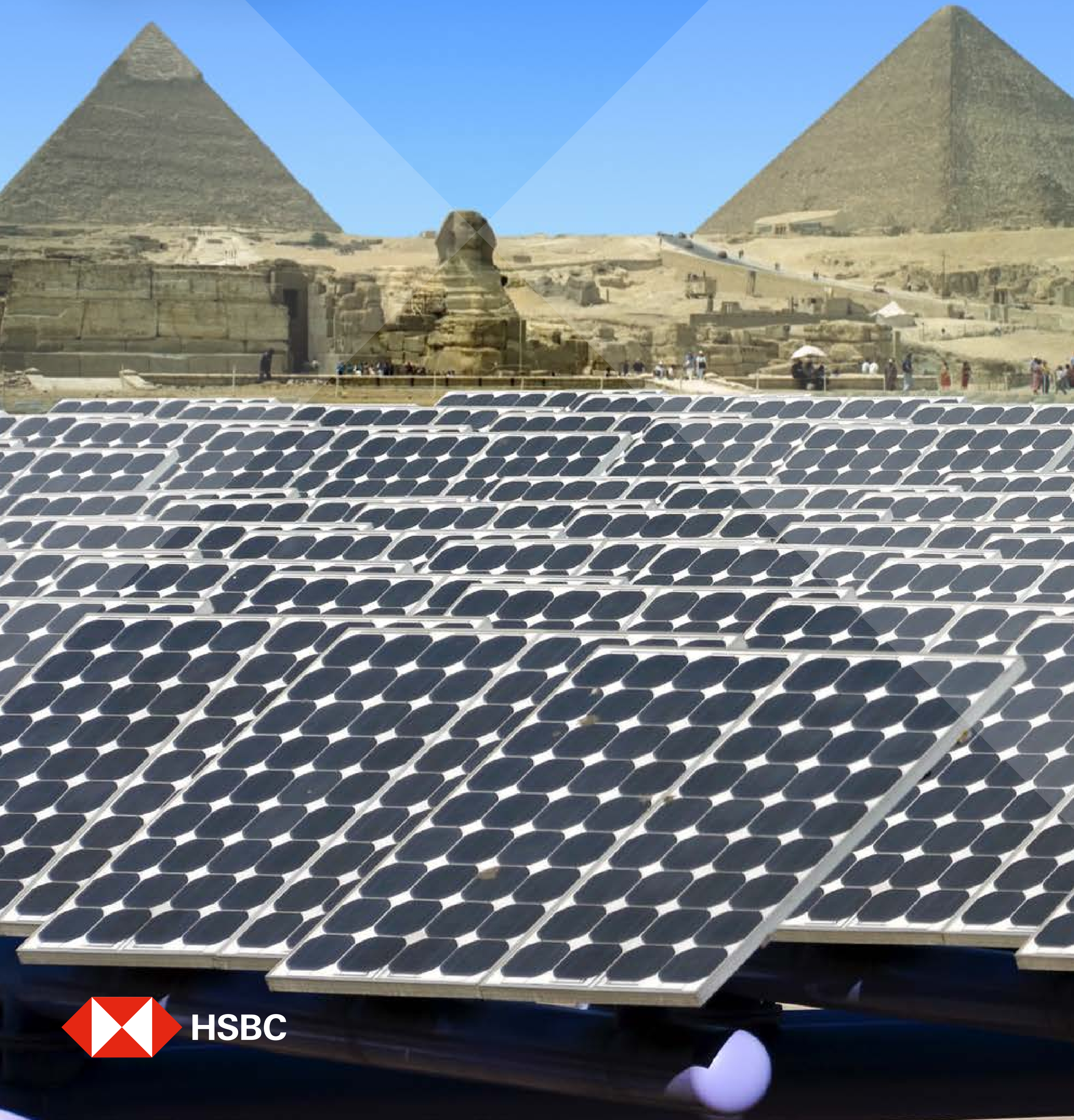
Navigator

Now, next and how for business

Egypt report



HSBC

Egypt

Currency devaluation and reform open new chapters for trade

The easing of FX shortage in the wake of the devaluation of the Egyptian pound has fuelled optimism among Egyptian businesses. Firms also expect the broad economic reform programme to aid the short- and long-term outlooks for trade. Middle Eastern countries, the US and UK will remain top trade partners but trade links with Asian economies will increasingly gain importance.

