

**Embassy of India**  
**Cairo**  
\*\*\*\*\*

No. CAI/CW/201/01/2012

18<sup>th</sup> July, 2012

**Economic and Commercial Report for the month of June, 2012**

**Overview**

The current status of Egypt's economy remains delicate. Foreign currency reserves, used primarily to keep the local currency stable, are at low levels, barely enough to cover three months of imports. Growth remains sluggish, and the government continues to borrow locally – at yields as high as 16 per cent – to cover the budget deficit. International reserves have fallen by more than a half since the uprising against Mubarak began in January 2011, reaching \$15.5 billion in June. The nation's domestic borrowing costs jumped by about 50 percent in the same period as foreign investors quit the market. According to new Central Bank Chairman Mr. El-Okdah, economic growth is expected to slow to less than 2 percent this year, from 2.5 percent in 2011. The IMF in April forecast had growth of 1.5 percent. While Egyptian stocks have recouped losses since Morsy's election win, the benchmark index is still more than 30 percent below its end-2010 level. Yields on benchmark 10-year dollar bonds are about a percentage point higher at 6.25 percent.

With the second round of Presidential elections being held during June, uncertainty prevailed in the Egypt's economic scene resulting in a fluctuating stock market as also financial indicators. The CBE's preliminary data released on June 14<sup>th</sup>, showed that real GDP grew by 5.2 percent in third quarter of 2011-2012, following feeble average growth rates of 0.35 percent in the first two quarters.

Egypt's urban consumer inflation declined to 7.2% for June 2012 from 8.3% during May 2012. CBE pointed out that reduced prices of certain food items, such as poultry, rice, fish and seafood, and lower butane gas cylinder prices as the cause of the recent decline while increased fruit and vegetable prices slightly offset the savings.

On the other hand, GDP amounted to some LE 650.1 billion, with a growth rate of 1.9%. The main contributors at sectoral level were agriculture, forestry and fishing; general government revenues; communications; Suez Canal revenues; and wholesale and retail trade.

The net International Reserves with the CBE declined from about US\$ 26.6 billion at the end of June 2011 to some US\$ 15.5 billion at the end of May 2012, enough to cover 3 months of import. The reserves are down by US\$ 11.1 billion or 41.6% during

the period July, 2011 to May 2012. However, reserves rose for the third month in a row, after continuously dipping since January 2011, recording an increase of US\$ 302 million in May 2012, following the US\$ 94 million increase in April.

The volume of Egypt's foreign trade (total merchandise exports and imports) registered some US\$ 42.8 billion between July, 2011 and Dec. 2012, up by 7.4% compared with the previous corresponding period. The EU was the main trade partner, accounting for 37.3% of the total volume, followed by the Asian countries (19.2%), and the Arab countries (16.8%). India was Egypt's top trading partners among Asian countries.

Merchandise exports reached US\$ 13.6 billion, with a rise of 7.3%, due to increase of 24.1% oil exports and decline of 5.4% non-oil exports. At the level of merchandise classification, fuel and mineral oils increased by 22.2%, and semi-finished goods by 1.5%. Meanwhile, raw materials exports fell by 11.4%, and finished goods by 4.7%.

### **Other Monetary indicators:**

**Pound plummets to seven year low:** Amid the tension surrounding the announcement of presidential results, the Egyptian pound on June 24 fell to its lowest value against the US dollar in over seven years at 6.055 to the dollar, marking its weakest value since December 30, 2004. The weakened currency was widely attributed to the recent political and economic instability in Egypt.

**T-bill sales exceed expectations:-** Egypt has sold \$526 million in one-year, US-dollar-denominated Treasury bills, reports the Central Bank. This figure exceeds the bank's \$500 million initial goal. Average yield increased to 3.715 percent in June, up from 3.706 percent the previous month. Total bids amounted to \$890 million, with yields on the accepted bids ranging from 3.7 to 3.73 percent.

**BOP and trade deficit increase:-**Central Bank statistics show the country's balance of payments deficit ballooning to \$11.2 billion in the first nine months of 2011- 2012 fiscal year compared to \$5.5 billion in the same period last year. The deficit brought down the Central Bank's net international reserves, which are heavily dependent on tourism revenues and foreign investment. Though both exports and imports increased, the trade deficit was \$23.5 billion over the first nine months of FY 2012 compared to \$20.7 billion for the same period in 2011.

The **remittances of Egyptians working abroad** in the third quarter of 2011-2012 reached \$4904.9 million, achieving significant increase in comparison to the \$2817.6 million achieved in same period in 2010-2011.

