3
Egypt : A slow and fragile recovery

5
Cautions sectorial recovery

7
Conclusion

November 2015

PANORAMA

EGYPT: SLOW RECOVERY, STRUCTURAL CHALLENGES

COFACE ECONOMIC PUBLICATIONS

By Coface Economist for Middle East and North Africa

With the new Suez Canal, confidence seems to be returning to Egypt, marking the beginning of a new era for the country. In effect, Egypt's economy is trying to get back on track following the effects of six different governments since 2011. Authorities recently announced that the real growth rate stood at 4.1% in 2014/2015, compared to 2.2 % in 2013/2014 (the fiscal year running from July to June). Coface estimates that growth will increase to 4.4% for 2015/2016. The government's commitment to structural reforms aims to boost Egypt's potential growth rate to approach 6% in the upcoming period, within a context of improved business confidence, higher investments and greater productivity. Improved economic performance and political stability have renewed Egypt's attraction for investors. The government secured investments totaling 36 billion USD and external financing worth 24 billion USD, during an economic development conference held in March 2015.

The first section of this panorama will explore the nature of the macroeconomic improvements and what the country can expect over the following years. The recovery in the manufacturing sector, relative political stability and the authorities' willingness to implement economic reforms are all driving the current economic growth. Since President Abdel Fattah al-Sisi took office last year, state finances have strengthened on the back of reforms, which have included cutting energy subsidies (helped by the context of lower oil prices) and the introduction of new taxes. The government has forged international alliances to obtain aid and investments.

Nevertheless, the country still faces big challenges as will be seen in the second part of this panorama. Egypt's current account balance fell into deficit in 2015, as official transfers dropped and imports edged up. Financing needs therefore remain significant in the medium term and dependent on donations and FDI from Gulf countries. Fiscal reforms are a key issue, as public deficit and public debt remain high. The country's lack of competitiveness is another structural weakness in the economy. Finally, regional security issues still represent a source of risk for economic stability.

The final section focuses on Egypt's tourism and automotive sectors. International tourists are returning to Egypt as the political scene stabilizes. The government's efforts to attract more tourists have started to bear fruit. Egypt also possesses one of region's few automotive production bases, with some of the major global players present. The country's strategic geographic location, its growth potential, perspectives for new infrastructure investments and higher political stability are its main assets for attracting investments.

EGYPT: SLOW RECOVERY, STRUCTURAL CHALLENGES

"Public and private consumption, positive external support and higher political stability improve business confidence. Yet the growth momentum would remain subdued, given the high rate of unemployment and subsidy reforms aimed at reducing the budget deficit"

SELTEM İYİGÜN
Coface Economist for Middle East and North Africa

1 EGYPT: A SLOW AND FRAGILE RECOVERY

After being severly hit during the period of social unrest and violence linked to the revolution of 2011, Egypt's economy is getting back on track, thanks to improved political stability, economic reforms and foreign investments.

Egypt's economy back on track...

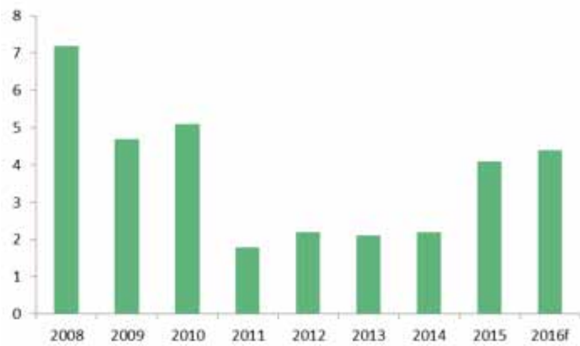
Political tensions have considerably eased since the revolution of 2011. As a result of the intense protests that began on January 25, 2011 against poverty, corruption, and political repression, former Egyptian President Hosni Mubarak, one of the region's longest serving leaders, was forced from power in February 2011. Following three years of unrest, President Abdel Fattah al-Sisi was sworn in on 8 June 2014. His election was seen as an opportunity for Egypt to redress its economy, which had long been impacted by bureaucratic inertia, corruption and structural vulnerabilities.