Short-Term Snapshot

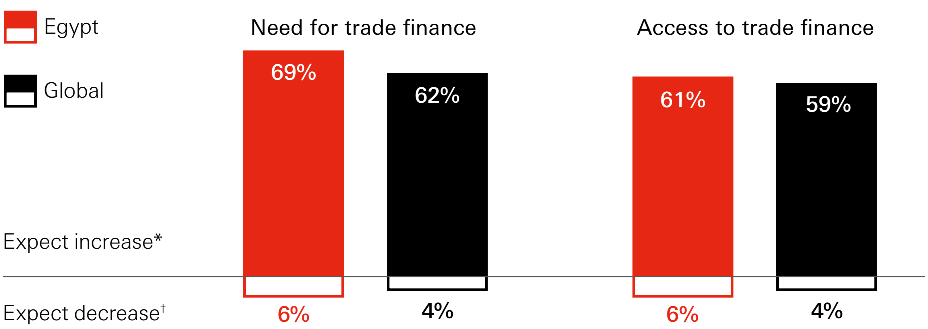
The key turning point Egypt's economy in recent years was the floating of the exchange rate in November 2016, which ended the acute FX shortage and helped restore confidence in the local economy. Over the past year, a weaker pound has facilitated a significant narrowing in Egypt's external trade gap, as export performance has improved substantially. Egypt is highly dependent on imports, so import demand has not been hit much. Tourism, which dominates Egypt's services trade, is showing tentative signs of a rebound, and we expect this to continue unless the political or security environment deteriorates. The passage of the licensing and investment laws (to streamline new projects and land regulations) - bodes well for FDI and infrastructure development. Both will be supportive of trade in the medium- to long-term.

Economic reform has complemented an improving global economic outlook, which has helped boost demand for Egypt's exports in recent quarters. In combination these two drivers have underpinned business confidence. Our survey data shows over three-quarters of respondents are upbeat about the trade picture in 2018.

Action points for business

- Egyptian business should help press the case for ongoing reform by raising awareness of the benefits of reforms already undertaken.
- Meanwhile, firms should ensure they are well-placed to understand and take advantage of opportunities opened up by recent reform measures, including better access to finance, and support for e-commerce.

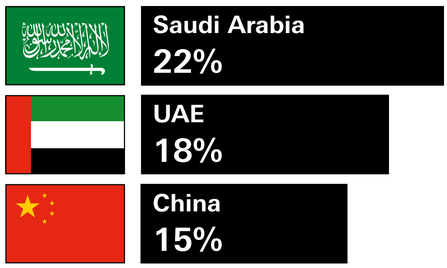
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
†Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

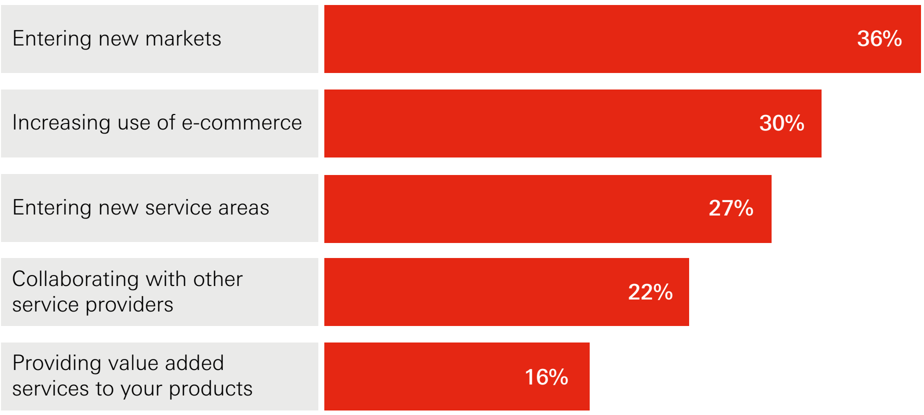
Stronger demand in key trading partners across the Middle East, specifically the larger GCC countries, Saudi Arabia and the UAE, supports business optimism about trade growth. Meanwhile, although consumer spending growth in China may cool in the coming couple of years, the increasing share of Chinese travelling overseas is being felt in Egyptian resorts.

Consistent with the expectations of improved trade volumes, almost 70% of Egyptian companies (above the global average of 62%), expect to increase their demand for trade financing in the coming twelve months. Moreover, 61% of respondents expect accessing finance to become easier in the year ahead after the central bank removed the last currency controls in November 2017. This has alleviated the risk that foreign firms would not be able to repatriate profits. That said, some barriers to trade finance do persist. Although the currency has been stable for almost a year, the potential for volatility is sometimes flagged as a concern, given the move to a floating currency. While availability of US dollar finance has improved, high transaction costs remain a cause for concern for firms.

