Forbes Middle East

The Numbers Game

Reforms introduced over the past year by the government seem to have restored some confidence among investors, with FDI levels forecast to rise in the coming years.

Foreign direct investment (FDI) can often be a barometer of Egypt's economic health. Over the past decade the trend in this area has reflected the political turmoil the country—and indeed the wider region—has gone through, with investment levels subject to wide swings. But since hitting a low in 2011 there has been a steady recovery in the figures and the forecasts for the coming years suggest that momentum could be maintained.

According to data compiled by the World Bank, there has only been one year in which there was a net outflow of FDI from the economy. That came in 2011 when investors were understandably spooked by the revolution convulsing the country. That year, $482.7 million was withdrawn by international investors from Egypt. In the following years things stabilized and rebounded. In 2012, investors began to cautiously return, with $2.8 billion in inbound FDI that year, followed by $4.2 billion in 2013 and $4.8 billion in 2014. In 2015, the last year for which data is available, the figure reached $6.9 billion, which is higher than in the two years before the Arab Spring revolution (although still some way off the $11.6 billion recorded in 2007).

This positive trend is predicted to continue in the short to medium term. The IMF forecasts that on a fiscal year basis, running from July 1 to June 30, net FDI will be $8.8 billion in 2016/17, rising to $9.4 billion in 2017/18 and $10.2 billion the year after that. Thereafter, it is expected to continue climbing to $11 billion, $12 billion and $13 billion in the subsequent years.

All this will come as a welcome relief to the government, which as recently as last September sounded rather pessimistic about the situation. Speaking in London in September 2016, two months before a $12 billion bailout was agreed with the IMF, finance minister Amr El Garhy said "We cannot really invite companies and invite foreign direct investment without having enough electricity; we cannot do that if we don't have enough natural gas and energy."

The rise in FDI over recent years suggests that more investors feel the government and the country are starting to get the house in order and are prepared to cope with the sometimes less than stellar infrastructure. A significant factor in all of this has been the decision by the Egyptian government in November to let the Egyptian pound float freely. That led to a sharp correction in the value of the currency which has caused some problems—not least a significant rise in inflation—but has also had a range of positive consequences. In particular, the foreign exchange market normalized and the parallel market for foreign currency disappeared.

"With the liberalization of the foreign exchange market, foreign currency shortages have disappeared," says Subir Lall, the head of the team dealing with Egypt at the IMF, while speaking about his organization's latest review of the country's economy on September 27.

Egypt's foreign-currency reserves have jumped sharply this year. They reached $31.3 billion at the end of June, up from $17.5 billion a year earlier. They continued to rise to $36 billion in July, something that has been seen as a sign of rising investor confidence. The Central Bank of Egypt has said that a backlog of $1.5 billion of pending requests from multinationals to transfer funds out of the country or pay suppliers has also been cleared. According to Dubai-based Emirates NBD, that reflects "the improvement in Egypt's foreign currency position and interbank liquidity since the devaluation of the Egyptian pound."

The stronger environment can also be seen in the rise in deposits at Egyptian banks. "The flotation of the Egyptian pound in November 2016 has increased foreign currency inflows into the Egyptian banking system, erasing the parallel forex [foreign exchange] market and allowing the government to scrap foreign exchange controls which had been imposed after the 2011 political uprising in an effort to limit the flight of capital," Morris Helal, a senior credit analyst at Capital Intelligence Ratings says.

The positive attitude of investors has been reflected in the market's reaction to the sovereign bond program, with successful Eurobond placements of $4 billion in January 2017 and $3 billion in May 2017. The government intends to tap the market again, with a $7 billion offer sometime within the current fiscal year, according to a statement by prime minister Sherif Ismail in late September.

The improvements in the investment scene have gone far beyond fixing the currency markets and appealing to bond investors though. The government has also introduced various reforms which have helped to bolster confidence among potential investors. They include an industrial licensing law which was adopted in mid-August, in an effort to reduce the time it takes to obtain a licence from 600 days to just seven. It cut the number of authorities involved in the process from 11 down to one. Announcing the adoption of the law on August 13 this year, Minister of Trade and Industry Tarek Kabil said it will "make a quantum leap in the investment rates, eventually putting Egypt among the top attractive investment destinations worldwide".

The new licensing regime followed a new investment law which was finalized in June and which introduced tax breaks and other incentives while also trimming red tape, as well as the country's first bankruptcy law, which was approved by the cabinet in January. The IMF has described these various legal steps as "critical pieces of legislation necessary to strengthen the business climate, attract investments, and promote growth."

There have also been some fortunate developments outside the direct control of the government. Large gas discoveries over recent years have also boosted FDI while at the same time reducing the need for energy imports.

International businesses have picked up on the legislative reforms, with signs of renewed interest in some critical areas of the economy such as the tourism market. Hilton Worldwide's vice president of operations for Egypt and North Africa, Mohab Ghali, told Reuters in early August that it was planning to increase the number of hotels it operates in Egypt from 17 to 30 over the coming 10 years. In other sectors, Egyptian officials have said that Swedish furniture retailer IKEA is mulling expansion plans in the country, as is German engineering and electronics firm Bosch.

Traditionally the largest chunk of international investment in the economy has come from the U.S., followed by large European economies such as France, Germany, Italy, Spain and Switzerland, according to statistics from the UN Conference on Trade and Development

(UNCTAD). But the government has been making efforts to attract a wider pool of stakeholders. For example, Kabil held talks with a number of potential Chinese investors on a trip to the Far East in September, including home appliances manufacturer SKG Electric and automaker FAW Group.

The efforts of the government to attract investment were given a further fillip in late September, when the World Economic Forum (WEF) released its latest Global Competitiveness Index, ranking 137 economies for the attractiveness. Egypt posted the biggest improvement among Middle East and North African countries, rising 14 places. Even so, the challenges facing the government are highlighted by the fact that the country is still only ranked in the 100th place overall. Clearly, there is still a long way to go.

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