Improved political stability and the authorities' commitment to structural reforms are supporting economic performance

The Egyptian economy has shown positive developments over the past year. The authorities recently announced that the real growth rate stood at 4.1% in 2014/2015 (the fiscal year running from July to June), compared to 2.2% in 2013/2014, which in turn was slightly up from the average growth of 2% between 2011-2013. These latest results were driven by growth in the manufacturing sector, higher tourism revenues (after a decline following the unrests) and a favorable base effect. On the demand side, the main growth driver was private consumption. Sustained by wage increases and subsidies, domestic consumption accounted for 3.3 percentage points of the growth in 2013/2014. The positive contribution from investment expenditure compensated for the decline in net exports, while public consumption increased by 5.8% yoy in 2013/2014. Overall, public consumption and investments contributed, respectively, by 0.7 and 0.2 percentage points to growth, while net exports dragged it down by 2.5 percentage points.

According to its medium term plan, the government is aiming for a 6% growth rate by the end of the 2018/2019 fiscal year. Even if reforms are well underway, this target remains ambitious. The authorities recently announced that the real growth rate stood at 4.1% for the 2014/2015 fiscal year. Coface estimates that growth will accelerate to 4.4% for 2015/2016. Growth is expected to benefit mainly from the acceleration in fixed investments, on the back of improved political stability and the authorities' commitment to economic reforms. Although growth in public and private consumption should continue, the pace of growth would remain subdued, given the high rate of unemployment and subsidy reforms aimed at reducing the budget deficit.

Chart 1: Egypt's real growth rate (%)



Note: Each year corresponds to a fiscal year in Egypt (Eg. 2016 refers to the fiscal year running from July 2015 to June 2016)

Source: Coface

The government has taken a series of economic measures to attract private investment to the country and to counter the negative impacts of the political unrest (which included fiscal imbalances, low growth rates, increasing unemployment and capital outflows). The country held an Economic

Development Conference in March 2015, in Sharm el-Sheikh, where it secured total investment deals worth 36 billion USD and external financing of 24 billion USD, according to the World Bank. In addition, the Gulf States announced they would provide a combined 12.5 billion USD in aid to stimulate the Egyptian economy. In March 2015, the government finalized a deal worth 12 billion USD with oil company BP, in March 2015 to produce 3 billion barrels of oil. This is an important agreement given the country's rising energy consumption and decreasing production which, in recent years, transformed it from a net energy exporter to a net importer. This situation caused persistent blackouts, harming economic development. Beverage company Coca-Cola has also revealed its commitment to invest 500 million USD in Egypt within three years. Nevertheless, according to the authorities*, the country needs to attract foreign direct investments (FDI) of 60 billion USD in order to reach an average growth rate of 7% over the next four years. Total FDI flows, which fell as low as 0.9% of GDP in FY 2010/2011, rose to 1.4% for the 2013/2014 fiscal year.

This positive external support, coupled with economic reforms and a higher degree of political stability, are improving business confidence and supporting sustainable growth.

In the future, growth should be driven by more dynamic investment, helped by the return of foreign direct investment

Improved political stability and economic reforms are supporting growth performance...

Since al-Sisi won the May 2014 presidential election, the country seems to be following a more stable political path compared to previous years, driving expectations that the economic recovery will become more sustainable. As a final step towards democratic rule, as described in the political roadmap announced in 2013, Egypt held parliamentary elections on October 18-19, 2015. These elections were longawaited, as the country had been without a parliament since June 2012. A second round of voting in the two phase election will take place on November 22-23, 2015. A possible outcome could be a coalition that supports President al-Sisi, as the political landscape is fractured.