> The floating of the currency aids both short- and long-term trade prospects for Egypt.

Almost two-thirds (62%) of Egyptian businesses expect higher volumes of trade in services over the coming year, with tourism and transport services to remain key sectoral strengths. The two sectors accounted for some 80% of total services exports respectively in 2016. Tourism arrivals have picked up, supported by improved social and political stability. Arrivals rose over 54% in the first 10 months of 2017 compared to a year earlier, though they remain down on 2015 levels. Security remains the biggest risk to further recovery in the sector, Meanwhile, Suez Canal shipping volumes and revenues will gain from rising global commerce. Finally, the National E-commerce Strategy, launched in March 2017 should in the medium-term help leverage the digital economy to broaden internet provision and help firms boost global awareness of their offering.

How do you plan to grow your services business?



Source: TNS Kantar

Trade Policy Developments

Egypt may have not signed any major new trade agreements over the past year, but it continues to exploit existing bilateral ties, even as political barriers to trade liberalisation have increased around the globe.

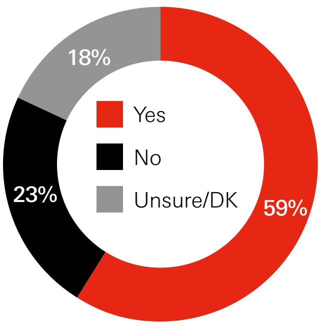
The UK, already the largest investor in Egypt, is amongst the countries with whom Egypt is seeking deeper ties. Survey data suggest the majority of Egyptian businesses fear no negative fallout from the Brexit vote (62%) - the large UK trade delegation to the country in early 2018 has likely reinforced this sentiment.

Trade links with the EU remain of critical importance, and Egyptian business activity should benefit from further strengthening of bilateral ties. In that regard, the ongoing talks regarding the Deep and Comprehensive Free-Trade Agreement (DCFTA) between the EU and Egypt, should foster business opportunities, including through joint ventures.

Action points for business

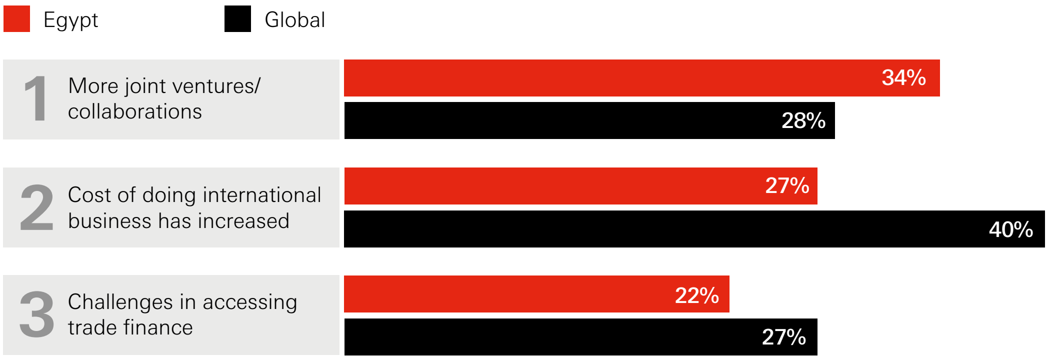
- Firms should engage with their UK partners to understand potential spill-overs under different Brexit scenarios.
- Egyptian firms should push for clarity on the future of US trade policy in the region and vis-à-vis the country in particular.

Are governments becoming more protective of their domestic business?



