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Economic Report 2015/2016

0. Executive summary

While the first half of 2015 gave rise to hope for an economic recovery in Egypt, this has unfortunately not continued. **Since mid-2015, a combination of cyclical and structural developments** (e.g. lower remittances inflow, crisis of Egyptian tourism industry, stagnant Suez Canal income, lower aid payments from GCC countries, cut in foreign direct investments etc.) **drastically reduced foreign exchange inflow**. Together with a chronically high trade balance deficit and an overvalued managed exchange rate, these developments led to a rapid depletion of foreign exchange reserves. As result, Egypt was forced to manage monetary flows and imports (ex. focus on “essential goods”), to engage in an economic reform program (e.g. introduction of VAT, subsidy cuts, reform of public sector, devaluation and free floating of currency) and to negotiate an IMF loan agreement over USD 12 bn. While these measures are likely to have a positive medium/long term effects for the economy, their immediate impact puts additional strains on business and population alike.

As a result of the devaluation, **inflation and budget deficit have deteriorated significantly**. More budget and/or subsidy cuts (particularly fuel subsidies) will be needed to avoid a spiraling out of control of budget deficit (currently at 12% of GDP) and public debt. Service of public debt has increased due to increased interest rates (for domestic debt) and devaluation (for foreign debt). The austerity measures will make stimulus packages (to fight unemployment) or an increase in public works (to extend public services in health and education) more difficult.

In order to protect its foreign reserves, Egypt has **introduced limits to the access of foreign currency** for individuals and for companies, making the import of raw material, semi-finished and finished products increasingly difficult. Furthermore, international companies are unable to repatriate profits or license fees to their headquarters, leading to important payment arrears. This situation has improved slightly since the floating of the Egyptian pound, however many obstacles remain. In addition, Egypt has **introduced supplementary technical and administrative hurdles to the import of what is considered luxury goods**. This has made it increasingly difficult for foreign companies and for exporters to do business in and with Egypt. Import to Egypt has decreased throughout 2016.

Despite these difficulties, Egypt remained in 2015 the most important export market and the third biggest trade partner for Switzerland in Africa. The main products exported from Switzerland to Egypt continue to be chemical and pharmaceutical products (52.6% of total exports in 2015) while Switzerland imports mainly cotton and textile. 2016 has seen an important increase in the import of gold from Egypt.

In the medium term however, the Egyptian economy might become more stable again. In particular, the **discovery of large reserves of natural gas** off the coast of the Mediterranean Sea will allow Egypt over the next few years to become again a net exporter of natural gas or at least to cover its own needs for years to come.

1. Economic problems and issues

During the first few months of the presidency of Abdel Fattah el-Sisi and particularly in the aftermath of the investors conference in March 2015 in Sharm el Sheikh, Egypt experienced a recovery in economic sentiment. This had led to a positive evaluation of Egypt's credit rating by several agencies. However, since mid-2015, Egypt is caught in a vicious circle of long delayed reforms coupled with unfavorable external influences. This has **driven the Egyptian economy into a deep crisis**. The current account deficit has reached a record high in FY2015/16 of USD 18.7 bn, core inflation in August 2016 has reached 15.5% and there was at times up to a 75% gap between the official and the black market exchange rate for USD (before devaluation and free floating of the exchange rate). Unemployment is at 12.7% for the first quarter of 2016; however, youth unemployment stands at 31.3%. The growth rate of 4.2% for 2015 and estimated at 4.4% for 2016 are by far not enough to improve this situation.

1.1. Aggravated foreign exchange crisis

One of the main developments leading to the current crisis is the aggravated crisis in availability of foreign exchange. Egypt's economy is mainly based on consumption of preponderantly imported goods (trade deficit 2015: USD -38.1 bn¹). However, over recent years, the sources of foreign exchange allowing financing this trade deficit have undergone important changes:

- A) **Income from tourism:** the political upheavals of 2011 and 2013 have already led to a huge decrease in the tourism industry. In particular, the crash of a Russian passenger plane on 31 October 2015 on its way out of Sharm el Sheikh and the subsequent cancelling of flights from Russia and the UK have given an additional blow to the income from the tourism sector, which has been cut in half compared to the already low figures of the previous year. The attack on Mexican tourists by the Egyptian Armed Forces on 13.09.2016, the still unexplained death of an Italian researcher end of January 2016 and the crash of an Egypt Air passenger plane in May 2016 have had additional negative effects on the security perception of tourists.
- B) **Revenue from Suez Canal:** the opening of the extended canal in August 2015 that had doubled its capacity should have led to increased revenues from the fees of passing vessels. However, the general slowdown of global trade and the low oil price that makes the route around Cape of Good Hope a cheaper alternative have led to the shrinking of the revenue and the subsequent decrease of the fees.
- C) **Remittances from Egyptians working abroad:** due to the low oil price and the political situation in the region (Syria, Yemen, Libya), many Egyptians who have been working in the Gulf States or in Libya have lost their jobs or receive lower wages. In addition to increasing pressure on the Egyptian labor market, this development has led to a decrease of remittances sent to their families in Egypt. In addition, the large gap between the official and the black market exchange rate has driven the remittances out of the official banking system.
- D) **Financial support from the Gulf States:** the low oil price, political disturbances and the frustration over the lack of progress in the reforms has led to a drying up of the aid from the Gulf States. Mainly Saudi Arabia, the United Arab Emirates and Kuwait have supported president Sisi with loans, deposits and investments amounting to tens of billions of USD.
- E) **Foreign Direct Investment:** the current economic and security situation, the lack of reforms and the restrictions on trade in goods and foreign exchange transactions have had a discouraging effect on foreign investors, with the exception of the gas sector, which has seen some important investments during the last few months.

