health sector. Egypt's 2030 Vision for Sustainable Development aims to achieve universal health coverage and to ensure access to quality essential health services for all Egyptians. **Swiss pharmaceutical companies are at the forefront of supporting these efforts**. Several Memorandums of Understanding (MoUs) were signed between Swiss and Egyptian pharmaceutical companies to localize the production in Egypt, re-export pharmaceutical products, and strengthen research.

Construction accounts for almost 7% of Egypt's GDP. The government continues to direct generous investments to real-estate and infrastructure. Military-owned companies frequently establish partnerships with private sector companies to implement projects. Under the auspices of the state-owned New Urban Communities Authority (NUCA), the first phase of the New Administrative Capital (NAC) has been built with an estimated USD 58 billion. USD 200 billion have been allocated to a 10-year transport development plan that will end in 2024.[17] Other constructions projects include bridges, highways, and real-estate developments along the coast. Swiss companies are involved in some of these infrastructure projects and there is still untapped potential for more participation.

Thanks to infrastructure projects, the Egyptian economy achieved remarkable growth in the past years. In the current economic climate, these megaprojects have come under increased scrutiny.[18] **Potential for Swiss companies exists** especially in providing high-tech elements. In the railway sector, for example, an exchange with the Ministry of Transport and the Egyptian National Railways confirmed that Switzerland is respected as a high-quality provider.

The **agriculture** sector accounted for 11.8% of Egypt's GDP in 2021. Historically, it has been one of the most important sectors. Only around 8% of the country's land mass is inhabited, and just 4% is arable land.[19] A majority of the Egyptian population lives on a thin stretch of

[14] Ahram Online: Egypt's ICT the fastest growing sector over past five years, 21 February 2023
[15] https://www.trade.gov/country-commercial-guides/egypt-market-overview
[16] https://oec.world/en/profile/country/egy
[17] Oxford Business Group: Improving Egypt's logistics infrastructure to facilitate trade
[18] Project on Middle East Democracy: Al-Sisi's Bubble in the Desert: The Political Economy of Egypt's New Administrative Capital, 7 Jun 2023
[19] https://www.unicef.org/egypt/country-background

land along the Nile and on the Mediterranean coast; 44% of them live in urban areas. Farming is concentrated in the fertile Nile delta. A quarter of the country's labor force works in the agriculture sector.[20] Given the uncertainty in international agricultural markets, the government is allocating significant funds to further promote local production. Expansion of production and storage capacity for grains and other demands in the agriculture sector is of particular **interest to Swiss companies**. A Swiss company recently signed a major contract with the Egyptian National Service Projects Organization (NSPO) to contribute to Egypt's big national food security project "Silo Foods City".

Egypt possesses important **raw materials**, such as oil, gas, phosphate ore, and gold that are often only partially exploited. The increase in gas prices has come to Egypt's advantage. In 2022, it exported **liquefied natural gas (LNG)** worth USD 8.4 billion, a 170% increase over 2021.[21] Egypt is aiming to become a regional energy hub. In 2022, it signed a trilateral agreement with Israel and the EU to pave the way for more Israeli gas to be exported to Europe via the two LNG facilities in Idku and Damietta. Together with Israel and the Palestinian Authority (PA) it also plans to develop the Gaza Marine gas field.[22] Egypt is still a relatively small player in the energy market, currently shipping 3.2% of global demand for LNG at peak production.[23] In order to increase the profitable export and shore up foreign currency liquidity, the government aims to cut domestic electricity consumption, in the process netting itself an extra USD 450 million a month in revenues.[24]

For the moment, Egypt's manufacturing is still highly carbonized. With an EU carbon dioxide tariff on the horizon, the government is trying to shift towards green production. Egypt's Vision 2030 for Sustainable Development promotes the move towards a **green economy**. Financed, among others, by Egypt's green bonds (the first such initiative in the MENA region), the strategy aims to ensure that 30% of investment projects are in line with environmental sustainability standards. Around 15% of the fiscal budget is reserved for green projects in agriculture, transport, electricity, renewable energy, and waste management.

The **production and export of green hydrogen** is a cornerstone of the strategy, as it has the potential to decarbonize sectors such as shipping, aviation, and steel, cement, or chemical production, and to bring in new foreign currency revenues. During the UN climate conference COP27 in Sharm el-Sheikh in November 2022, Egypt signed several MoUs to develop green hydrogen and ammonia projects with well-known industry partners. In May 2023, the Egyptian cabinet approved a new bill containing a package of incentives for green hydrogen projects.