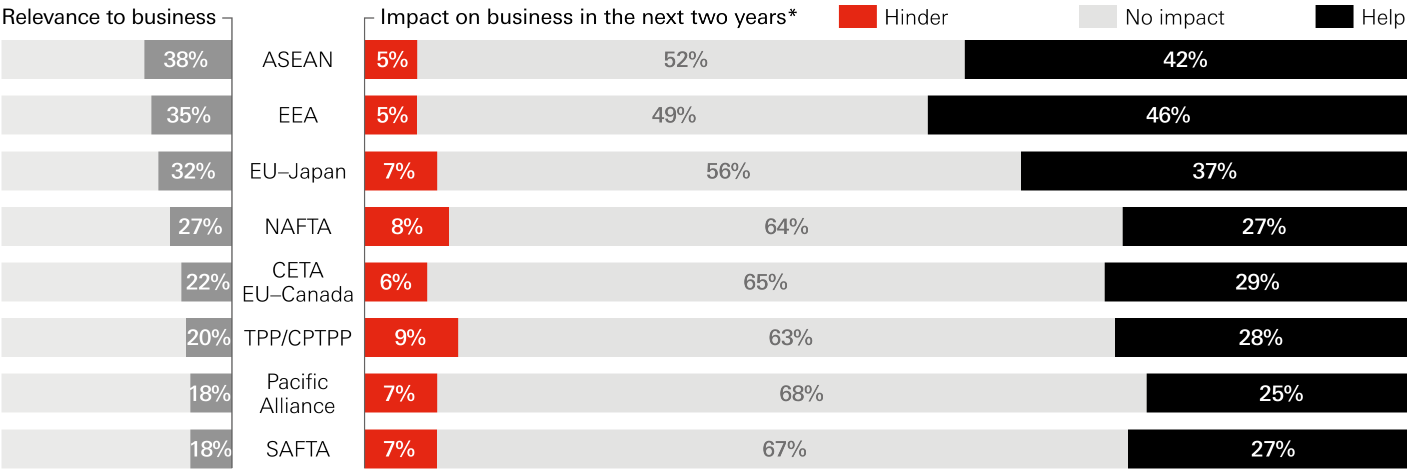
Note: may not total 100% due to rounding
Source: TNS Kantar

Top 3 impacts of protective policies on my business



Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

Likewise, 45% and 34% of businesses, respectively, believe China's Belt and Road Initiative and ASEAN 2025 will positively affect trade growth. Egypt has already benefitted from the Chinese engagement, attracting over $13 billion in project finance, the most in the Middle East, since 2014. Most of this financing has been invested in the energy and transport sectors, and the government is seeking to deepen cooperation further with China.

Finally, the US has signalled its willingness to strengthen cooperation with Africa. While nothing has been announced, Egypt could benefit from any liberalisation of trade between the US and Africa.

Long-Term Outlook for Trade

The string of reforms Egypt has delivered since 2016 has been difficult for the domestic population but it has gained praise internationally and lifted long-term prospects for trade.

The initial shock of a sharp rise in inflation is slowly dissipating. The weaker currency has made exports more competitive. Meanwhile foreign currency inflows have replenished reserves, ending the liquidity crunch.

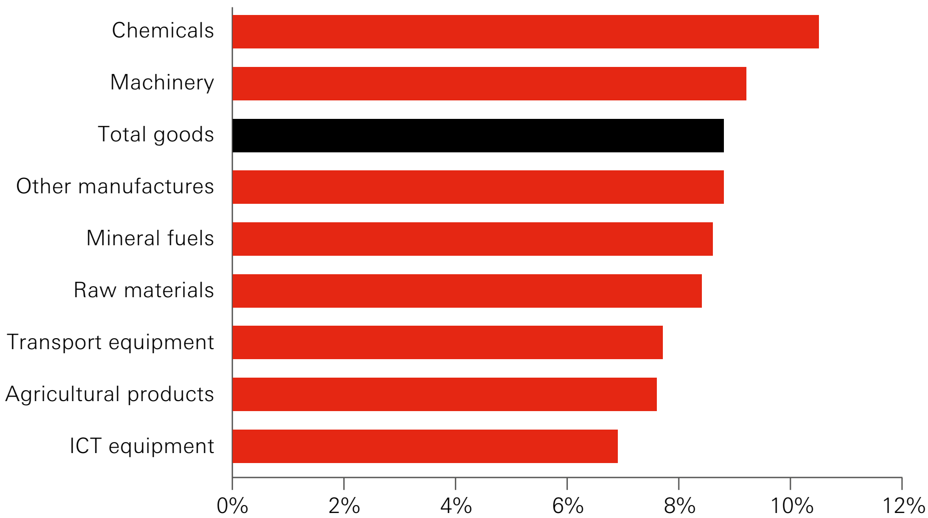
Overall the economic reform agenda has led to renewed interest in Egypt. The energy sector, which is at the forefront of government's growth strategy, is attracting much attention, including in the renewable space. Egyptian firms have spearheaded efforts to attract flows from the Belt and Road initiative in various fields, including transport and energy and the partnership should also offer room for Egyptian companies for foreign expansion.