The government is paying particular attention to economic reforms, as the country needs foreign investment in order to restore the fundamentals for economic development. As part of its fiscal reforms, the government decided to cut energy subsidies as a first move towards eliminating them almost entirely in the medium term. This is in line with the official target of reducing fiscal deficit to 8-9% of GDP by the 2018/2019 fiscal year, down from close to 13% for the 2013/2014 fiscal year. The authorities are also aiming to reduce government debt to the range of 80-85% of GDP (from the current figure of close to 91%). As concerns the revenue aspect of the budget for the 2014/2015 fiscal year, the government introduced amendments to the tax code to widen the coverage of the tax system. This also included a measure to unify the highest income tax rate of 22.5%, which will now also apply to the special economic zones that were previously subject to 10% tax rate. Moreover, the government also plans to introduce a value added tax regime, in order to boost revenues and reduce the informal sector's share of the economy. In addition, the electricity sector has been liberalized, the food subsidy system has been improved and a number of laws have been introduced to improve the domestic business environment. Furthermore, on March 4, Egypt's cabinet approved a long-awaited investment law draft to remove obstacles to foreign investments. The new law guarantees investors' protection from nationalization and specifies a unified mechanism for settling investment disputes. The law also sets out new punitive frameworks concerning companies and employees. In the past, senior managers in large companies could be prosecuted for legal violations committed by staff members.

Fiscal position beginning to strengthen...

The economic recovery and political stability are contributing to the redress of fiscal imbalances. The level of gross external government debt to GDP ratio is already low (10.4% as of June 2014). Coface expects Egypt's budget deficit to edge down to 11% in 2015, from 13.6% in 2014. Revenues are set to increase, due to the tax reforms mentioned above. Subsidy reforms and lower oil prices will continue to be the main contributors to reducing fiscal deficit. Data from Egypt's Central Bureau of Statistics shows that subsidy payments have fallen from 67.1 billion EPG in the fourth quarter of 2013, to 54.4 billion EPG in the last quarter of 2014. Nevertheless, the government's efforts to modernize the country's infrastructure may slow the reduction in expenditure, due to increased public investment spending. The cost of the Suez Canal expansion project (which illustrates the government's ambitions to build an international logistic and industrial hub to attract foreign investments), is estimated to reach 15 billion USD. The government has raised nearly 8 billion USD of fcvunding for the project from Egyptian citizens, by issuing five year investment certificates. The government has also announced plans to build a new administrative capital, east of Cairo, at a cost of 45 billion USD that will take up to seven years to complete.

Nevertheless, sustainable growth will depend on continued progress on economic reforms and greater political stability. Despite all the improvements cited above, structural weaknesses are still present in Egypt's economy and continuing to weigh on private sector growth.

Tough challenges remain - including vulnerable external accounts, low competitiveness and security risks...

Real challenges lie ahead

Economic recovery remains fragile, as some factors may continue to weigh on private sector growth in the medium term: Egypt is still suffering from a high budget deficit, wide external gap, poor infrastructure, microeconomic distortions and low competitiveness. Despite the strengthening of Egypt's fiscal situation, the budget deficit remains well above 10% of GDP. As most of the deficit is domestically financed, this is contributing to upward pressure on inflation and a high level of government debt. Further reduction of the fiscal deficit would require a continuation of energy subsidies, which would in turn trigger inflation. Headline inflation accelerated to 9% in September, up from 8% in August. The continued upward pressures on inflation are mainly due to the country's growth recovery, the increase in fuel prices following subsidy reforms and the weaker Egyptian pound. The possibility that Egypt's central bank will allow the pound to depreciate over the coming period would boost imported pressure on inflation.