The energy transition will still take some time, but there is **much potential for Swiss companies** to provide local partners with innovative clean-tech solutions in transport, energy, and waste & water management.

3 FOREIGN ECONOMIC POLICY

3.1 Host country's policy and priorities

Egypt's free trade agreements provide access to the over 100 million consumers in Egypt. The country's main economic partners remain European countries (mainly Germany, Italy, and Spain), Turkey, the GCC countries, China, India, Russia, and the USA. Egypt wishes to take advantage of its geographical location at the crossroads of Europe, the Middle East, and Africa and to position itself as a regional and global hub for services, production, and exports. It undertakes significant efforts to diversify its partnerships.

[20] http://data.un.org/en/iso/eg.html
[21] Zawya: Egypt's natural gas exports reach $8.4bln in 2022, 28 December 2022
[22] Ahram Online: Israel to work with Egypt, Palestinians on developing Gaza gas field, 18. Jun 2023
[23] Quartz: Egyptians are sweating so other countries can stay cool, 11 August 2022
[24] Enterprise: Gov't to detail plans to ration electricity today, 11 August 2022

The **European Union** remains Egypt's largest overall trading partner. 33.5% of total exports go to the EU and 22.3% of all imports come from the EU (see Annex 3). Europe's strategy to diversify energy sources and economic partners as well as its geographic proximity offer important opportunities for Egypt.

The relationship with **the GCC countries** remains the economic backbone for Egypt. In 2022, the country has received a total of USD 22 billion of new pledges from Saudi Arabia, the UAE, and Qatar. USD 13 billion thereof came in form of a direct bailout, the fourth since President Al-Sisi took over power in 2013 (see page 3). Together with the existing USD 15 billion long-term deposits (USD 5.7 billion by UAE, USD 5.3 billion by Saudi Arabia, and USD 4.0 billion by Kuwait), **Gulf deposits now constitute around 75% of total foreign reserves**.[25] Recently, Saudi Arabia and other Gulf countries announced a strategic shift in the economic relations with Egypt: Grants shall be replaced by more profitable investments.

The economic relationship with Saudi Arabia is the most established among GCC countries. In 2022, it was second-most important country of origin for imported products (after China) and the fourth-largest export market for Egyptian products. Egypt is also diversifying its economic relations with other countries in the MENA region. It is part of a trilateral cooperation mechanism with Iraq and Jordan. In 2022, Bahrain, Egypt, Jordan, and the UAE signed an industrial partnership agreement to boost regional trade of manufactured products. In March 2023, Egypt and Qatar agreed to launch a joint investment fund with an initial value of USD 1 billion. Similarly, Oman and Egypt are planning to establish a joint investment fund directed towards the pharmaceutical and food industries, and renewable energy.[26]

Egypt is diversifying economic partnerships beyond Europe and the MENA region. Earlier this year, Egypt joined the New Development Bank of the **BRICS countries** (Brazil, Russia, India, China, and South Africa). The move aims to reduce domestic demand for US dollars in exchange for national currencies of the BRCIS countries.[27] Economic relations with **Russia** remain intact. After the Russian invasion of Ukraine, Egypt did not impose sanctions. Egypt gets half of its imported wheat from Russia. The latter's state-owned company Rosatom is building a nuclear power plant in Dabaa, and a Russian industrial zone is to be established at the Suez Canal. Russian tourists are also mostly back.

Egypt's partnership with **India** is expanding, evidenced by state visits of President Al-Sisi to India in January 2023 and Indian Prime Minister Modi to Egypt in June 2023. Last year, despite having banned wheat exports following a global spike in prices, India made an exception for Egypt, supplying the country with 500,000 tons of wheat.[28] In April 2023, the Minister of Supply and Internal Trade, Ali Moselhi, stated that the country is considering importing wheat in alternative currencies, including the Indian rupee and the Chinese yuan.[29]

Egypt's status as an **investment and trade hub for the African continent** should not be underestimated. Since Egypt held the presidency of the African Union (AU) in 2019, and of the Common Market for Eastern and Southern Africa (COMESA) between 2021 and 2023, it engages in substantial efforts to consolidate its position in Africa. The African Continental Free Trade Area (AfCFTA) unites 55 economies into a single market with a combined GDP of more than USD 2 trillion.[30] The continent's integration is further bolstered by efforts to establish financial institutions and cross-border infrastructure links. Egypt's diplomatic efforts take into

