PRIME

A New Game Plan

The political will to transform Egypt's economic fabric

Amr Hussein Elalfy
MBA, CFA
Head of Research
T +202 3300 5724
aelalfy@egy.primegroup.org

Omar Roushdy*

Last Sunday, led by Prime Minister Dr. Moustafa Madbouly, the Egyptian government held a media conference to articulate its commitment to weather the current global economic storm. The conference was set out to present to the public in general and investors in specific (both foreign and domestic), how the nation plans to deal with the current global crisis, be it soaring energy and commodity prices, a stronger USD, or the Russia-Ukraine conflict. This 2-hour-long event underscored the need for a new game plan, identifying performance targets and the means through which the government will achieve them. In this note, we highlight the five key takeaways from the conference, in our view.

1) **Lowering Egypt's import bill:** Import substitution is a major part of this new game plan. The Egyptian government aims to support industries that compete with imported goods, thus reducing its import bill by USD20bn. This will cause a cascade effect on the economy, namely:

   - **Imported inflation is likely to rise in the short term,** which may cause a downtick in the standard of living until new factories gain economies of scale.
   - **GDP will almost certainly grow higher** as more is produced and income is added with unemployment falling.
   - **A better current account deficit (CAD),** as the Egyptian government plans to increase its exporting power, replacing certain imports and encouraging industries within strong global markets where Egypt has a comparative advantage in, such as textiles.

2) **Reviving EGX activity:** The showstopper of the conference was the announcement of the sale of stakes in 12 state-owned enterprises (SOEs), including but not limited to a roll-up of Egypt's seven largest ports and another for seven high-preforming hotels. This will bring much needed liquidity and momentum into the Egyptian Exchange (EGX). We note that both roll-ups mainly operate in the export sector, earning hard currencies. Thus, we think this natural hedge against a weaker EGP may make foreign investors more willing to buy their stocks. If enough enthusiasm is generated in the market, more companies may consider launching their own IPOs, provided there is enough liquidity in the market.

3) **Inflation-reduction measures to ease hardship:** The Egyptian government had increased the tax exemption limit by EGP6,000 or 25% to EGP30,000. This amount may seem minuscule at first, but the number of people affected the most by this have a very high marginal propensity to consume. The government may seem as losing a sizable tax base for less gains, but such a loss would be offset by the resulting higher consumer spending and its expansionary nature (i.e. a higher GDP). The government also promised further subsidies to help control inflation, stating for example that they subsidize 63% of fertilizers costs to help maintain inflation from a fiscal standpoint.

* An intern in the macroeconomics team.

4) **New energy investments to boost economic growth:** For the past couple of years, there has been much talk about new green industries, such as green ammonia and green hydrogen. However, details were usually too sparse to find. Now, we learn that 10 MoUs have been signed, promising a combined total of USD40bn worth of investments into this emerging sector. There are also good reasons to believe that this is more than just talk. We currently see what is happening in the world at large with natural gas prices, more particularly in Europe. Many European countries wish to find sustainable consistent alternatives to fossil fuels. Given its great location, proximity, and distributional capacity compounded with the already wide use of renewable energy (e.g. Benban Solar Park), Egypt is placed in a prized position to become a true energy hub with a global reach. This news should not be interpreted only in a vacuum but as a signal that MoUs previously signed (e.g. EuroAfrica Interconnector subsea power cable between Egypt, Greece, and Cyprus) are now more likely to commence as Europe averts Russian energy.

5) **A more investor-friendly environment:** The government has asserted that many of the old red tapes and bureaucratic barriers will be removed, even going as far as issuing special "Golden License" for projects that are deemed of high national importance. Moreover, new incentives such as 3-5 year tax exemptions have been added for new companies that operate in strategic sectors. Also, a conflict resolution center will be created, where investors and companies can directly talk to the government about any obstacles that their businesses may be encountering. The government is also trying to encourage foreign investment in modern technology sectors, such as data center processing and electric vehicles, both of which Egypt has started tapping with Telecom Egypt [**ETEL**] and **MCV** operating in the aforementioned fields, respectively. More recently, **Stellantis** (a car manufacturer resulting from a merger between **Fiat Chrysler Automobiles** and French **PSA Group**) will be producing electric vehicles in Egypt. This echoes a previous meeting with **Microsoft** back in April concerning data centers. Last but not least, the government wishes to improve and entrench the idea of copyrights and intellectual property rights going forward to assure investors that their works will be protected by law.