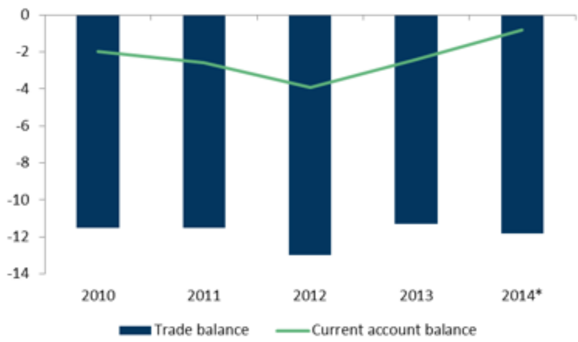
Egypt's low competitiveness is one of the structural weaknesses in its economy. The country ranked 119th out of 144 countries in the Global Competitiveness Index of the World Economic Forum - behind Ethiopia and Cameroon. Competitors Chile, Turkey and Mexico were ranked, respectively, at 33rd, 45th and 61st position. Egypt's lack of competitiveness is mainly due to its fragile security situation and risks of political instability. The country also suffers from bloated state bureaucracy, with over 6 million civil servants. The process of setting up a company can take up to five years for foreign investors, as they need to secure permits from 78 government agencies. This is the main reason why some analysts have criticized the new investment law, commenting that one law will not be sufficient to attract investments and boost growth, adding that the bigger obstacle is institutional. The country's dispute resolution process is still slow and the legal articles concerning bankruptcy need to be updated. The lack of competitiveness is also related to the foreign exchange system. During the period of intense unrests, foreign exchange inflows declined, in line with tourism and foreign investments into the country. This situation led to a foreign currency shortage, fueling the rise of the black market economy. To discourage the growth of the black market, the central bank widened the price band in which banks can trade dollars, early in 2015, after allowing the official pound exchange rate to steadily weaken. In July 2015, the bank allowed the pound to depreciate further. Over the last twelve months, the Egyptian pound has depreciated by 9.5% versus the US dollar, while the currencies of Turkey and Morocco (which are among the country's closest competitors) have lost by around 35% and 12%, respectively. This makes their goods and services cheaper compared to Egyptian ones. Allowing the pound to depreciate will not be an easy task, as Egypt has a very large import bill, mainly comprised of primary goods that it needs to import in order to run its economy. Moreover, a sharp depreciation of its currency could add to inflationary pressures.

Growth will remain highly dependent on the evolution of the security situation

The persistent deficit in Egypt's external balances represents another source of challenges. In the 2014/2015 fiscal year, the current account deficit jumped to 12.2 billion USD, from 2.7 billion USD the year before. The country's enlarged trade deficit was the main contributor to the growth in external deficit. Although Egypt's external accounts are expected to improve, its current account balance will remain in deficit for the next few years. Data shows that FDI inflows into Egypt last year rose from 4.1 billion USD to 6.4 billion USD, with an increase of 69.1% in net greenfield inflows. Nevertheless, if oil prices remain low, this may cause a fall in FDI, grants and remittances from Gulf countries. This would restrict the much needed investments to restore the country's infrastructures.

One of the highest risks that investors face in Egypt relates to security issues. Regional and domestic security risks are weighing on the business environment and the recovery of tourism sector, which accounts for roughly 20% of the country's foreign exchange earnings. Security issues and political uncertainties have caused a serious decline in capital inflows and tourism revenues. This pulled down foreign reserves from 7.6 months of imports in 2010, to as low as 2.4 months in 2014. The country's import costs amount to between 700 million USD and 1 billion USD per month. Without sufficient foreign capital inflows, the central bank's reserves may decrease again. The biggest contributor to growth performance is foreign investment. Implementation of economic reforms could facilitate a loan from the IMF, which would help to revive the economy. However, there are concerns about the momentum of reforms. There is a continued shortage of foreign exchange in the banking system and bank deposits remain capped at 50,000 USD per month, despite a recent improvement in the central bank's foreign reserve levels. This situation is negatively affecting capacity utilization in the private sector, which is hovering at between 20 to 40%, according to reports. Although the central bank has succeeded in drying up the foreign currency black market, it has limited the ability to finance companies' imports. The currency clampdown has hit small and medium sized manufacturers especially hard, as they do not have the dollars they need to import machinery and raw materials. This has led to a drop in output.