[25] Central Bank of Egypt (CBE): External Position of the Egyptian Economy, July/March FY2021/2022
[26] Egypt Today: Egypt-Oman joint investment fund to be finalized in Q4 in 2023, 24 May 2023
[27] Ahram Online: BRICS — a new world order, 11 April 2023
[28] Reuters: Egypt to buy 500,000 tons of wheat from India, 15 May 2022
[29] Ahram Online: Egypt considering importing wheat in Indian rupee, yuan: Supply minister, 30 April 2023
[30] Le Monde: Macky Sall: 'The inclusion of the African Union in the G20 would benefit the entire world', 21 July 2022

account the interests of Egyptian construction companies that are increasingly implementing large infrastructure projects on the continent.

3.2 Outlook for Switzerland (potential for discrimination or comparative advantage)

The quality of Swiss products is highly valued and Switzerland is a trusted trading partner. Around 90 Swiss companies, subsidiaries, and partners of Swiss companies contribute to an estimated 25,000 jobs in Egypt. They are at the forefront of expanding local production, for example in the pharmaceutical, food, and textile sectors. Strong trade financing partners and support by the Swiss Export Risk Insurance (SERV) are comparative advantages for Swiss companies.

Switzerland and Egypt share a **comprehensive economic framework** that includes a free trade agreement (FTA) via the European Free Trade Association (EFTA), an investment protection agreement, and a double taxation agreement. None of the FTAs currently ratified or negotiated with other countries and regions have the potential to lead to discrimination of Swiss products.

The predominant concern of Swiss companies is **the severe lack of foreign currency**. Other worries relate to the compliance of Egyptian regulations with the EFTA FTA, but also with WTO law. Complex and time-consuming bureaucratic procedures, a lack of transparency, arbitrary decision-making processes, non-tariff barriers to trade, and frequent changes to import regulations make business challenging. These difficulties concern all foreign companies.

Over the past years, Switzerland has conducted a number of **high-level bilateral economic meetings**. They include a mission of Federal Councilor Guy Parmelin with an economic delegation in 2020 and a finance mission of Federal Councilor Ueli Maurer with a high-level banking delegation in 2021. State Secretary Helene Budliger Artieda is planning a mission to Egypt in September 2023 to meet with the Egyptian authorities and to attend the annual meeting of the Asian Infrastructure Investment Bank (AIIB), and again in November 2023 to attend the Intra-African Trade Fair (IATF) together with a business delegation.

4 FOREIGN TRADE

4.1 Developments and general outlook

Trade represented 31% of Egypt's GDP in 2021.[31] Ever since the 1980s, the country has been in a trade deficit. Since 2010, it imports around 50% more than it exports. Egypt's ability to exploit the competitiveness gains from currency depreciation and to shift towards an exports-oriented model is not yet being used to its full potential.

With the **introduction of LCs** in February 2022, the government stabilized foreign currency reserves and reduced the trade deficit. Under the regulations, banks opened a credit line and the importers had to deposit in advance the full cost of the import transaction in the required foreign currency. The government prioritized essential products and industries, while "non-essential" transactions required prior approval from the CBE or the Ministry of Trade and Industry (MoTI). The decision resulted in significant backlogs at the ports. In December 2022, the CBE lifted the LC requirement.[32]

In 2022, Egypt exported goods worth USD 48.4 billion (Annex 3), an increase of 18.9% over 2021 exports. The increase in the trade volume is **mainly attributed to high global gas prices.** Egypt has experienced some success in engaging in efforts to increase exports of

[31] https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=EG
[32] https://www.egypttoday.com/Article/3/121619/Egypt-s-central-bank-cancels-letter-of-credit-requirement-for

non-energy products. For example, exports of many different products to Sudan doubled in two years, reaching a trade volume of almost USD 1 billion before the outbreak of violence in Sudan.

4.1.1 Trade in goods

Egypt's top exports in 2022 were mineral fuels, mineral oils, and other mineral products (37.3% of total exports), followed by plastics (5.4%), electrical machinery and equipment (5.3%), fertilizers (4.9%), and edible fruit and nuts (3.7%).[33] The top commodity that Egypt exported in 2022 was LNG, at a total value of USD 10 billion. Egypt's main export partners for 2022 were Turkey, Spain, Italy, Saudi Arabia, the United States, Korea, and the UAE (See Annex 3).

