**AFRICAN DEVELOPMENT BANK**

| | |
|---|---|
| **Reference No**: P-EG-HAB-011 | **Language**: English |
| **Task Manager**: Sofiane SEKIOUA | **Original**: English |

# Project Summary Note

# BANQUE MISR SAE

# Egypt

**October 2022**

| SUMMARY – BANQUE MISR SAE, EGYPT | |
|---|---|
| **Project Description** | Funding of USD 160 million to Banque Misr SAE of Egypt (BM or Banque Misr) for onward lending to small and medium-sized enterprises (SMEs) and corporates operating in key sectors of the Egyptian economy particularly industry, Information and Communications Technology (ICT) and agriculture/agribusiness. The proposed funding is composed of resources from the African Development Bank (the AfDB or the Bank) of USD 130 million and the Africa Growing Together Fund (AGTF) with USD 30 million. |
| **Borrower** | Banque Misr SAE was established in 1920 as a commercial bank and is now the second-largest bank in Egypt with a strong presence in the domestic banking sector. Wholly owned by the state, it had a loan market share of 20% as of June 30, 2021. The bank currently has 725 electronically integrated local branches located nationwide to provide services to its customers in Egypt with plans to expand to 875 by the end of 2022. It has around 20,000 employees, serving a large base of more than 13 million clients in Egypt. Banque Misr is one of the most systemically important public-sector banks in the country given its history of state affiliation and strong domestic franchise. It is run as a profit-oriented commercial bank although its strategy is closely linked to the government's macro-economic policy. Banque Misr provides a range of corporate, retail and investment banking services. Apart from Egypt, it has banking subsidiaries in Germany and Lebanon and branches in the UAE and France, while the Saudi Arabian cabinet granted the bank a license to open its first branch in the country. |
| **Bank's Role** | Provision of a funding in the form of two lines of credit of an amount of USD 160 million with a tenor of 10 years to BM to fund its clients in Egypt. 40% of the funding will benefit SMEs while the other 60% will be used to extend loans to corporates. |
| **Co-financing/Credit Insurance** | The AfDB will provide Banque Misr with a line of credit of USD 130 million of which USD 60 million will be outside of Egypt's headroom via the use of credit insurance. The Bank has secured non-binding insurance arrangement with suitable counterparties to cover USD 60 million of the line of credit. The line of credit of USD 130 million will be complemented by another line of credit from the AGTF to the tune of USD 30 million. |
| **Implementation Arrangements** | The Bank and Banque Misr will sign two line of credit agreements which will govern, among other things, the use of proceeds, disbursement triggers and reporting requirements. |
| **Market** | Egypt is one of the Arab world's largest economies and its most populous country (about 103 million people). Its GDP per capita remains relatively low, although it recovered to about USD 3,800 in 2021 after declining to USD 2,500 in 2017 due to the depreciation of the local currency.<br>Egypt's recent macroeconomic and structural reforms stabilized the economy and allowed the country to enter the global COVID-19 crisis with improving fiscal and external accounts. The pandemic's effect on Egypt's economic growth was less severe than in other countries. While real GDP growth slowed to 3.3% in fiscal 2021 (ended June 30, 2021) from 3.6% in fiscal 2020 (ended June 30, 2020), it is noted that Egypt was one of the few countries not to experience an economic contraction in calendar year 2020. Instead, the country registered real GDP growth of 1.5% thanks to relatively limited lockdown measures, ramp-up of health care capacity and resilient remittances. Furthermore, at the outset of the COVID-19 crisis, the government devised an emergency response package worth EGP 100 billion. Key measures included an exceptional monetary grant to irregular workers and the expansion of existing cash transfer programs. Forbearance measures were introduced in the form of delayed tax filings and loan repayments, in addition to subsidized credit for targeted sectors. The Central Bank of Egypt (CBE) slashed policy rates by 400 basis points in 2020 (about 8.5% lower than in 2018) to ease liquidity and enable individuals to access credit at favourable terms. This monetary expansion came against the backdrop of subdued inflation.<br>Prior to the Russia-Ukraine war, Egypt was projected to slowly start regaining its pre-pandemic momentum. However, the war is affecting the economy having already had a significant impact on energy and food prices. In fact, soaring energy and commodity prices have hit one of the world's biggest wheat importers as has the loss of tourists from Russia and Ukraine. This comes on top of billions of dollars of outflows from Egyptian debt held by foreigners. To shore up its pressured finances and restore confidence in its economy that is heavily reliant on "hot money" or attracting foreigners into the short-term local debt market, Egypt has devalued its currency while the CBE has increased its key interest rates citing global inflationary pressures amplified by the war in Ukraine. Egypt is the world's biggest wheat importer with Ukraine and Russia accounting for about 85% of its wheat imports in 2021 while its subsidized bread programme reaches 70 million people or two-thirds of the population. Egypt has a structural dependence on hot money and is therefore highly exposed to investor sentiment. At least USD 25 billion were pulled out of Egypt in the early stages of the war with investors seeking safer alternatives to invest their money. On top of that, the loss of visitors from Russia and Ukraine (the two biggest tourism markets) is a blow to a sector that had just started to recover from the pandemic. Fitch has predicted that the war in Ukraine would add to Egypt's economic strains including "reduced tourism inflows, higher food prices and greater financing challenges". In fact, external capital markets are all but closed for Egypt because of the war.<br>The multi-dimensional economic crisis caused initially by the COVID-19 pandemic and now the Russia-Ukraine war underscores the importance of advancing industrialisation, fast-tracking digital transformation and food security in Egypt. |

| Justifications for the Bank's Involvement: | |
|---|---|
| **Strategic Alignment** | The proposed operation is aligned with key Bank policies and strategies, namely the Bank Group's Ten-Year Strategy (TYS), the High 5s and the new Private Sector Development Strategy (2021-25) given its focus on digitising and industrialising Africa to create jobs and reduce its reliance on imports particularly due to the impact of the COVID-19 pandemic on the continent's exports and ability to import. In the case of the High 5s, it is aligned with two of its key pillars: Industrialize Africa and Feed Africa. Moreover, one of the priority areas of the new Country Strategy Paper (CSP) for Egypt for the period 2022-2026 is strengthening the country's competitiveness to support private sector led growth and job creation. Furthermore, for Egypt, industrialization and agriculture are priorities for its development. After a first wave of economic reforms (2016-2020) focused on macroeconomic stability and business environment (which was recognized internationally for its breadth and depth), Egypt has launched the second wave of reforms focusing on three topics: industry, agriculture and ICT/digitalization. Finally, the operation was developed with the objective of supporting Egypt's industrialisation efforts and comes on the back of the completion of a study that the Bank has carried out with the Egyptian Ministry of Trade and Industry and the United National Industrial Development Organisation (UNIDO) defining an industrialization policy reform matrix for the country. |
| **Development Outcomes** | The proposed lines of credit from the AfDB and the AGTF to Banque Misr will contribute to mobilizing significant resources for key economic sectors in Egypt, ultimately enhancing productive capacity and stimulating growth. This will increase economic output, improve the country's competitiveness, generate fiscal and export revenues and create much-needed employment opportunities including for women. |
| **Additionality and Complementarity** | The funding of USD 160 million to Banque Misr will enable this institution to gain access to much-needed stable resources to grow its loan portfolio. Another source of additionality stems from providing Banque Misr with resources in USD. Additionality also stems from the mobilization of additional resources from the AGTF. |