### **Credit downgrade by rating agencies:**

In the run up to Morsy's presidential victory, global rating agency Fitch Ratings downgraded Egypt's credit one notch further into junk status, dropping its ranking from **BB-minus** to **B-plus**. The downgrade was in response to the Supreme Constitutional Court's decision to dissolve parliament, as that move hamstrung efforts to make meaningful policy changes to improve Egypt's economic outlook. Meanwhile, standard and Poor's put Egypt's 'B' rating on CreditWatch over concerns about SCAF's recent steps to consolidate power in opposition to other political groups. The third major credit rating agency, Moody's, has downgraded Egypt's rating five times since last year's January 25 revolution, but it only extended its review of government debt, waiting election outcomes and IMF loan talks.

### **Tourism:-**

Tourism is on the rebound. Around 846,000 tourists visited Egypt in May, up 19 percent from the same month last year, according to government statistics. The majority of visitors were from Western Europe, with Eastern Europe in second place. Arab tourists reached 175,000 visitors up from 147,000 last year.

Deleted:

### **Suez Canal revenues:-**

Revenue from Egypt's Suez Canal in the third quarter of 2011-2012 reached \$1245.5 million, a slight increase compared to the \$1229.6 million achieved in same period in 2010-2011. Suez Canal revenues held steady in May 2012 bringing in \$434.6 million – a slight increase over the \$433.1 collected in April 2012. In May 2011 income from the waterway amounted to \$436.6 million.

### **Stock Market Indicators:**

Egyptian shares spiked 13 percent after the Morsy won the presidential elections on Sunday 24<sup>th</sup> June. The benchmark index had risen by 6.8 percent, closing at 4,482.48. By June 28, the EGX 30 was up 13.01 percent to 47.08. This reversed a steep decline that began in mid-May and accelerated further after June 14, when parliament was dissolved by the Supreme Constitutional Court.

Item	June 2011	May 2012	June 2012	Change (points)	
				Monthly	Annual
EGX 30 Index	5373.00	4686.42	4708.59	22.17	-664.41
EGX 70 Index	629.63	408.62	422.03	13.41	-207.6
EGX 100 Index	972.87	732.32	729.54	-2.78	-243.33

## **Bilateral developments:-**

### **Trade:**

The Indo-Egyptian total trade during the nine months of Egyptian FY (July 2011-Mar. 2012) increased by 41.56% reaching US\$ 3090.86 million against US\$ 2183.49 million in the corresponding nine months (July 2010-Mar. 2011). During the period (July 2011-March 2012) Indian Exports to Egypt increased by 36.19% reaching US\$ 1476.84 million against US\$ 1084.44 million in the corresponding nine months. India's imports from Egypt increased by 46.86% during the same period reaching US\$ 1614.02 million against US\$ 1099.05 million in the corresponding nine months. This due to increased imports of Petroleum Crude from Egypt during July 2011-March 2012 reaching US\$ 1307.03 million against US\$ 804.05 million in the corresponding nine months July 2010-March 2011.

The top items exported to Egypt during the period were Frozen Meat (US\$ 187.15 m), Cotton yarn (US\$ 127.80 m), Milled Rice (US\$ 81.88 m), Motorcycles (US\$ 73.89 m) Synthetic Filament Yarn (US\$ 63.98m), mobile phones (US\$ 44.23 m), Light oils and preparations "Solar" (US\$ 33.35 m), Telephone sets with cordless handsets (US\$ 23.06 m), Sesame Seeds (US\$ 22.42 m) and Polyethylene Terephthalate (US\$ 13.73 m). The major items of import from Egypt continued to be Petroleum Crude (US\$ 1307.03 m), Liquefied natural gas (US\$ 94.65 m), Rock Phosphate (US\$ 48.53 m), Partially refined oil, including initially distilled oils (US\$ 27.39 m), Cotton, not carded or combed (US\$ 22.33 m), Lucerne (alfalfa) seeds (US\$ 10.51 m), Anhydrous ammonia (US\$ 7.92 m), Articles of Asphalt (US\$ 6.85 m), Paraffin Wax (US\$ 6.68 m) and Mixed Alkyl benzenes (US\$ 5.83 m).

**Bio-gas project:** SKG Sangha, a leading Indian Non-governmental organization (NGO) has recently signed an MOU in the field of renewable energy in partnership with UNDP and the Egyptian Ministry of State for Environmental Affairs for setting up 100 biogas plants in Asuit and Fayoum governorates of Egypt. SKG Sangha operates in the field of bio-gas, Vermicomposting, eco-stoves, rain water harvesting and solar power and has implemented several projects in India and other countries.

### **Trade enquiries:**

During the month of June 2012, a total of **53** trade enquiries have been received, out of which **27** enquiries from India and **26** from Egypt.

### **Trade disputes:**

There were a total of **4** trade disputes, **2** of which were received from Egypt, and **2** were received from India.