Egypt's imports increased to USD 80.1 billion in 2022 (see annex 3). The top imported products to Egypt in 2022 were mineral fuels, mineral oils and other mineral products (18.9% of total imports), followed by cereals (8%), machinery and mechanical appliances (7.3%), plastics (5.8%), and iron and steel (5.4%).[34] Egypt's main import partners for 2022 were China, Saudi Arabia, the United States, India, Germany, Russia, and Kuwait. (See Annex 3).

4.1.2 Trade in services (if data available)

Egypt's economy heavily depends on the services sector, constituting 52.2% of its GDP. The revenues that are generated by the travel and tourism industry and by the services offered at the Suez Canal are growing. In 2022, Egypt received 11.7 million tourists, marking a 46.2% increase over the pandemic-year 2021.[35] The government projects that income generated by the tourism and travel industry will raise from USD 10.7 billion in 2022 to a record USD 13.6 billion in 2023.[36] By 2028, the government aims to increase this figure to USD 30 billion. Suez Canal receipts have also significantly increased, reaching USD 9.4 billion in the FY 2022/23, up from USD 7 billion last year.[37]

4.2 Bilateral trade

Egypt continues to be Switzerland's top export destination in Africa. Overall, we can observe a boost of trade between the two countries. In 2022, the total trade volume between Switzerland and Egypt amounted to CHF 1.4 billion. By comparison, in 2016, it stood at only CHF 869 million.[38] The trade deficit continues. Exports from Switzerland to Egypt added up to CHF 1.3 billion in 2022, while imports from Egypt to Switzerland amounted to CHF 83.9 million, slightly increasing from CHF 77.3 million in 2021.

4.2.1 Trade in goods

The main Swiss exports to Egypt in 2022 were chemical and pharmaceutical products (CHF 1.2 billion), machinery and electronic devices (CHF 64.3 million), and precision instruments and watches (CHF 38.3 million). The main export goods from Egypt to Switzerland are textile products (39.6%), agricultural products (27.4%), and chemical and the pharmaceutical products (22.6%*)*.[39]

[33] Trademap: List of products exported by Egypt
[34] Trademap: List of products imported by Egypt
[35] Ahram Online: Egypt records 46% increase in number of tourists in 2022, 16 March 2023
[36] Zawya: Egypt: A Promising Future for Tourism, 4 April 2023
[37] Al Arabya News: Suez Canal revenues reach all-time high of $9.4 bln: Official, 21 June 2023
[38] https://www.swiss-impex.admin.ch/
[39] Swiss Federal Customs Administration FCA

4.2.2 Trade in services (if data available)

The trade in services volume stood at CHF 337 million in 2019 (latest available figures), which represents 10% of the Swiss trade in services volume with Africa. The volume of exports reached CHF 244 million and the volume of imports reached CHF 93 million. There is no available data for the period of 2020-2022. Last year, around 110,000 Swiss tourists visited Egypt.

5 DIRECT INVESTMENTS

5.1 Developments and general outlook

Between 2013 and 2019, FDI to Egypt had been on a steady upwards trend, rising from USD 4.3 billion in 2013 to USD 9 billion in 2019. During the COVID-19 pandemic however, investment flows fell by 12%, mainly after large investments in the extractive industries were stopped.[40] Since the end of the pandemic, FDI flows to Egypt have recovered. According to the CBE, Egypt's net FDI reached USD 8.9 billion in 2022,[41] up from just USD 5.2 billion in FY 2020/21.[42]

The **infrastructure and energy sectors remain the main targets for FDI flows** to Egypt. In 2022, Egypt ranked as the world's top destination for FDI in megaprojects. Of the 19 megaproject investments in 2022, 17 are green hydrogen projects, accounting for 97% of Egypt's total inbound capital investment in 2022.[43]

A continuous increase of FDI is a high priority for the government of Egypt, and **Economic Free Zones** are a cornerstone in this strategy. There are currently 9 public free zones across Egypt in Alexandria, Damietta, Ismailia, Media City, Nasr City, Port Said, Qeft, Shebin, and Suez. They benefit from exemptions from customs and duties, as well as taxes on imports of capital goods, raw materials, and intermediate inputs. Other benefits include reduced income tax rates for businesses and individuals, a one-stop-shop for completing bureaucratic procedures managed by GAFI, special customs services, and close proximity to ports.[44]

