FLASH NOTE:
TOWARDS REGAINING TRADE BALANCE ...

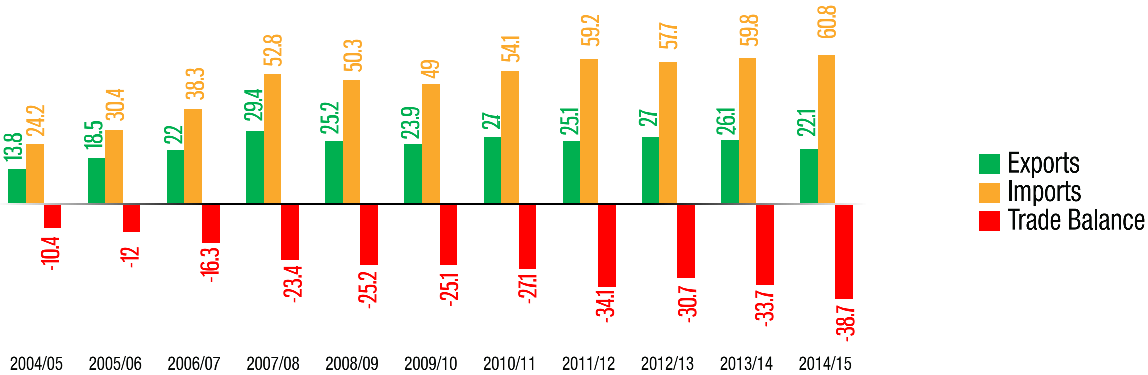
EGYPT HAS BEEN ALWAYS SUBJECT TO A SIZEABLE TRADE DEFICIT DUE TO THE INCREASE IN IMPORTS' PAYMENTS AT A RATE FASTER THAN THE RISE IN EXPORTS' PROCEEDS. ON THE BACK OF THAT AGGRAVATING DEFICIT, WHICH CONTRIBUTED TO THE DEPLETION OF NET INTERNATIONAL RESERVES (NIR), EGYPTIAN AUTHORITIES HAVE TAKEN SOME MEASURES TO REFORM TRADE IMBALANCE AND RESTRUCTURE EGYPTIAN IMPORTS TO PROTECT THE MARKET FROM THE FLOOD OF CHEAP AND LOW QUALITY GOODS IN ADDITION TO BOOSTING EGYPTIAN EXPORTS.

TRADE IMBALANCES

- Through many decades, Egypt has recorded a growing trade deficit that has reached about USD38.7 billion in FY 2014/15 compared to only USD10.4 billion in FY 2004/05. Imports and exports have mostly grown during the last ten years, but the increase in imports' payments have exceeded the rise in exports' proceeds, leading to a continuous trade deficit, as imports have grown by 151% while exports have only risen by 60%.

- This challenge was magnified after the breakout of the events of 2011, when exports were negatively affected by various factors including internal political uncertainties, decreasing demand from key neighbor countries like Libya, Syria and Yemen that are witnessing clashes and higher cost of production due to the rise in energy price, labor wages and prices of imported raw materials, affected by the devaluation of the Egyptian Pound. On the other hand, Chinese imports have flooded the Egyptian markets due to their low prices, leading to a USD4.5 billion trade deficit with China in FY 2014/15.

TRADE BALANCE (USD BN.)