Chart 2: Egypt's trade and current account balances (% of GDP)



Source: Ministry of Finance

*Preliminary

Egypt macro indicators

	2014	2015f	2016f
GDP (%)	2.2%	4.1%	4.4%
Current acc. bal. (1)	0.8%	-3.3%	-4.2%
Budget balance (1)	13.6%	-11%	-9.9%
Government debt (1)	90.5%	91%	89%
CPI (end of period)	10.1%	11.2%	10.5%

(1) % of GDP, the current account balance excluding grants reached -5 % of GDP.
Sources: Official statistics, IMF, Coface

2 CAUTIOUS SECTORIAL RECOVERY

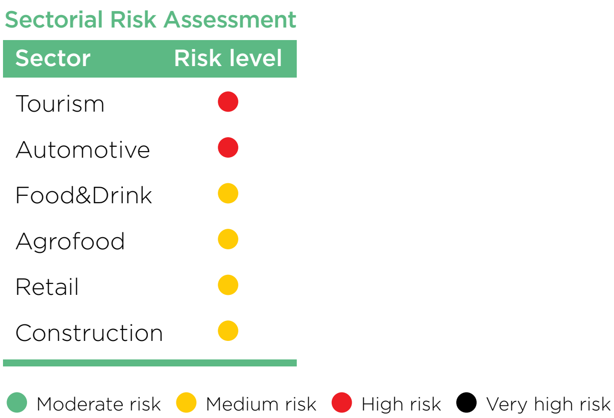
This section will focus on Egypt's tourism and automotive sectors. Travel and tourism's total contribution to GDP stood at around 13% in 2014, while tourism revenues account for nearly 20% of the country's foreign exchange earnings. This clearly illustrates how much this sector is vital for Egypt, as it provides the much needed foreign exchange to finance its economic recovery. Automotive sector is also an important component of Egypt's economy. The country's geographical location makes it an ideal hub between Europe and the Middle East. Better economic growth prospects in the country may bring new opportunities for the automotive sector. However, scarcity of dollars and uncertainties on industrial strategies may negatively impact the sector's performance.

Coface assesses the risks related to sectors based on indicators such as production, demand, corporate profits, exports, growth potential and Coface entities' payment experiences. The sector risk assessment is divided into four risk categories: moderate, medium, high and very high.

of total employment in 2015. As the sector represents an important source of foreign exchange for Egypt, the government is aiming to gain 20 billion USD from tourism by 2020, by attracting 20 million visitors.

Nevertheless, risks remain at high level for the tourism sector. The advance of violence in the region is worrying investors and visitors, and the continuing security problems may deter the inflow of tourism. Egypt saw a rise in terrorist attacks following the civil unrest of 2011. The situation has become more stable since former army chief al-Sisi toppled Islamist President Mohamed Mursi in 2013. Nevertheless, roads remain unsafe in some regions and any attack targeting tourists could be devastating for the sector. A rise in political uncertainty ahead of the parliamentary elections (the second phase of the elections to be held on Nov. 22-23) would also harm tourism. The economic slowdown and political issues in Russia (the largest source of tourist arrivals in Egypt), may impact the tourism sector during the upcoming period.

Chart 3: Coface Egypt sector risk assessment



Source: Coface

Chart 4: Egypt's international tourism receipts

Tourism in Egypt: moderate growth, high risks

Highlights

Tourism is a mainstay of Egypt's economic recovery. The country has been a popular destination for international travelers, as it is located at a geographical crossroads between Africa, Asia and Europe. Egypt offers a variety of tourism activities, with its beaches, cultural and historical attractions.