Economic outlook – stable short term, positive long term: In sum, the outlook remains stable in the short term. The Egyptian government has tried its best to keep its pre-war real GDP on track. The latest economic outlook reports suggest that it has indeed achieved that with continued massive government expenditure at the expense of a bigger deficit. Maintaining real GDP growth will be paramount to the Egyptian government's goals, trying to bring back the economy to pre-pandemic levels. In order to accelerate this transformation, the government is now looking to avoid crowding out investments through privatization and decreasing its market share across all industries, save for strategic ones such as Suez Canal. This positive economic outlook should improve investor appetite and spur the government's desire for the fourth industrial revolution (4IR) to be implemented in Egypt.

PRIME

Prime Securities

Shawkat El Maraghy
Managing Director
T +202 3300 5622
SElmaraghy@egy.primegroup.org

Sales

Mohamed Ezzat
Head of Sales & Branches
T +202 3300 5784
MEzzat@egy.primegroup.org

Mohamed Ashmawy
Head of Institutional Sales
T +202 3300 5612
MAshmawy@egy.primegroup.org

Amr Alaa CFTe
Team Head –Institutional Desk
T +202 3300 5609
AAlaa@egy.primegroup.org

Mohamed El Metwaly
Manager
T +202 3300 5610
MElmetwaly@egy.primegroup.org

Emad El Safoury
Manager
T +202 3300 5624
EElsafoury@egy.primegroup.org

Shawkat Raslan
Heliopolis Branch Manager
T +202 3300 8130
SRaslan@egy.primegroup.org

Nashwa Abuelatta
Alexandria Branch Manager
T +202 3300 5173
NAbuelatta@egy.primegroup.org

Research

Amr Hussein Elalfy CFA
Head of Research
T +202 3300 5724
AElalfy@egy.primegroup.org

Head Office

Prime Securities S.A.E.
Regulated by FRA License No. 179.
Member of the Egyptian Exchange.

2 Wadi Elnil St., Liberty Tower, 7thFl.
Mohandessin, Giza, Egypt
T +202 3300 5700 / 770 / 650 / 649
F +202 3760 7543

Branches

Heliopolis
7 Elhegaz Square
Heliopolis, Cairo, Egypt
T +202 2777 0600
F +202 2777 0604

Alexandria
7 Albert Al Awal St.
Smouha, Alexandria, Egypt
T +202 3300 8170
F +202 3305 4622

Website

www.primeholdingco.com

Disclaimer

Information included in this report has no regard to specific investment objectives, financial situation, advices or particular needs of the report users whether they received them directly or through any research pool and other specialized websites. The report is published for information purposes only and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. Unless specifically stated otherwise, all price information is only considered as indicator. No express or implied representation or guarantee is provided with respect to completeness, accuracy or reliability of information included in this report. Past performance is not necessarily an indication of future results. Fluctuation of foreign currency rates of exchange may adversely affect the value, price, or income of any products mentioned in this report. Information included in this report should not be regarded by report users as a substitute for the exercise of their own due diligence and analysis based on own assessment and judgment criteria. Any opinions given are subject to change without notice and may significantly differ or be contrary to opinions expressed by other Prime business areas as a result of using different assumptions and criteria. Prime Group is under no obligation responsible to update or keep current the information contained herein. Prime Group, its directors, officers, employees or clients may have or have had interests or long or short positions in the securities and/or currencies referred to herein, and may at any time make purchases and/or sales in them as principal or agent. Prime Group, its related entities, directors, employees, and agents accept no liability whatsoever for any loss or damage of any kind arising from the use of all or part of these information included in this report whether it is received directly or through research pools and other specialized websites. Certain laws and regulations impose liabilities which cannot be disclaimed. This disclaimer shall, in no way, constitute a waiver or limitation of any rights a person may have under such laws and/or regulations. Furthermore, Prime Group or any of the group companies may have or have had a relationship with or may provide or have provided other services, within its objectives to the relevant companies.