5.2 Bilateral investment

Swiss investments remain considerable and well-diversified. According to the CBE, capital inflows from Switzerland reached USD 649.4 million. Switzerland came **7th in terms of largest capital inflows** to Egypt in the FY2021/22 (see Annex 5). The top five companies with Swiss investment by FDI stock are 1) the Suez Canal Container Company, 2) Orascom Development Egypt, 3) ABB, 4) Lafarge-Holcim, and 5) Novartis.[45] According to the latest figures issued in June 2022 by the GAFI, 424 companies in Egypt include Swiss investments. The sectors in Egypt holding most of the Swiss investment and FDI stock are: services (37.8%), followed by manufacturing (31.5%), tourism (17.9%), and finance (9.3%).

[40] https://unctad.org/system/files/official-document/wir2022_en.pdf
[41] CBE- FDI (FY 2021/2022) https://www.cbe.org.eg/en/economic-research/time-series/downloadlist?category=623F34508AE148C1969795A8F78FDA49
[42] CBE: Monthly Bulletin December 2021, p.92
[43] Zawya: $96.8bln: Egypt tops in mega projects FDI, 7 June 2023
[44] General Authority for Investment and Free Zones (GAFI): Public Free Zones in Egypt
[45] General Authority for Investment and Free Zones (GAFI): Investment Data Analysis until 30/6/2022

6 ECONOMIC AND TOURISM PROMOTION

6.1 Swiss foreign economic promotion instruments

The Embassy, in close coordination with the State Secretariat for Economic Affairs (SECO), **supports Swiss companies in Egypt on a case-by-case basis**. The principle of subsidiarity applies: The Embassy may support a company if the latter cannot reasonably be expected, or is not in a position, to safeguard its interests itself or with the help of a third party. In its support, the Embassy applies the principle of competitive neutrality.

In November 2019, the Swiss Federal Council decided to increase and further **promote the participation of Swiss companies in international infrastructure projects**. The Embassy facilitates access to the Engineering, Procurement, and Construction (EPC) sector in Egypt. The Embassy regularly reports to SECO on infrastructure developments that could be of interest to Swiss companies, such as the modernization of Egypt's railway system.

In January 2022, with the support of the Embassy, **SwissCham Egypt** replaced the Swiss Egyptian Business Association. SwissCham Egypt is registered as a non-profit organization at the Ministry of Social Solidarity. It has created a new website that makes it easier for the around 90 Swiss companies, subsidiaries, and partners of Swiss companies present in Egypt to gather information and register online.

6.2 The host country's interest in Switzerland

Switzerland benefits from a positive image in Egypt. It is recognized for its world-class education and solid economic performance. Swiss products and services are perceived to be of particularly high quality. Upper- and middle-class Egyptians often choose Switzerland as a tourism destination. In 2022, the Embassy issued a total of 4,425 type "C" short-term visas, 48% of which were for tourism, 23% for business, 18% for personal visits, 9% for official visits and 2% for other reasons. A number of study visas are issued every year to Egyptian Ph.D. candidates and post-doc students who are offered a scholarship by the Swiss government.

Orascom Development Holding AG is the biggest Egyptian investor in Switzerland, known for its "Andermatt Swiss Alps" development. Beyond that, Egyptian investment in Switzerland remains limited. Swiss financial centers continue to attract an Egyptian clientele. Egyptian clients are loyal to Swiss banks. The automatic exchange of information on financial accounts (AEOI) to promote tax transparency is not yet in place between Switzerland and Egypt.

Switzerland also enjoys a positive reputation thanks to its longstanding cooperation work. In 2019, Egypt and Switzerland celebrated 40 years of international cooperation. The cooperation programme 2021-2024 for Egypt has a budget of CHF 84 million and focuses on 1) good governance, human rights, and gender; 2) green economy and urban development; 3) skills development and decent work in an inclusive and business-friendly environment; and 4) better access to quality basic social services and protection for populations in vulnerable situations, including migrants.