After suffering from the civil unrests and political uncertainties linked to the 2011 revolution, the tourism sector has made a slight recovery. The total contribution of travel and tourism to GDP stood at 12.8% in 2014 and is expected to remain stable in 2015, according to data from the World Travel & Tourism Council (WTTC). The travel and tourism sector directly generated 5.2% of total employment in 2014 (1.3 million jobs) and this figure is forecast to reach 5.4%

Supply

To restore confidence, Egypt will launch an international tourism campaign in November, as the country has been almost absent from the international tourism marketplace over the last three years. The ministry of tourism has previously launched some campaigns, such as in April 2014, when it targeted tourists from Saudi Arabia, the UAE and Kuwait. The number of tourists from these countries consequently jumped by 149.4% between July and December 2014, according to statements by the authorities in the media.

The number of hotels and accommodation establishments are expected to rise slightly above the 2012 level, to 1,140 in 2015, according to BMI. This is in line with the recovery in the number of visitors and restored business confidence. 5-star luxury hotel Ritz-Carlton (331 keys) and the St. Regis Cairo (292 keys) are set to open in late 2015. The total hotel room offer is expected to rise by 3.7% in 2015, according to BMI, following falls during three years in a row. The rising demand for renewed establishments is in line with the economic recovery and rising political stability. However the occupancy rate is still low, hovering at around 47%. This rate is below that of competitor destinations such as

Istanbul (67%), Jeddah (75%), Riyadh (67%) and Dubai (85%) as recorded for the second quarter 2015, according to data from JLL. The low occupancy rate is due to the subdued increase in tourist arrivals and the entry of new establishments into the market.

The still-fragile economic recovery and persistent security risks are factors that continue to make Egypt's tourism sector risky, compared to other more stable countries in the region.

Demand

The number of tourist arrivals in Egypt has increased on the back of improved political stability and the wide range of attractions offered by its historical sites and beach resorts. 9.9 million tourists visited the country in 2014. This is far below the figure of nearly 15 million visitors in 2010, just before the uprising. In the first half of 2015, the number of tourists visiting Egypt increased by 8.2% from a year earlier, to reach 4.8 million. The government expects to attract 10 million tourists during the course in 2015, with total tourism receipts of between 7.5 to 8 billion USD. The authorities anticipate a double-digit rise in the number of tourists for 2016, with revenues of between 9 to 10 billion USD.

Russia is the principal source of visitors to Egypt, accounting for 70.4% of the total number of tourists from Eastern Europe. The economic consequences of western sanctions, the fall in oil prices and the depreciation of the ruble, are important considerations for Russian tourists. These factors have made international trips less accessible but the low cost of purchasing in Egypt makes the country more affordable for Russian tourists. Visitors from Western Europe accounted for 31.6% of the total arrivals in Egypt, with British tourists making up 29% of this figure. The recovery of the European economy, although still fragile, should contribute positively to the development of Egypt's tourism. Egypt succeeded in attracting more tourists from the Gulf countries in 2014 compared to the previous year, thanks to solid government support and campaigns that targeted these countries. Saudi Arabian visitors accounted for 26.1% - the largest share of the total tourists from the Middle East.

The average length of stay for visitors is expected to increase from 9.8 nights in 2014 to 10.8 nights in 2015, before remaining flat during 2016, according to BMI.

Over the upcoming period, the likely depreciation of the pound will be a positive factor in attracting more tourists, as it will reduce the cost of travel and stays. The country's well-established hotel sector and strong transport infrastructures in touristic areas are also supporting more demand. In addition, the country benefits from a large educated workforce. Over 22,000 students with European language skills graduate from the country's universities each year.

Despite all of these improvements, the return of Egypt's tourism sector to its pre-turmoil levels will take time, as there are still security issues. Incidents such as the tragic shooting in September, when Egyptian troops mistakenly killed 12 tourists and wounded 10, may deter international arrivals to the country. Although Egypt's economic recovery and improved political stability make it more attractive compared with the previous period, any act of violence would counter this sentiment. The reliance on European tourists also makes the country vulnerable, as any economic shocks in Europe will reduce the number of inbound tourists. The parliamentary elections later in 2015 should bring the government a greater democratic mandate, which will lead to greater political stability an important factor for the tourism sector.