As a consequence, the Egyptian **reserves have decreased dramatically** and have been temporarily below the minimum necessary to cover three months of imports. The reserves only recently increased after Egypt has received the additional USD 6 bn of funding necessary for obtaining the IMF loan. The lack of availability of foreign exchange through the official banking system and the thriving black market with a gap at times of up 75% between the official and the black market exchange rate have put the Egyptian Pound (EGP) under massive pressure to devalue. A first devaluation of 13% had taken place in March 2015. A second devaluation by 45% has taken place just before concluding an IMF loan agreement. **Since the floating of the EGP exchange rate was introduced, the EGP has further weakened.**

¹ Source: CBE monthly statistical bulletin

1.2. Import Restrictions

As one of its measures to protect its foreign exchange reserves, Egypt tries to lower non-essential imports. According to the governor of the CBE, **a decrease of around 20% of all imports is targeted**. Egypt has introduced a series of administrative hurdles to import that it justifies officially with the protection of consumers from cheap products of bad quality and the avoiding of fake invoices in order to avoid customs duties such as the legalization of trade documents, the need for manufacturers exporting to Egypt to register with the General Authority of Import and Export Control (GOEIC), increase of customs duties as well as restrictions to the flow of capital.

The last few months have seen some products disappear from the shelves of stores in Egypt. In addition, even though the measures are supposed to target only finished products for retail sale, evidence shows that manufacturers importing semi-finished goods, raw material and spare parts also suffer from restrictions. This has a **negative impact on the production in Egypt** and consequently also on its exports.

There are doubts that those restrictions are compatible with Egypt's obligations under WTO law and with the provision of its various free trade agreements. So far, no country has taken Egypt to arbitration.

1.3. Reform Agenda

The current government has formulated a comprehensive reform agenda consisting of the "2030 Egypt Vision" in line with the UN SDGs and a three-year economic development and reform plan. The key challenge however will be the implementation of this ambitious agenda and more specifically of the needed austerity measures while at the same time shielding the poorest population groups from their effects. It is expected that the economic reform agenda associated with the IMF loan will put additional pressure on the government to go ahead with the reforms.

2030 Egypt Vision

The vision wants to **place Egypt among the top 30 nations by 2030**. While the paper leaves many open questions especially when it comes to implementation strategies, it provides a solid basis to ask for more accountability on the government performance. It covers three dimensions: social, environmental and economic. The **economic dimension comprises four pillars**: 1) economic development, 2) energy, 3) knowledge, innovation and scientific research, 4) transparency and efficient government institutions. It aims for "a competitive, balanced, diversified and knowledge based economy" and lists 77 key performance indicators as well as 101 programs and projects of different size and scope.

3-year economic development and reform plan

The three-year economic development and reform plan that – according to the information by the Egyptian government is also the **basis for the IMF loan** – comprises **six pillars**: 1) Fiscal consolidation, 2) Market-based flexible exchange rate, 3) Export promotion, 4) Supporting the industrial sector, 5) Improving business environment, 6) Enhancing social protection and human development.

Specific ongoing reform projects

Reforms are particularly necessary in the area of fiscal consolidation in order to cut down the budget deficit that stood at 11.5% of GDP for FY 2014/2015. Currently, around 80% of the yearly budget spendings are reserved for debt servicing, the cost of the administration (including salaries for the 6 million bureaucrats) as well as subsidies on fuel and goods of basic necessities. Moreover, Egypt also needs to broaden its tax base and generate additional income.

In order to decrease the spending on the Egyptian bureaucracy, President Sisi had issued the **Civil Service Law** reducing benefits of the 6 million bureaucrats. However, this was the only law to which the newly elected parliament had not given its approval. A new, less ambitious version of the law has recently passed through parliament and is currently under revision by the State Council. While the new law still contains provisions against corruption and to increase efficiency, it foresees much smaller cuts in salary or staff number.

Another urgent reform on the spending side is the **cut of subsidies**, which add up to 25% of total expenses. While it is unlikely that the government will cut subsidies on basic food, it will need to continue the reform on fuel subsidies that it began in 2014 but has not continued since. Low oil prices should contribute to lower the burden on the population, even if Egypt has budgeted a lower oil price than the actual price per gallon already. In addition, it will be important to improve the efficiency of targeted subsidies. Currently over 70 million out of the 90 million inhabitants of Egypt are entitled to subsidized basic food which seems a much higher number than that of the part of Egyptians living below the official poverty line (26.3% according to the 2030 Egypt Vision).

One reform already implemented in August 2016 is the **increase of (scaled) electricity tariffs** by 35% for households, commercial and industrial users.

In order to expand the tax base, Egypt has *introduced in September 2016 a **value added tax** of 13%* instead of the sales tax of 10%. This has allowed Egypt to receive the first installment of a loan by the World Bank. However, experience shows that the implementation of such a complex new system needs time and good preparation. It remains to be seen if the income from the VAT will be as high as expected.

1.4 Supply bottlenecks

Recent months have seen **increased difficulties in the supply of basic food commodities** (e.g. baby milk formula, sugar). In the past, Egypt has refused several cargos of wheat with the excuse that its content of ergot fungus was higher than 0.0% while the rest of the world accepts a threshold of 0.5% (after some weeks Egypt revised their decision and accepts again 0.5 % contamination). It is not clear for how long the current wheat reserves will last. Part of these problems is certainly caused by the lack of foreign currency and thus the difficulty to import. However, endemic corruption, excessive bureaucracy and strong monopolies have added their share to the complications. President Sisi so far has often **turned to the army to help solve the shortages**, be it by appointing a former general as minister of supply, be it by distributing baby formula through the retail system of the Armed Forces. On one hand, this might be a sign that Mr Sisi trusts people from his own background more than he trusts civilians. On the other hand, he is convinced that only the Armed Forces have the economic possibility to break existing monopolies and oligopolies.