Primary goods exports, mainly petroleum and agricultural products will continue to be the primary sources of export revenues and growth, but in the latter trade will shift toward higher-value products. Still, the role of high value exports, such as ICT equipment will play a marginal role. Transport and tourism will continue to constitute the bulk of services trade, but the business services will be the fastest growing category, benefitting from 'nearshoring'.

Petroleum products will lead export growth
The increase in gas production from the offshore Zohr gas field, which began operating in 2017, and other projects like Atoll and West Nile Delta, will raise the importance of fuels in export revenues and growth. Together with agricultural and chemical goods, which feature prominently in the current export structure, these industries will contribute about 45% to expected export growth in 2017-20.

The agricultural sector is not one of the national champions under the government's growth strategy, but as one of Egypt's key employers it will gain in importance over time. Given productivity limitations, a move to higher value- added crops, like fruits and vegetables offers promise to accelerate growth. Our forecast is for agriculture to become the second largest driver of export growth, and contribute 15% of the overall rise in exports, through the 2021-30 period.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- Competitiveness gains should encourage a greater proportion of Egyptian firms to focus on foreign markets.
- Egyptian firms should push to become even more embedded in Asian trade growth initiatives such as Belt and Road.
- Tourism companies should call for marketing campaigns to promote visibility in the less tapped Asian markets.

> Petroleum products will remain the key source of export growth.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	UAE	UAE
2	USA	USA
3	UK	Turkey
4	Saudi Arabia	India
5	Turkey	UK

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Neighbouring Arab countries currently account for 31% of total Egyptian export revenues, and we expect the region to remain a key market for Egypt looking forward. Saudi Arabia and the UAE, the GCC's two largest economies, are among the top five destinations. The UAE alone will contribute almost ten percent of the forecast expansion in total merchandise exports between 2017 and 2030.

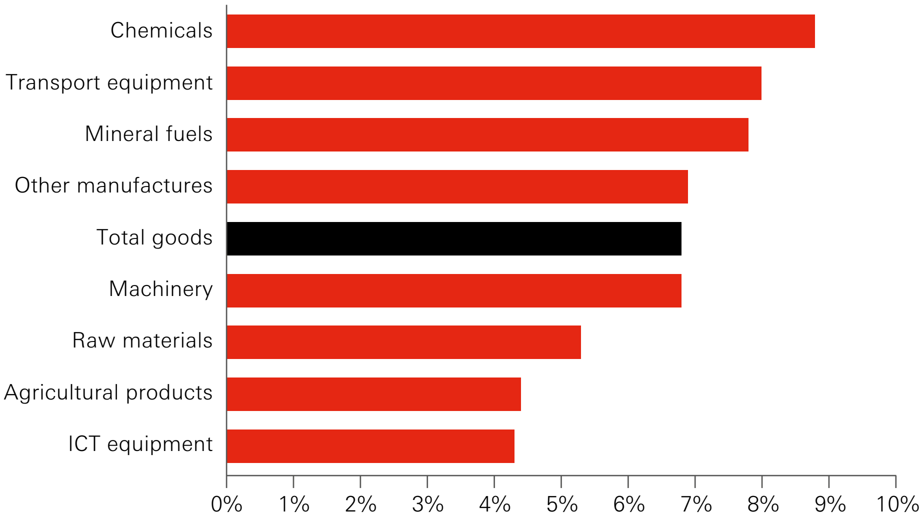
As growth rates between developed and emerging markets continue to diverge, the trade structure will shift even more in favour of the Middle East, whose share in Egypt's total exports should rise to 34%. Other high growth emerging economies such as India, Turkey and Mexico will contribute almost a third of export growth between 2021-2030, with India taking the top spot (12%). Meanwhile Europe, which currently accounts for about 36% of Egyptian export revenues, will fall to near 31%. The US will remain among the top export destinations and top sources of export growth, even as its contribution to expansion slows from an average of 17% in the near-term to 7% in the next decade. A broader free-trade agreement offers further upside potential.

Asia to drive bulk of import growth

Egypt's merchandise imports will grow by around 10% annually between now and 2030. The country's relatively small industrial capital stock will mean that industrial machinery will be a key category for imports, contributing 20% of total import volume growth in 2021-30. Meanwhile a rapidly-growing population and little domestic car production will mean transport equipment is a key sector for imports, contributing 10% of total. Finally, we forecast industrial chemicals to contribute just shy of another fifth of total – again in support of Egypt's developing industrial sectors.