Automotive sector: a recovering market

Highlights

The automotive sector is also benefiting from a recovery since the Arab Spring period caused a drop in demand. Egypt's automotive industry dates back to the 1940's, when the Ford Motor Company started to manufacture cars in a factory in Alexandria. Egypt's large population, estimated at nearly 85 million people in 2015, makes the country attractive for car makers. Demand is expected to increase in line with the economic recovery. As the sector is highly dependent on imports, exchange rates have an important impact. Manufacturers import most of the parts and pieces necessary for production and around 52% of the vehicles sold in Egypt are imported. The likely depreciation of the Egypt pound may therefore impact car sales in the upcoming period. There are around 335 companies (car manufacturers, components and spare parts producers, component traders, dealers, maintenance services etc.) in the automotive sector. Most of these are SMEs, which employ around 50,000 workers in total. The sector's annual turnover for 2014 is estimated at 530 million USD.

North Africa has the potential to become a production hub for the automotive industry. The most important producers in the region are Morocco and Algeria. However Egypt is emerging as an alternative manufacturing hub, despite its smaller production capacity. The country has access to key markets in Europe, Middle East and Africa through trade agreements. This is an advantage for locally based manufacturers, as they are able to supply these markets. Moreover, Egypt benefits from a skilled and educated labor force, enabling it to meet the automotive industry's requirements for qualified workers.

Egypt is working to create a new industrial strategy which includes the automotive sector. In July 2015, car manufacturers and the Chamber of Engineering Industries met to agree on strategic goals for the automotive sector. The new strategy focuses on maintaining competition, a reduction of the custom tariff, adjustments to incentives and modification of the sales tax all with the aim of developing the automotive sector by boosting employment, investments and production capacity. The proposal also envisages providing incentives to consumers to replace their old cars, in order to encourage more demand. Car ownership is low in Egypt, compared to its peer countries. In 2014, the number of passenger cars per 1,000 of population in Egypt stood at 49.2 – compared to 84.9 in Algeria, 84.6 in Tunisia and 72.8 in Morocco. Egypt's rising per capita income is expected to have a positive impact on car ownership in the country. The strategic proposal was included in the draft unified automotive industry document in September 2015. If approved, it is expected to lead to increased investments in the sector.

Despite its strengths, Egypt's automotive sector faces challenges. The biggest of these challenges is related to the limited availability of dollars at banks. The decision of the central bank to limit monthly deposits to 50,000 USD poses problems to automotive producers, as it restrains business development. The automotive sector has one of the largest requirements for foreign currency, due to the increased volume of imports. Banks are becoming unable to meet their clients' foreign currency needs – such as for opening new letters of credit for importing cars from parent companies. This situation is threatening automotive production.

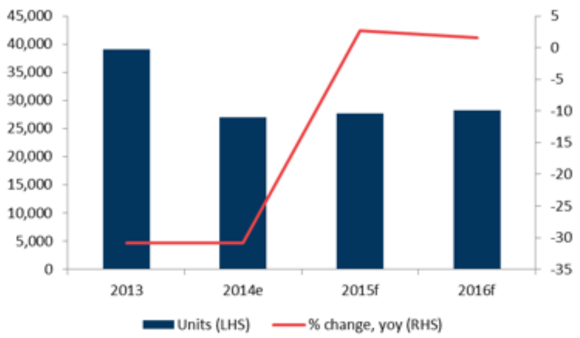
Supply

In 2014, Egypt's total vehicle production stood at 27,020 units - nearly 31% down from a year ago. According to BMI data, during the same period, Algeria and Morocco respectively produced 272,000 units and 231,986 units. Egypt still has some way to go in order to rival its competitors - such as Turkey, which produced 1,170,445 vehicle units in 2014. 66% of the vehicles produced in Egypt are passenger cars. The country also produces light commercial vehicles, heavy trucks and buses which represent, respectively, 17.3%, 10.1% and 6.6% of total production. After plunging by 30.5% in 2014, passenger car production is expected to rise by 8% in 2015 on the previous year.