1.5 Inflation

The weak EGP and the need for importers to source their foreign currency on the black market, the supply bottlenecks, the lack of competition, the introduction of the VAT and the increase in electricity prices have led to an increase in consumer price inflation to 15.4% in August 2016, the **highest rate in almost a decade**. The devaluation and the cut in fuel subsidies will push inflation even further up.

1.6 Mega projects

It has been more quiet around the mega projects that the government has launched at the investor conference in March 2015. While the extended Suez Canal has been inaugurated and first investors are present in the Suez Canal Development Zone, there are first complaints that the zone is not as attractive as it could be.

As for the new Administrative Capital, the initial main investor from the UAE left the project in September 2015; Chinese partners are now the main investors. Recently, there have been rumors that the new investors also wanted to back out, however the Egyptian government still is confident that construction will start soon.

1.7 Natural gas discoveries in the Mediterranean Sea

In the medium term, the **Egyptian economy might profit from the discovery of large reserves of natural gas off the coast of the Mediterranean Sea** that will allow Egypt over the next few years to become a net exporter of natural gas or at least to cover its own needs for a substantial period. The discoveries will most likely attract additional investments and will help to alleviate the shortage of foreign exchange and the negative trade balance. In summer 2015, the Italian company ENI has made the discovery of two gas fields: the spectacular Zohr gas field holding up to 850 bn cubic meter as well as the smaller Nooros field. While the Nooros field is already productive, ENI plans to start production in the Zohr field by the end of 2017. However, it should not be forgotten that despite several payments, Egypt still owes arrears of around USD 3 bn to international oil and gas companies.

2. International and regional economic agreements

2.1 Country's policy and priorities

Egypt's policy regarding the signing of regional or international agreements

After the ousting of former president Mursi and until around the end of 2015, Egypt relied heavily on the support from the Gulf countries (Kuwait, Saudi Arabia and the UAE), while at the same time maintaining positive ties with the US and the EU – Egypt's main trade partner – and building relationships with Russia and China. There also seems to be an increased focus on trade relations with African countries.

With the decrease of the financial support from the GCC countries and the increasing economic difficulties in Egypt, the country now has **turned to international financial institutions for support**, such as the World Bank, the African Development Bank or the European Bank for Reconstruction and Development and finally the IMF. At the same time, due to the highly negative trade balance, Egypt has become **increasingly critical towards its Free Trade Agreements**. For example, the Federation of Egyptian Chambers of Commerce has suggested reviewing all existing FTAs by examining their potentially negative impact on Egypt's trade balance. Due to the introduction of restrictions to import, Egypt has ongoing conflicts with many of its trade partners, even though to present, no one has turned to international dispute settlement mechanisms, partly because of the generally low importance of trade relations with Egypt, partly in order to avoid pushing Egypt – a strategically important country – into even deeper economic crisis.

In the medium term, Egypt continues its policy to **position the country as a global and regional service, production and export hub**. One of the main assets that Egypt underlines in its international relations is its geographical location offering access to Africa, Europe and the Middle East. Under President Abdel Fattah El-Sisi, Egypt also aims to broaden its trade partners.

Main ongoing negotiations at the international or regional level

According to the Minister of International Cooperation, Egypt has managed to secure USD 15 bn of funding from **international financial institutions** over the last year, of which 5 bn have already been disbursed during the last few months. On the **bilateral and regional level**, Egypt has concluded already a rather large number of economic agreements. The main agreements are the EU-Egypt Association Agreement, the Common Market for eastern and Southern Africa (COMESA), EU-USA Trade and Investment Framework, Egypt-Turkey Free Trade Agreement, the Greater Arab Free Trade Agreement (GAFTA) and the Agadir Free Trade Agreement.

Some of the signed agreements still **have not entered into force yet**. This is the case for the Tripartite Free Trade Agreement signed in June 2015 between three African Trade Blocks (COMESA, EAC and SADC). It will enter into force after ratification by $\frac{3}{4}$ of the signatories, which will need at least two years. The Egypt-MERCOSUR Agreement, which was signed in 2010, has also not entered into force yet. So far, this Agreement has been ratified by Egypt, Brazil, Uruguay and Paraguay, however not by Argentina yet. In February of 2015 during the visit of President Putin in Cairo, Egypt and Russia agreed to establish a free trade zone for Egypt with Eurasian Economic Union. The negotiations are ongoing despite a temporary freeze due to the crash of the Metrojet plane and a cooling relationship between the two countries.

2.2 Outlook for Switzerland (potential for discrimination)

None of the FTAs currently being ratified or negotiated have the potential to lead to discrimination for Swiss products. However, the **current implementation of the Egypt-EFTA FTA gives rise to some concern**. There are disagreements between Egypt and most of its trade partners on the compliance of certain new regulations issued by Egypt not only with the Egypt-EFTA FTA and with FTAs with other partners of Egypt but also with Egypt's obligations under WTO law. For certain regulations, such as the presidential Decree raising the taxes on a large number of goods, Egypt has confirmed that the specific terms agreed upon in the FTA prevail. However, there are still open questions regarding the request of registration for companies, the request for pre-shipment inspections, the legalization of certain documents by the Egyptian consulates in the exporting country or requirements for the proof of origin.