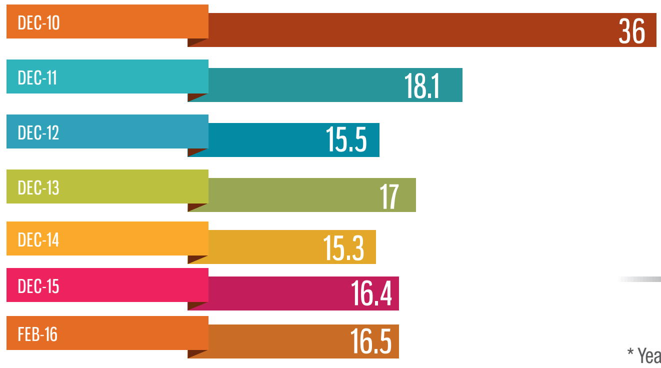


Source: Central Bank Of Egypt

NEGATIVE IMPACTS OF THE TRADE DEFICIT

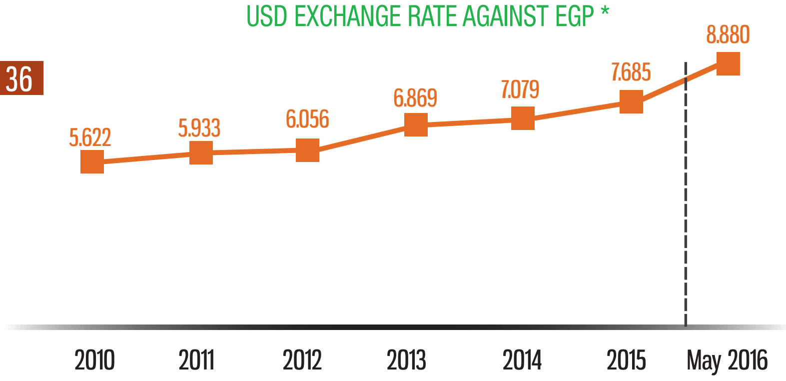
- Long-lasting trade deficit, alongside with other factors, has contributed in the fall of Egypt's NIR to USD16.5 billion in February 2016 compared to USD36 billion recorded in December 2010. This has added more pressures on the Egyptian Pound, urging the Central Bank of Egypt (CBE) to adopt a gradual devaluation of its value against the US Dollar. The US Dollar's average exchange rate against the Egyptian Pound has reached EGP8.950 in March 2016 compared to an average of 5.622 in 2010. It's worth noting the Egyptian Pound appreciated later on the 16th of March to be traded at EGP8.88 per US Dollar.

NET INTERNATIONAL RESERVES (USD BN.)



Source: Central Bank Of Egypt

USD EXCHANGE RATE AGAINST EGP *



* Yearly average exchange rates for 2010-2015

Source: Central Bank Of Egypt

NEW MEASURES TO FIX THE TRADE IMBALANCE

The Egyptian government has adopted strategic and tactical measures to fix the trade imbalance. Strategic measures have aimed at launching mega projects, while tactical measures included issuing a set of decisions to control imports, support exports and boost local economic activities.

1-STRATEGIC MEASURES

One of the government's key strategies to fix the trade imbalance was supporting the local industrial sector so that Egyptian products can compete in both local and international markets. For this aim, it has launched different mega projects such as the New Suez Canal Corridor Projetc, which is expected to turn that area into a world-class logistical and industrial hub. The project includes developing 6 ports and 3 industrial zones to create new residential, agricultural and industrial communities. The project is expected to create 1.5 million jobs and attract significant foreign direct investments.

2-TACTICAL MEASURES

In this regard, Egyptian authorities started to take new measures in order to curb imports in particular low-quality goods and products with unkown origin, as follows:

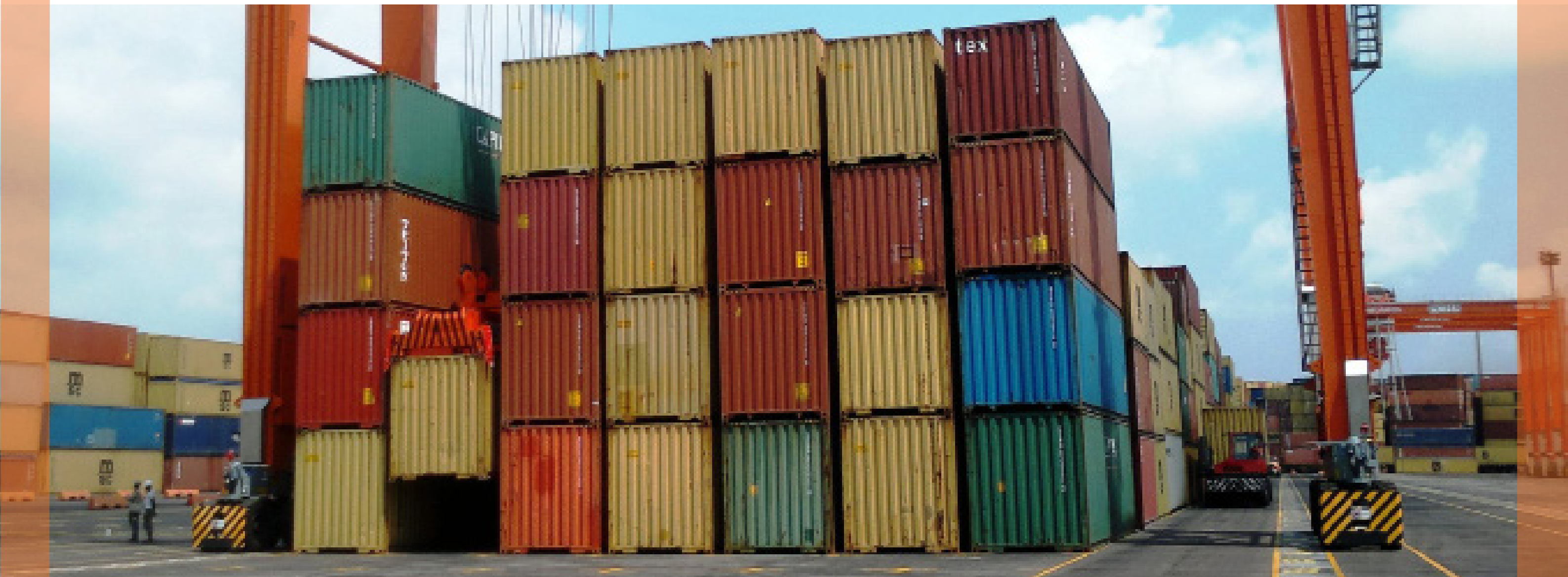
- In January 2016, the government issued a decree, raising tariffs imposed on a large number of imports such as household appliances, cosmetics, garments, footwear, nuts and pet food, to range between 20 and 40% instead of 10-30%.
- The Ministry of Trade & Industry announced that starting February 2016, 23 categories of finished goods that are exported to Egypt for the retail market have to be registered at the General Organization for Export & Import Control. These categories include:

1-Milk and its products. 2-Packed and dried fruits. 3-Oils and fats. 4-Chocolate. 5-Confectionery 6-Pasta and bakery products.	7-Juice. 8-Mineral water and soft drinks. 9-Cosmetics and perfumes. 10-Soap. 11-Floor Covering. 12-Steel rebar.	13-Watches 14-Home appliances. 15-Toys. 16-Furniture. 17-Bikes and motorcycles. 18-Bathroom furniture.	19-Tiles used for domestic usage. 20-Tissue paper, diapers and towels. 21-Tableware and kitchen tools. 22-Lighting devices for domestic usage. 23-Glass tableware.

- In December 2015, the CBE has raised cash deposits at banks on letters of credit required from importers to 100% up from 50% in an attempt to boost domestic products against foreign competition. Imports of medicines, input materials for pharmaceuticals and babies' milk are excluded from the decision.
- The CBE has also amended the import regulations in February 2016, limiting the collection of importation documents to banks while banning accepting any documents provided by the client. The amendment exempted imports of some sectors including poultry, livestock and computer software, hardware and accessories from that decision. Subsidiaries and branches of foreign companies were also exempted as well as air cargo.
- The CBE tried to facilitate staples imports while curbing unnecessary imports through removing the USD250,000 monthly limit imposed on US Dollar deposits or its equivalent of foreign currencies in March 2016. The decision includes only companies importing four groups of goods:
  - Basic commodities and ration goods;
  - Raw materials & intermediate goods;
  - Machinery, equipment & spare parts;
  - Pharmaceuticals.

Additionally, Egyptian authorities have exerted efforts to support exports against hardships they recently face, as follows:

- In November 2015, the Ministry of Trade and Investment has increased the amount allocated to support Egyptian exports to EGP3.7 billion compared to EGP2.6 billion. The Egyptian government has also approved applying a one year program that raises the export subsidy by 50% for exporters that achieve a 25% increase in chemical and food exports. The program, which started in March 2016, is expected to boost exports by USD2.5 billion.
- The ministry is also going to open new 5 trade representative offices in Tanzania, Uganda, Djibouti, Ghana and Ivory Coast during 2016 in order to market for Egyptian exports in Africa.
- There is also a potential proposal for the ministry to pay 50% of transportation cost of moving Egyptian exports to African countries.
- Egyptian authorities have also tried to improve the investment climate in general through:
  - Issuing a new investment law that facilitates investment procedures by unifying the process of obtaining licenses through a one-stop-shop investment window;
  - Cutting the income tax ceiling to 22.5% for individuals and corporations, from the previous level of 30% to stimulate investments;
  - Gradually removing energy subsides and building new power plants to increase the country's generating capacity for electricity and solve the energy shortage problem Egypt has been facing in the last few years.
  - Launching a new initiative by the CBE in January 2016 that targets encouraging banks to extend finance to Small and Medium Enterprises (SMEs) to be provided at favorable conditions (only 5% interest rate) to Very Small and Small Enterprises in addition to funding Medium Enterprises at 7% interest rate.



OUTLOOK

- We expect that recent measures taken by Egyptian authorities including the devaluation of the Egyptian Pound against the US Dollar in addition to raising tariffs and restricting the importation of certain goods may have a limited impact on the trade deficit due to the structure of Egyptian exports and imports.
- Imports' structure doesn't allow a major decrease in imports, in spite of the expected increase in their prices after the devaluation of the Egyptian Pound, due to the high share of essential goods (75%) of total imports including oil, wheat, machinery, raw materials and intermediate goods[1], leaving a small room for replacing them with local substitutes. Only consumer goods[2] would be strongly affected by the previous measures.
- For exports and despite the fact that their prices are going to fall in international markets, a comprehensive plan must be adopted by the government to support the industrial sector, improve exports' competitiveness and facilitate the benefit from different trade agreements Egypt signed with major economic blocs around the world to witness a significant boost for exports.

IMPORTS PAYMENTS BY DEGREE OF USE (2014/15)

Source: Central Bank Of Egypt

[1] Intermediate goods include animal & vegetable fats, greases & oils, organic & inorganic chemicals, plastics, paper, cardboard paper, Iron & steel products, aluminum & articles, spare parts & accessories for cars and rubber and wood & articles.

[2] Consumer goods include: (1) Durable Goods: Household refrigerators & electric freezers, televisions, videos and computer monitors. (2) Non-Durable Goods: Dairy products, eggs & honey, refined sugar, pharmaceuticals, insecticides, cotton textiles and ready-made clothes.

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