ANNEX 1 – Economic structure

Economic structure of the host country

Distribution of GDP (%)	2018/2019*	2019/2020*	2020/2021*	2021/2022**
Agriculture	11.4	12.1	11.8	11.8
Construction	6.2	6.7	6.9	
Industry	30.5	26.8	24.6	30.8
Services	43.2	45.4	47.6	52.2
General Government	6.8	7.3	7.3	
Suez Canal	2	1.7	1.6	

**Source:* *IMF Egypt SBA review July 2021*
**Source: https://www.statista.com/statistics/377309/egypt-gdp-distribution-across-economic-sectors/
***Source : https://www.tradeclub.stanbicbank.com/portal/en/market-potential/egypt/economical-context

Distribution of Employment (%)	2019*	2021**
Agriculture	20.62	19.4
Industry	26.94	N/A
Services	52.44	N/A
Wholesale & retail trade	N/A	14.4
Construction & building	N/A	13.9
Manufacturing	N/A	12.9

**Source: https://www.statista.com/statistics/377950/employment-by-economic-sector-in-egypt/*
**Source: https://www.cbe.org.eg/-/media/project/cbe/listing/research/volumes/2022-10/economic-review-no-61-3-2020-2021.pdf

ANNEX 2 – Main economic data

Egypt's main economic data

	2021	**2022**	**2023** *(projected figures)*
GDP (USD bn)*	**423.3**	**475.2**	**387.1**
GDP per capita (USD)*	**4145.6**	**4563.3** *p*	**3644.3**
Growth rate (% of GDP)*	**3.3**	**6.6**	**3.7**
Inflation rate (%)*	**4.5**	**8.5**	**21.6**
Unemployment rate (%)*	**7.3**	**7.3**	**7.7**
Fiscal balance (% of GDP)**	**-7.0**	**-5.8**	**-7.6**
Current account balance (% of GDP)*	**-4.4**	**-3.5**	**-2.8**
Total external debt (% of GDP)**	**32.5**	**37.3**	**50.2**
Debt-service ratio (% of exports)* **	**31.5**	**N/A**	**N/A**
Reserves (months of imports)**	**4.6**	**3.7**	**4.1**

* Source: IMF, Economic Outlook database: April 2023 *(The values are based upon the GDP in national currency. Due to the devaluation of the EGP, the USD figure in 2023 appears lower than in 2022 despite projected GDP growth).*

** Source: IMF, The Middle East and Central Asia Regional Economic Outlook May 2023, Table 5 for debt-service ratio, Table 11 for fiscal balance, Table 21 for Total external debt % of GDP, Table 22 for Reserves (months of imports)

*** World Bank, https://data.worldbank.org/indicator/DT.TDS.DECT.EX.ZS?locations=EG

ANNEX 3 – Trade partners

Trade partners of the host country   Year: 2022

Rank	Country	Exports* *from the host country* (USD million)	Share	Change	Rank	Country	Imports** *to the host country* (USD million)	Share	Change
1	Turkey	3'803.28	7.8%		1	China	11'461.71	14.3%	
2	Spain	3'529.87	7.3%		2	Saudi Arabia	7'181.69	8.9%	
3	Italy	3'326.31	6.9%		3	United States	5'854.72	7.3%	
4	Saudi Arabia	2'360.93	4.9%		4	India	3'480.29	4.3%	
5	United States	2'181.71	4.5%		5	Germany	3'296.38	4.1%	
6	Korea	1'939.20	4%		6	Russia	3'292.75	4.1%	
7	United Arab Emirates	1'884.66	3.9%		7	Kuwait	3'284.93	4%	
8	China	1'798.26	3.7%		8	Turkey	3'201.48	3.9%	
47	*Switzerland*	178.26	0.36%		25	*Switzerland*	853.37	1.06%	
	EU (total)	16'217.3	33.5%			EU (total)	17'883.6	22.3%	
	Total	48'398.81	100%			Total	80'139.80	100%	

Source(s):
*Exports 2022**:** https://data.imf.org/?sk=3d578b82-4922-4268-bbe3-a010f2b1714c&hide_uv=1 (Last updated May 2023)
Imports 2022:** https://data.imf.org/?sk=a72224be-0410-4b30-babc-5b6bf9c75583&hide_uv=1 (Last updated May 2023)