3. Foreign trade

3.1 Development and general outlook

According to the data of the Central Bank of Egypt (CBE), Egypt's **total trade volume for the year 2015 amounted to USD 76'197 Mio.** The Statistical Yearbook of CAPMAS² on the other side accounts for a total trade volume of EGP 737'008 Mio. With the exchange rate of December 2015, this amounts to around USD 93'837 Mio. The biggest difference between the data of CAPMAS and CBE can be noted for the imports from Asia as well as the imports from Eastern Europe (each around USD 10 bn higher with CAPMAS). However, it has to be noted that the regional categories do not exactly coincide.³

In comparison to 2014 and according to the statistical bulletin of the CBE, exports decreased from USD 25,3 bn to USD 19 bn, while imports also decreased from USD 64.5 bn to USD 57.2 bn. The decrease in both import and export is mainly due to oil products, partly explained by the low oil prices and by the donations in the form of cheap petrol from the GCC countries.

The trade deficit decreased slightly from USD 39.2 bn in 2014 to USD 38.1 bn in 2015. This result is mainly explained by a lower deficit in some non-oil merchandise such as cereals, cotton and cars. At the same time, the deficit in the oil merchandise balance increased.

Over the last period, Egypt's current account deficit has increased considerably from USD 8.3 bn over the first three quarters of FY2014/2015 to USD 14.5 bn for the same period of FY 2015/2016. This has led almost to a quadrupling of the Balance of Payment deficit from USD 1 bn to USD 3.6 bn in the same period.

Egyptian foreign trade with main economic partner regions	Trade (exports + imports) in million USD 2014	Trade (exports + imports) in million USD 2015
TOTAL TRADE	89'183.9	76'197.4
EU	27'101.2	23'436.5
Other European Countries	5'952.9	4'838.5
Russian Federation & C.I.S	3'682.7	4'198.9
USA	6'441.4	5'102.1
Arab countries	22'399.8	16'960.7
Asian countries (excluding Arab countries)	16'996.0	14'240.4
African countries (excluding Arab countries)	1'034.9	1'147.9
Australia	342.7	336.7
Other countries and regions	5'232.3	5'935.7

(Source: Central Bank of Egypt)⁴

² Central Agency for Public Mobilization and Statistics

³ Since CBE has its data in USD, in order to be able to allow for comparison, we will use the data provided by CBE for this report. The data provided by CBE is also used in publications such as the EIU Country Report for Egypt.

⁴ [http://www.cbe.org.eg/MonthlyStatisticalBulletinDL/Bulletin_2016_8_Aug_2016\[1\].pdf](http://www.cbe.org.eg/MonthlyStatisticalBulletinDL/Bulletin_2016_8_Aug_2016[1].pdf);

http://www.cbe.org.eg/_layouts/xlviewer.aspx?id=/MonthlyStatisticalBulletinDL/External%20Sector%20Data%202021.xlsx&DefaultItemOpen=1

3.1.1 Trade in goods

Egypt's main export industry traditionally includes **mineral products** (mainly oil and gas), **agricultural products** as well as **textiles**. However, due to the low oil price, the value of export of oil products has decreased considerably in the period under review and gradually fell from USD 2'966.9 Mio in Q4 of FY2013/2014 to USD 1'103.5 Mio in Q3 of FY2015/2016 while the export of semi-finished and finished goods has remained stable at around USD 400 Mio and USD 2'200 Mio respectively.

On the import side, the most important commodity groups are **mineral products** (including oil products), **machinery** as well as **base metals**. Just as for the exports, petroleum products saw a gradual decrease in value from USD 3'167 in Q4 of FY2013/2014 to USD 1'497.8 in Q3 of FY2015/2016 while the import of consumer goods remained stable.

The EU and the Arab Countries remain the most important trade partners of Egypt.

In January 2016, Egypt has introduced several new restrictions to trade in goods (see Chapter 1). The objective according to the Governor of the CBE is to cut imports by around 20%. The regulations are effective since March 2016 and while a certain reduction in trade can be observed, it is still too early to evaluate the real effect of these measures on trade.

3.1.2 Trade in services

Given the negative balance of trade in goods, Egypt's main sources of foreign currency revenues are services such as the **Suez Canal, tourism and remittances of Egyptians working abroad**. For the year 2015, CBE statistics account for receipts in services of USD 18.8 bn compared to payments of a total of USD 15.7 bn, resulting in a **slightly positive balance of services** of USD 3.2 bn. Over the last few months, these sources have decreased, aggravating the lack of foreign currency even further.

While 2015 has given some hope that the **tourism industry** would recover from the negative impact of the revolution of 2011, it fell into a deep crisis towards the end of 2015. The attack on Mexican tourists in the Western Desert by the Egyptian Armed Forces or the crash of a Russian passenger plane in October 2015 and the subsequent suspension of flights from Russia and the UK have led to a collapse of the number of tourists visiting Egypt. While income from tourism still amounts to USD 6.1 bn for 2015, the dramatic consequences of the mentioned events can be seen clearly starting Q2 of FY2015/2016. Income dropped from USD 1'725.5 Mio in Q1 to USD 981.1 Mio in Q2 and to USD 550.5 Mio in Q3. The Ministry of Civil Aviation is still negotiating the return of flights from Russia and UK. In 2015, a total of 9.1 mio tourists have arrived to the country and they spent a total of 89.1 mio nights⁵ The total contribution of travel and tourism to the Egyptian GDP amounts to 11.4% with 4.4% of the total employment being provided by the sector.⁶ It is noteworthy in this context that during the first months of FY2015/16 for the first time Egyptian citizens spent more while traveling abroad than did tourists visiting Egypt⁷.

Despite the increase of the capacity of the **Suez Canal**, the expected rise in passing vessels has not taken place yet since the opening of the expanded canal in August 2015. In 2015 a total of 17'483 boats have crossed through the Suez Canal - a number in the range of the crossing of previous years - and have generated an income of USD 5.2 bn. The aim of the Egyptian government is to double traffic by 2023, however, the sluggish world trade and the low oil price allowing vessels to use the route around Cape of Good Hope have hindered so far an increase in the demand to cross the Suez Canal. Consequently, Egypt had to lower the fees for the crossing of the Suez Canal.