### **ITEC Training:**

There was one Egyptian candidate who travelled for India for ITEC training Programme in APTECH, New Delhi.

## **Market watch:-**

**Economic growth to drop below 2% in 2012:** Farouk el-Okdah, Governor of the Egypt's Central Bank, predicts a slowing of economic growth to under 2% in 2012 from 2.5% in 2011. Political instability and unrest have driven investment out of Egypt, and trade is down. The central bank's estimates are broadly in line with those of the IMF, which projects a GDP growth of 1.5 percent in 2012 following 1.8 percent growth in 2011.

**Saudi Arabia aid:** Saudi Arabia has approved the release of \$430 million in new aid to Egypt, following a separate transfer of \$1.5 billion last month. The majority of the funds will be made available for three development projects: \$60 million to supply Nasr City with drinking water, \$80 million to renew and replace irrigation pumps, and \$90 million to build seed storage silos. The balance, \$200 million, is earmarked for a revolving credit fund to aid small and medium enterprises.

**IMF Loan to Egypt:** The International Monetary Fund has said it is waiting for political consensus on an economic program before it proceeds with talks for a \$3.2 billion loan. Once a new government is formed, Egypt may see a breakthrough in its talks with the Fund. The International Monetary Fund (IMF) has said Egypt faces significant immediate economic challenges, especially the need to restart growth and address the fiscal and external imbalances.

**USD250 mn Butane Gas from Saudi Arabia:** Saudi Arabia will supply Egypt with USD250 million worth of butane gas. Egypt imports more than 50% of its butane, mainly from Libya and Saudi Arabia. It is bottled locally then sold at subsidized cost to households, hotels and restaurants.

**CBE extends cash-cover exemption for Sugar, Beef and Poultry:** The Central Bank of Egypt (CBE) has decided to extend the cash-cover exemption on LCs issued for imports of sugar, beef and chicken once again until end-2012. According to a statement issued by the CBE, banks have the liberty to set their cash cover requirement on their own. The initial decision to reduce the 50% cash cover took place in September 2010 and it has been extended twice since then. The aim of the cash cover exemption is to increase the local supply of staple products (strategic goods), decrease prices and tackle inflation.

**EGYPT Parliament drafts Islamic Banking Regulations:** Egypt's Parliament is drafting amendments to the Central Bank Law including the creation of an interbank market for Islamic banks. The regulation aims to increase Islamic banks' market share in the country's banking system. The law under discussion also stipulates raising banks' minimum capital to EGP2 billion from EGP500 million and limiting the governor to two four-year terms in office.

**Subsidy boost for petroleum budget:** Finance Minister Momtaz El-Saied has granted \$100 million to the General Petroleum Corp, (GPC), the government body responsible for paying subsidies to oil producers and importers, according to a press release from

the Ministry. The extra cash will be used to acquire imported petroleum products. The GPC would have received a total of \$3.7 billion to pay for imported oil products as the fiscal year draws to a close.

**Domestic products still get priority: According to** Minister of Social Solidarity Gouda Abdel Khalik the “Support Domestic Products” initiative initiated at the public will continue until the end of 2012. The initiative gives domestic products priority over imported products when it comes to government purchases. Five ministries will take part in the extended initiative, including the Ministries of Tourism, Commodity Supply, and Trade and Industry, in addition to the Federation of the Chambers of Commerce, the Egyptian Federation of Investor Associations and the Consumer Protection Agency.

**JICA’s US \$ 2 billion loan to Egypt:** The Japan International Cooperation Agency (JICA) has announced its intention to provide Egypt with soft loans worth USD2 billion over 5 years, or US \$ 400 million annually, increasing its stake in the funding for the construction of the new Grand Egyptian Museum in Giza. In addition, JICA is willing to provide Egypt with a US\$ 10 million grant to establish a restoration and maintenance center for Egyptian monuments.

**FITCH downgrades state-owned National Bank of Egypt:** Fitch Ratings has downgraded Egypt's state owned bank, National Bank of Egypt (NBE), its wholly-owned subsidiary, NBE UK, and the Commercial International Bank's (CIB) long-term foreign currency Issuer Default Rating (IDR) to 'B+' from 'BB-' while keeping outlook negative. The downgrade is reflection of rating actions taken on Egypt's long-term foreign currency IDR, long-term local currency and country ceiling, whereby all three were downgraded from 'BB/Negative' to 'B+/Negative' on June 15 2012. The sovereign downgrade and the negative outlook, in Fitch's view, reflect the increased uncertainties surrounding the political transition following the Supreme Constitutional Court ruling to annul the parliamentary elections and dissolve the parliament.

**(NLP Choudary)  
Commercial Attache**

**Distribution: As per standard list**