ANNEX 4 – Bilateral trade

Bilateral trade between Switzerland and the host country

	Export (CHF)	*Change* *(%)*	**Import** (CHF)	*Change* *(%)*
2017	902’183’829	3.9	329’914’353	-29.5
2018	972’064’456	7.7	153’535’064	-53.5
2019	1’211’937’642	24.7	73’452’225	-52.2
2020	1’177’662’084	-2.8	88’909’651	21
2021	**1’223’989’777**	**3.93**	**77’276’118**	**-13.1**
2022	**1’370’823’311**	**12.0**	**83’927’641**	**8.3**

*) ‘Economic’ total (total 1): not including gold bars and other precious metals, currencies, previous stones and gems, works of art and antiques

**) Change (%) from the previous year

Source: Swiss Federal Customs Administration FCA

Exports	**2021 CHF**	**% of Total**	**2022 CHF**	**% of Total**
Total	1’223’989’777	100	**1’370’823’311**	100
Products of the chemical and pharmaceutical industry	1’070’333’211	87.4	1’237’541’282	90.3
Machines,appliances, electronics	69’190’838	5.7	64’383’592	4.7
Precision instruments, clocks and watches and jewellery	52’920’641	4.3	38’386’479	2.8
Metals	12’046’758	1.0	10’745’998	0.8
Forestry and agricultural products, fisheries	9’956’113	0.8	8’229’452	0.6
Leather, rubber, plastics	3’218’428	0.3	3’998’317	0.3
Energy source	726’244	0.05	2’736’702	0.2
Vehicles	2’043’991	0.2	2’385’849	0.2
Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	735’741	0.1	875’600	0.1
Stones and earth	901’357	0.1	639’589	0.0
Textiles, clothing, shoes	1’552’502	0.1	595’619	0.0
Paper, articles of paper and products of the printing industry	363’951	0.02	207’172	0.0

Source: Swiss Federal Customs Administration FCA

Imports	**2021 CHF**	**% of Total**	**2022 CHF**	**% of Total**
Total	77'276'118	100	**83'927'641**	100
Textiles, clothing, shoes	30'366'888	39.3	33'240'279	39.6
Forestry and agricultural products, fisheries	23'436'222	30.3	23'012'615	27.4
Products of the chemical and pharmaceutical industry	9'971'768	12.9	18'955'031	22.6
Machines, appliances, electronics	1'456'946	1.9	3'008'241	3.6
Works of art and antiques	614'045	0.8	1'923'250	2.3
Metals	524'951	0.7	1'172'594	1.4
Stones and earth	1'269'663	1.6	771'647	0.9
Various goods such as music instruments, home furnishings, toys, sports equipment, etc.	451'328	0.6	617'796	0.7
Precision instruments, clocks and watches and jewellery	8'316'584	10.8	573'833	0.7
Leather, rubber, plastics	721'203	0.9	481'214	0.6
Paper, articles of paper and products of the printing industry	66'348	0.1	94'249	0.1
Vehicles	79'879	0.1	76'892	0.1

Source: Swiss Federal Customs Administration FCA

ANNEX 5 – Main investing countries

Main investing countries in the host country **Fiscal Year 2021/2022**

Rank	Country	**Direct Investment Inflows over past fiscal year** (USD Million)	Share	**Outflows** (USD Million)	**Net flows** (USD Million)
1	UAE	5'656.3	25%	1'660.2	3'996.1
2	Netherlands	2'148.1	10%	626.8	1'521.3
3	Italy	1'995.7	9%	3'644.6	-1'648.9
4	UK	1'990.1	9%	1'756.3	233.8
5	USA	1'530.4	7%	1'330.6	199.8
6	Kuwait	669.3	3%	200.1	469.2
7	Switzerland	649.4	3%	158.6	490.8
8	Germany	633.3	3%	201.5	431.8
9	China	563.4	3%	126.5	436.9
10	France	550.6	2%	220.8	329.8
11	Qatar	518.3	2%	117.8	400.5
12	KSA	491.6	2%	112.5	379.1
	Total	**22'205.5**	**100%**	**13'268.1**	**8'937.4**

Source: Central Bank of Egypt – Monthly bulletin February 2023
https://www.cbe.org.eg/en/economic-research/economic-reports/monthly-statistical-bulletin

Source: Central Bank of Egypt- Foreign Direct Investment (FY 2021/2022):
https://www.cbe.org.eg/en/economic-research/time-series/downloadlist?category=623F34508AE148C1969795A8F78FDA49