3.2 Bilateral trade

Egypt remains an important trade partner for Switzerland in the region. The total trade volume between Switzerland and Egypt for 2015 amounted to CHF 967.8 Mio (Total 2). As in the previous year, **Egypt remains the biggest export market for Switzerland in Africa** for the year 2015 and the third biggest trade partner after South Africa and Ghana. Among the countries of the Middle East,

⁵ Statistical Yearbook 2016, Issue No. (107), CAPMAS.

⁶ World Travel & Tourism Council, Economic Impact 2016 Egypt: <http://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2016/egypt2016.pdf> (Accessed on 15.10.2016)

⁷ Enterprise, 18.10.2016 (<http://enterprise.press/issues/2016/10/18/el-garhy-tells-lamees-almost-usd-6.bn-third-party-funding-imf-wants/>)

Egypt ranks 6th for export (behind UAE, Saudi Arabia, Israel, Qatar and Iran) and 5th in terms of total trade volume (behind UAE, Saudi Arabia, Israel and Qatar).

3.2.1 Trade in goods

In 2015, the balance of trade remains largely in favor of Switzerland. It has exported goods to Egypt of a total value of CHF 891.5 Mio, a decrease of 13.4% compared to the previous year. At the same time imports amounted to 76.3%, a decrease of 25.1%. As of 2016, however, imports from Egypt have increased by 514.6% if we look at Total 2 (including gold) and the trade balance has become more even. By comparing Total 1 to Total 2 it becomes clear that the **increase in imports is explained exclusively by the exceptionally high values for gold**. It is noteworthy that in August 2016 for the first time Switzerland has imported goods from Egypt for a slightly higher value than its exports (CHF 46.3 Mio compared to CHF 46.1 Mio)

The main Swiss exports to Egypt continue to be **chemical and pharmaceutical** products (52.6% of total exports in 2015) followed by **machineries and electronic** devices (11.2%) and **precision instruments and watches** (9.7%). The main Egyptian export goods to Switzerland are **cotton and textile** (43.1% of total imports in 2015), followed by **energy sources** (20%) and **agricultural products** (17.7%).

Swiss companies and importers of Swiss products have suffered from the new restrictions on trade. According to oral information by the Minister of Trade and Industry, as of 29.08.2016, 34 Swiss companies were registered with the General Authority for Import and Export Control GOEIC and thus qualify to export to Egypt, while the final registration of four additional companies was still pending with the Minister of Trade.

3.2.2 Trade in services

Exact data on bilateral trade in services is not available.

As for **Swiss tourists visiting Egypt**, their total number for 2015 was 90'483 and the total number of nights spent was 621'316, thus an average length of stay of 6.9 nights. For the first half of 2016, the number of Swiss tourists as well as the average amount of nights stayed in Egypt has strongly decreased to 20'445 with a total number of nights of 90'525, leading to an average length of stay of 4.3 nights⁸.

4. Direct investments

4.1 Development and general outlook

Attracting additional Foreign Direct Investment (FDI) is one of Egypt's current economic priorities. In March 2015, the Egyptian Government held the "Egypt Economic Development Conference" in Sharm el Sheikh in order to showcase the investment opportunities in the country. The Government announced several mega projects, among them the construction of a New Capital outside of Cairo. While the conference yielded agreements and pledges of over USD 100 bn, the implementation since has not lived up to expectations. While some projects - mainly in the energy, oil and gas sector - seem to be moving ahead, others have not (yet) developed (New Capital, but also some infrastructure projects promised by Chinese investors).

As part of the strategy to attract additional FDI, Egypt has introduced various legislative reforms prior to the investment conference, among others a new investment law. However, the reforms have not (yet) had the desired effects and **the investment law is already under review again**. In particular, the implementation of a one-stop-shop for instance has not yet fully succeeded. While the one-stop-shop exists, experience shows that it is not functioning efficiently yet, especially when it comes to the attribution of land. Other obstacles that foreign investors mention are regulatory complexity, unclear or contradicting law, weakness in law enforcement, limited recourse possibilities, lengthy customs inspection and registration practices, insufficient intellectual property protection, and difficult access to accurate public information. The current economic situation, the lack of reforms as well as the

⁸ Data obtained from the Egyptian Tourism Authority

restrictions on foreign exchange and importation of goods do not create an attractive environment to attract FDI for new projects.

During FY2014/2015, net FDI has reached USD 6.38 bn with total inflows of USD 12.55 bn. Compared to previous years, net foreign direct investment has thus substantially increased and has reached again the levels of FY2009/2010. This is mainly due to the support coming from the Gulf countries and particularly from the United Arab Emirates (+ 245% compared to the previous year), Saudi Arabia (+ 128%) and Kuwait (+ 83%). It remains to be seen if this trend continues or if it is mainly explained by the short-term effects of the Investment Conference that was held in Sharm el Sheikh in March 2015.

As for the **main investing countries**, the UK remains the most important partner of Egypt with a share of almost 40% of the total inflows, thus counting for more than three quarter of the FDI coming from the European Union. The USA remains in second place, while the UAE has moved up to third place.

It is noteworthy that **despite the increase in net FDI, the outflow remains relatively high** (USD 6.17 bn) and has not yet returned to the levels of the years before the political turmoil of 2011. This is a clear sign that confidence in the sustainable economic development of Egypt has not yet returned. This despite the fact that difficulties to repatriate foreign currency have further increased. Due to the low reserves of foreign currency, the Egyptian government has introduced monthly limits for payments abroad.