Asia will account for almost half of the forecast expansion in Egypt's import volumes between 2021-2030.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	China	China
2	Germany	Saudi Arabia
3	USA	Germany
4	UAE	USA
5	France	India

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Egypt's import sources, currently heavily weighted towards Europe and the Middle East, will become much more diverse over the coming decade with Asia and North America becoming more important. China will remain Egypt's largest partner in terms of imports overall. Together with Vietnam, India and Malaysia, the four destinations will contribute 40% of expansion in import volumes through 2030. This will lift Asia's share to over 27%, from 16% in 2017. Imports from Saudi Arabia will grow at a slower pace (just under 8% per annum from 2021-2030), but nevertheless Saudi will be one of Egypt's top-five import suppliers, just after Germany and the US. Despite strong trade links with the US, North America's share in total imports will decline to 6% in 2030, from 8% now.

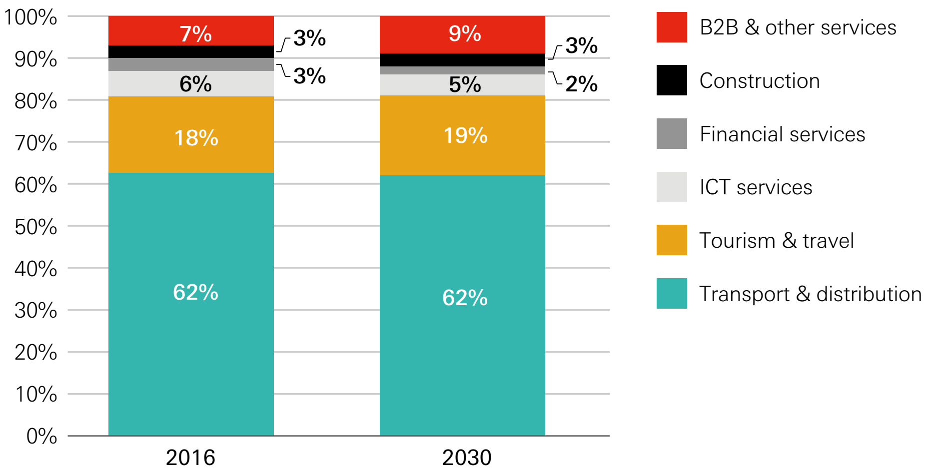
High-growth Asia to boost services exports
Tourism is by far the most important sector for Mexican service exports. A total Trade in services will remain predominantly driven by transport and tourism, which together will continue to account for about 80-85% of total services exports. Both industries are well positioned to benefit from stronger global growth.

Asian markets will grow in importance for Egypt's tourism industry.

Egypt's tourism industry is slowly recovering. Russia is gradually resuming flights to Egypt, the UK (both key markets) might also consider lifting its own (partial) flight ban in the coming months subject to security developments. Egypt is keen to capitalise on the rise in interest from the Asian markets, particularly China. The growing middle class in Asia will also boost tourism revenues, complementing a recovery in tourism arrivals from the traditional source markets, such as Europe. The 6X6 Tourism Impact Plan, launched in 2016, reinforces commitment to upgrade infrastructure through domestic (EgyptAir) and international partnerships to reach to new market segments, including eco-friendly travellers.

Meanwhile Suez Canal revenues will be buoyed by sustained strength in global merchandise trade. The already-completed expansion of the canal will permit a doubling of shipping income, reaching $5 billion by 2023, with further contribution from the development of the Suez Canal Special Economic Zone.

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	Saudi Arabia	Saudi Arabia
2	USA	Turkey
3	Vietnam	India
4	UAE	UAE
5	UK	Vietnam

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

Our forecast is for the value of services exports to grow by an average of 11% annually in the near-term and just under 8% a year on average in 2021-30. Saudi Arabia will continue to be a major market, while Turkey as well as Asian economies of India and Vietnam will emerge as significant export destinations by 2030.

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

For media enquires please contact:
Natasha Plowman
HSBC Global Communications
Natasha.Plowman@hsbc.com

Or go to www.business.hsbc.com/trade-navigator

Photo Credits
Page 1: egdigital, iStockphoto.com
Page 3: Dina Mansour Khalifa, HSBC, #HSBCphotographer

Issued by HSBC Bank plc
8 Canada Square
London E14 5HQ
United Kingdom

www.hsbc.com

HSBC