Constraints are weighing on the sector. Some of the big international producers, such as General Motors, Pirelli and BMW, are present in Egypt's automotive market. Nevertheless, some companies are being pushed to exit Egypt due to dollar scarcity, the unclear industrial strategy and the strengthening of the automotive sector in neighboring countries such as Algeria and Morocco. Mercedes-Benz has closed its car assembling activities in Egypt. This was due to an expected decline in long term profitability after the Egyptian customs authorities began to cut tariffs on European luxury cars by 10% (in accordance with a partnership agreement signed between the European Union and Egypt which targets zero tariffs by 2020). As a result of this agreement, it has become cheaper to import completely assembled vehicles. This situation may threaten Egypt's local automobile assembly capacity, as most of the parts and components are imported.

Nevertheless, automotive producers do not seem to have completely lost interest in Egypt, as new projects have been announced recently. Early in 2015, Egypt's GB auto, the country's biggest listed vehicle assembler and distributor, announced that it will invest 1.5 billion USD in Egypt to build two new factories. Italian tyre company Pirelli has signed a Memorandum of Understanding for the possible expansion of its factory in Alexandria. The Kuwait-based Al-Khafi group said it has plans to set up an assembly plant for Mitsubishi in Egypt. These projects suggest Egypt is still attractive for car manufacturers. Car production is therefore likely to recover in the upcoming period, in line with improved political stability and the country's economic recovery.

Chart 5: Egypt vehicle production



Source: BMI

Demand

Passenger car sales jumped in 2014, increasing by 55.5% compared with 2013, and the sales are expected to rise by 15% in 2015 on the back of economic recovery and higher political stability. However cuts in fuel subsidies and the likely depreciation of Egyptian pound may restrain further increase in sales.

Automotive sales should continue to grow, in line with improved political stability. Commercial and light commercial vehicle sales jumped by 43.1% and 51.2% yoy in 2014, as economic growth gained momentum. Sales in 2015 are expected to continue rising, respectively by 9.5% and 10% compared with 2014. Demand for buses was negatively impacted during the period of social unrest, as tourist arrivals in Egypt plunged. After falling by 10% yoy in 2013, bus and coach sales accelerated by 15% yoy in 2014. Greater political stability and a recovery of the tourism sector would help to further increase bus sales. According to the Economist Intelligence Unit (EIU) research of February 2015, Hyundai had the largest share of passenger car sales (at 21.6%), followed by Nissan (12.2%), Chevrolet (11.9%), Kia (7.9%), Geely-Ghabbour (7.8%), Toyota (7.1%) and Renault (5.5%).

Financing can take different forms. Banks in Egypt provide car loans to consumers, but the process can be complicated as policies can vary from bank to bank - and even between individual branches. Banks usually require a minimum deposit in order to provide loans. However some car companies have initiated their own financing programs. Ghabbour Auto established its 'GB Lease' at the end of 2008. Although initially created to provide financing for commercial vehicles and corporate fleets, the company has now started to lease finance covering automobiles, real estate and heavy equipment, among others etc. Al Mansour Automotive, which distributes Chevrolet and Opel vehicles, also has a financing program which it runs in cooperation with banks.

3 CONCLUSION

Egypt's economy is recovering from its severe hit caused by political and social tensions. The recovery is being strengthened by foreign financial assistance, improved political stability and the government's willingness to implement economic reforms. Nevertheless, the economic recovery is still fragile as the country is suffering from twin deficits and challenged by its complicated investment process.

Sectors are cautiously recovering on the back of Egypt's positive developments. International tourists have slowly started to return, althoug h security issues remain challenging.

The automotive sector is also gaining pace, thanks to higher per capita income and solid demand from the country's large population. The sector does still, however, have some way to go - in terms of financing, production volumes and regulations - in order to become more competitive.

Coface S.A.
1, Place Costes et Bellonte
92270 Bois-Colombes
France
www.coface.com

FOR SAFER TRADE