Foreign Direct Investment by Region, in Mio USD⁹			
Region	FY 14/15	FY 13/14	FY 09/10
USA	2'115.8	2'230.3	1'424.9
EU	6'522.5	6'647.1	6'763.2
Arab Countries	2'667.5	1'290.0	1'439.5
Other Countries	1'240.4	725.4	1'380.5
Total Inflows	12'546.2	10'892.8	11'008.1
Outflows	-6'166.4	-6'774.0	-4'249.9
Net Foreign Direct Investment	6'379.8	4'118.8	6'758.2

4.2 Bilateral investment

According to the data of CBE, inflow from Switzerland has reached USD 165 Mio during FY2014/15. Switzerland has thus moved up to the top-10 investors in Egypt with an increase of inflows of 75% since the previous year. CBE does not publish any data to the stock of FDI. The data from the Swiss National Bank shows a different picture. 2014 has seen an inflow of CHF 39 Mio adding up to a capital stock of CHF 1'377 Mio (see table below). With this, the trend of the years following the 2011 revolution with a net outflow of Swiss capital has been reversed. The merger of Lafarge and Holcim in July 2015 and the fact that CBE covers the fiscal year while SNB data covers the calendar year might explain the difference between CBE and SNB.

The **main Swiss investors in Egypt** are ABB (Power), Egy Swiss (FMCG), Franke (Home supply factory), Givaudan Egypt SAE (Flavor manufacturing company), Hero (FMCG), Lafarge Holcim (Cement), Nestlé Egypt SAE & Nestle Waters Egypt (FMCG), Novartis (Pharmaceutical) and Sika Egypt (Construction materials). However, due to the difficulties regarding the repatriation of foreign currency, it is expected that investment of Swiss companies in Egypt will be directed mainly at the

⁹ Central Bank of Egypt in: Statistical Yearbook 2016, Issue No. (107), CAPMAS.

conservation of value of existing assets until the access to foreign exchange and the possibility to repatriate gains or license fees is eased.

Capital Stock end of year, in Mio CHF ¹⁰			Capital Transactions, in Mio CHF ¹¹				
All countries			All countries				
	Total	Africa Total		Total	Africa Total		
2005	567'752	3'510	537	2005	63'651	1'731	276
2006	694'777	7'724	531	2006	95'071	810	161
2007	734'161	10'963	541	2007	61'242	1'591	141
2008	769'883	13'903	1'677	2008	49'100	3'797	171
2009	891'309	9'900	1'667	2009	28'703	920	51
2010	978'418	11'623	2'017	2010	89'378	1'618	202
2011	1'044'226	10'516	1'716	2011	42'755	1'166	-126
2012	1'093'412	9'369	1'936	2012	40'622	-1'088	-80
2013	1'064'429	11'084	2'066	2013	35'739	1'207	-16
2014	1'056'265	10'861	1'377	2014	-3'048	199	39

5. Trade, economic and tourism promotion "Country advertising"

5.1 Foreign economic promotion instruments

In 2015 the interest of new Swiss companies in entering the Egyptian market remained subdued. Given the current obstacles such as the difficult access to foreign currency, the import restrictions and the restrictions in the flow of capital, several of the companies present in Egypt are currently evaluating their options to remain in business. Therefore, it is **unlikely that interest in the Egyptian market will grow in the coming months**.

The merger of **Holcim and Lafarge** in 2015 has brought the Swiss cement industry back to Egypt. Lafarge has been present in Egypt since 2008. Its plant in Ein Sokhna is one of the largest cement factories worldwide consisting of five production lines. Lafarge Holcim employ about 2'500 people in Egypt.

The **Swiss Import Promotion Program** (SG-E SIPPO) focuses on fostering the export of natural ingredients. Egypt is amongst the 13 priority countries regarding Swiss import and export promotion programs. However, SIPPO activities in Egypt will stop end of 2016.

The **Swiss Egyptian Business Association** (SEBA) was established in 2004 as non-governmental organization. SEBA's mission is to support business relations between Egypt and Switzerland. SEBA organizes, among other things, factory visits and monthly roundtables to discuss the latest economic developments in Egypt. In 2015/16 it held several meetings to foster trade conditions on various issues (taxation, customs, trade agreements, investment opportunities particularly in the Suez Canal Development Zone) with the participation of ministers and government officials. In Mai 2016 SEBA, in collaboration with CASCI, the Embassy and SECO, organized a business-to-business trade mission

¹⁰ 2014 is the most recent data available.

[https://data.snb.ch/de/topics/aube#!/cube/fdiasusbla?fromDate=2005&toDate=2014&dimSel=d0\(T0,T5,EG\)](https://data.snb.ch/de/topics/aube#!/cube/fdiasusbla?fromDate=2005&toDate=2014&dimSel=d0(T0,T5,EG)) (14.10.2016)

¹¹ 2014 is the most recent data available.

[https://data.snb.ch/de/topics/aube#!/cube/fdiasustlanda?fromDate=2005&toDate=2014&dimSel=d0\(T0,T5,EG\)](https://data.snb.ch/de/topics/aube#!/cube/fdiasustlanda?fromDate=2005&toDate=2014&dimSel=d0(T0,T5,EG)) (14.10.2016)

for the textile and garments sectors as well as an information event on the new regulations by GOEIC in Switzerland. In December 2015, SEBA held its annual Gala Dinner under the auspices of the Embassy of Switzerland.

5.2 The host country's interest in Switzerland

Tourism, education, other services:

Egyptians hold a very positive image of Switzerland, particularly due to the perceived quality of Swiss products and services. Upper- and middle-class Egyptians often choose Switzerland as a destination for holidays and health treatment. In the field of education, Switzerland offers yearly scholarships for Egyptian citizens under certain conditions. Egyptian Ph.D. and post-doc students wishing to conduct a research project in Switzerland are the main beneficiaries. The interest in Egypt for these scholarships is strong.

In 2015 a total of 4'886 C visas have been issued, of which roughly 35% each for tourism and business. Between January and August 2016, a total of 3'284 visas have been issued, comprising C and D type.

Investments:

In 2008, the Egyptian investment company Orascom Development Holding AG launched an important tourism investment project in the Swiss Alpine town of Andermatt. This project accounts for the biggest Egyptian investment in Switzerland, amounting to a total of CHF 1.8 Mia. Apart from this big project, Egyptian investment in Switzerland remains limited.

Switzerland as a financial center:

Swiss financial centers continue to exert a strong attraction for clients residing in the MENA region, including Egypt. The good reputation of Swiss banking services, a stable political environment, and the stability of the Swiss currency continue to attract capital deposits to Switzerland. The image of Swiss banks in Egypt is mostly positive, and loyalty of traditional Egyptian clients towards the Swiss banks appears solid.

The Egyptian public opinion was generally positively impressed by the swift decision of the Swiss government to freeze the assets of the entourage of former President Mubarak right after the latter stepped down on 11 February 2011. However, this issue very much remains on the Egyptian radar screen and in the recent month, a certain impatience can be felt with regard to the perceived slowness of the procedures to return the assets to Egypt. In addition, the misunderstanding that Switzerland will keep the frozen assets seems to persist in the public opinion.

Anhänge

1. **Tabelle der Wirtschaftsstruktur**
2. **Tabelle der wichtigsten Wirtschaftsdaten**
3. **Tabelle der wichtigsten Handelspartner, darunter die Schweiz**
4. **Tabelle «Handelsentwicklung»**
5. **Tabelle der Hauptinvestoren nach Land, darunter die Schweiz**

ANHANG 1

Wirtschaftsstruktur

	Fiskaljahr 2009/10	Fiskaljahr 2014/15
Verteilung des BIP		
Primärsektor	28.5%	24%
Verarbeitende Industrie	25.5%	25%
Dienstleistungen	46%	51%
- davon öffentliche Dienstleistungen	10%	11.2%
Verteilung der Beschäftigung	2010¹²	2013
Primärsektor	28%	28.2%
Verarbeitende Industrie	25%	23.9%
Dienstleistungen	46%	48%
- davon öffentliche Dienstleistungen	N/A	7.9%

Quelle: The Egyptian Center for Economic Studies, Egypt's Economic Profile and Statistics 2016

¹² Quelle: Worldbank, Employment in Services (% of total employment), <http://data.worldbank.org/indicator/SL.SRV.EMPL.ZS>; Employment in industry (% of total employment), <http://data.worldbank.org/indicator/SL.IND.EMPL.ZS?page=1>; Employment in agriculture (% of total employment), <http://data.worldbank.org/indicator/SL.AGR.EMPL.ZS?page=1>

ANHANG 2

Wichtigste Wirtschaftsdaten

	2014	2015	2016	2017
BIP nominal (US\$ Mrd.)	301.4	330.8	n/a	n/a
BIP/Einwohner (US\$)	3'476	3'740	n/a	n/a
Reales BIP-Wachstum (%)	2.2	4.2	3.3	4.3
Inflationsrate (%)	10.1	11.0	9.6	9.5
Arbeitslosenrate (%)	13.4	12.9	13.0	12.4
Haushaltsbilanz (% des BIP)	-13.0	-11.7	-11.5	-10.1
Leistungsbilanz (% des BIP)	-0.8	-3.7	-5.3	-5.3
Aussenschulden Zentralregierung (% des BIP)	86.0	87.7	89.4	88.8
Währungsreserven (in Monaten von Importen)¹³	2.8	3.1	3.2	3.2

[■] = estimations [] = projections

Quellen: IMF, World Economic Outlook Database, April 2016.

IMF, 2014 Article IV Consultation-Staff Report, February 2015

¹³ IMF, 2014 Article IV Consultation-Staff Report, February 2015

Handelspartner**Jahr: 2015**

Platz	Land	Exporte Aufenthaltsland (Mio. USD)	Anteil	Platz	Land	Importe Aufenthaltsland (Mio. USD)	Anteil
1	EU	5'768	27.1%	1	EU	22'682	31.8%
2	Saudi Arabien	1'921	9.0%	2	China	9'617	13.5%
3	Türkei	1'190	5.6%	3	USA	4'224	5.9%
4	USA	1'073	5.0%	4	Russland	3'685	5.2%
5	Vereinigte Arabische Emirate	1'050	4.9%	5	Türkei	3'247	4.6%
6	Indien	912	4.3%	6	Saudi Arabien	2'852	4.0%
7	Libyen	571	2.7%	7	Brasilien	2'493	3.5%
8	Jordanien	557	2.6%	8	Südkorea	2'430	3.4%
9	Kuwait	529	2.5%	9	Ukraine	2'234	3.1%
10	Kanada	524	2.5%	10	Indien	2'220	3.1%
21	Schweiz	224	1.1%	16	Schweiz	748	1.0%
	Total	21'295	100%		Total	71'257	100%

Quelle: IMF, Direction of Trade Statistics (25.05.2016)

Handelspartner Juli 2015 – März 2016

Rank	Country	Export		Import		Volume of Trade	
		Value	%	Value	%	Value	%
1	UAE	1'776.9	13.3	2'615.1	6.1	4'392.0	7.8
2	China	312.0	2.3	3'645.8	8.5	3'957.8	7.1
3	Germany	502.6	3.7	2'499.5	5.9	3'002.1	5.3
4	USA	977.4	7.3	1'934.5	4.5	2'911.9	5.2
5	Italy	1'332.4	9.9	1'497.4	3.5	2'829.8	5.0
6	Saudi Arabia	733.9	5.5	2'062.4	4.8	2'796.3	5.0
7	Russia	130.1	1.0	2'545.5	6.0	2'675.6	4.8
8	United Kingdom	885.2	6.6	1'448.7	3.4	2'333.9	4.2
9	France	263.5	2.0	1'742.6	4.1	2'006.1	3.6
10	Turkey	454.8	3.4	1'535.5	3.6	1'990.3	3.5
11	Switzerland	346.2	2.6	1'246.1	2.9	1'592.3	2.8
12	India	554.1	4.1	991.6	2.3	1'545.7	2.8
13	The Netherlands	344.0	2.6	907.9	2.1	1'251.9	2.2
14	Kuwait	86.0	0.6	1'039.8	2.5	1'125.8	2.0
15	Other countries	4'706.6	35.1	17'014.3	39.8	21'720.9	38.7
	Total	13'405.7	100.0	42'726.7	100.0	56'132.4	100

Quelle: Central Bank of Egypt, Monthly Statistical Bulletin, Volume No. (233) August 2016

Handelsentwicklung (Total 2)¹⁴

	Exporte (Mio. CHF)	Variation (%)	Importe (Mio. CHF)	Variation (%)	Saldo (Mio. CHF)	Volumen (Mio. CHF)
1990	257.0	--	20.3	--	236.7	277.3
1995	353.0	--	15.0	--	238.0	368.0
2000	541.3	--	12.1	--	529.2	553.4
2005	390.3	--	36.9	--	353.4	427.2
2010	705.3	--	63.5	--	641.8	768.8
2011	593.5	-15.9	34.9	5	534.9	652.1
2012*	706.2	Nicht vergleichbar *)	340.9	Nicht vergleichbar *)	365.3	1'047.1
2013	1'298.0	+83.8	142.8	-58.1	1'155.2	1'440.8
2014	1'028.2	-20.7	102.1	-28.4	926.1	1'130.3
2015 (Total 1)**	891.5 (805.3)	-13.4 (-3.2)	76.3 (74.5)	-25.4 (-23.8)	815.2 (730.8)	967.8 (879.9)
2016 (I-VIII) (Total 1)**	598.9 (598.9)	-10.5 (1.1)	349.1 (42.9)	514.6 (-23.1)	249.8 (556.0)	948.0 (641.8)

*) Ab dem 01.01.2012 hat die EZV die Berechnungsmethode für die Importe und Exporte geändert. Infolgedessen sind Vergleiche zwischen 2012 und den vorhergehenden Jahren nicht mehr möglich.¹⁵

**) Total "Konjunktursicht" (Total 1): ohne Gold in Barren und andere Edelmetalle, Münzen, Edel- und Schmucksteine sowie Kunstgegenständen und Antiquitäten; Variation (%) bezieht sich auf das Total 1 des Vorjahrs

Exporte	2014 (% des Totals)	2015 (% des Totals)
1. Pharmazeutische Erzeugnisse	47.0	52.6
2. Maschinen	9.4	11.2
3. Edelsteine Edelmetalle, Bijouterie	19.7	9.7
4. Chemische Grundprodukte	8.7	9.4

Importe	2014 (% des Totals)	2015 (% des Totals)
1. Textilien und Bekleidung	35.2	43.1
2. Energieträger	31.1	20.1
3. Landwirtschaftliche Produkte	13.6	17.7
4. Maschinen	3.7	4.1

¹⁴ Eidgenössische Zollverwaltung EZV; Gesamttotal (Total 2): mit Gold in Barren und anderen Edelmetallen, Münzen, Edel- und Schmucksteinen sowie Kunstgegenständen und Antiquitäten. Das Total 2 vor 2012 enthält kein Gold, Silber und Münzen.

¹⁵ Importe: Verwendung des „Ursprungslandprinzips“ anstelle des „Erzeugungslandprinzips“. Das Ursprungsland bezeichnet jenes Land, in dem die Ware vollständig gewonnen oder überwiegend hergestellt wurde. Das Erzeugungsland bezeichnete das Land, in welchem ein Produkt vor der Einfuhr in der Schweiz im freien Verkehr war.

Exporte/Importe: Die Aussenhandelszahlen werden mit Gold, Silber und Münzen nach Ländern aufgeschlüsselt und als Bestandteil der Schweizer Aussenhandelsstatistik in der Datenbank [Swiss-Imex](#) integriert.

Hauptinvestoren nach Land**Fiskaljahr: 2014/2015¹⁶**

Platz	Land	Direktinvestitionen (USD, in Mio.)	Anteil	Veränderung (Bestand)	Flüsse im vergangenen Jahr (USD, in Mio)
1	U.K.	N/A	N/A	N/A	4'989.7
2	USA	N/A	N/A	N/A	2'115.8
3	UAE	N/A	N/A	N/A	1'382.0
4	Belgien	N/A	N/A	N/A	663.8
5	Saudi Arabien	N/A	N/A	N/A	649.1
6	Kuwait	N/A	N/A	N/A	236.8
7	Frankreich	N/A	N/A	N/A	230.2
8	Deutschland	N/A	N/A	N/A	190.2
9	Niederlande	N/A	N/A	N/A	181.6
10	Schweiz	N/A	N/A	N/A	165.0
	<i>EU</i>	N/A	N/A	N/A	6'522.5
	Total	N/A	N/A	N/A	12'546.2

Quelle: Central Bank of Egypt, in: Statistical Yearbook 2016, Issue No. (107); CAPMAS

¹⁶ FY 2014/2015, Zahlen für Jahr 2015 nicht verfügbar