

## **EGYPT WEEKLY NEWSLETTER**

**JANUARY, 2015 (1<sup>st</sup> QUARTER)**

### **POLITICAL OVERVIEW**

#### **PARLIAMENTARY ELECTIONS AHEAD OF INVESTMENT CONFERENCE**

**Source: Al Shorouk, January 4, 2014**

Egypt's parliamentary elections will be held ahead of March's Investment Conference, President Abdel Fatah El Sisi stated. The last of the three election laws was approved on December by the State Council, leaving the door open for the government to grant the law its final approval before passing it to the President to issue the law. Judicial sources have previously stated they can hold elections in two months. In that respect, opening the door for registration needs to take place immediately as the Investment Conference commences on 15 March, with the electoral process seeming to run on a very tight schedule.

#### **New governor reshuffle in January, says El-Sisi**

**Source: Ahramonline, December 29, 2014**

In a lengthy interview with state-owned newspapers Al-Ahram, Al-Akhbar and Al-Gomhoria on Monday President Abdel-Fattah El-Sisi revealed that there will be a new governor reshuffle in January. He also revealed that there could be a ministerial reshuffle before the parliamentary election if "it was in the best interest of the public." "I am not satisfied with the performance of all the ministers," he said, adding however that in the current circumstances governmental performance is fine. "But we need more effort from the government," he added. Regarding university students currently detained in riot and protest related cases, El-Sisi said that there were surely innocent students among those who were arrested. Some may have been arrested despite the fact that they there were not involved in violence or crimes, he opined.

### **ECONOMIC OVERVIEW**

#### **GOVERNMENT TARGETS 4.3% GDP GROWTH IN FY2015/16 DRAFT BUDGET**

**Source: Reuters, January 3, 2014**

The Ministry of Finance said it aimed to boost economic growth to 4.3%, a budget gap of 9.5-10.0% of GDP in FY2015/16 and debt-to-GDP ratio of 92%, as it pursues a structural reform program. The government aims to reach these targets by extending new taxes and politically-sensitive cuts to energy subsidies introduced earlier, the ministry added in a statement. The government is targeting a budget deficit of 10.5% of GDP for FY2014/15 and 3.5% economic growth.

### **As Gulf aid dries up, Egypt struggles**

**Source: Al Monitor, December 28, 2014**

The regime of President Abdel Fattah al-Sisi is trying to unravel the economic crisis that has gripped Egypt since the overthrow of former President Mohammed Morsi in June 2013. Complicating matters, aid from the Gulf states has become less reliable than many had hoped. It started with the Kingdom of Saudi Arabia, which announced an aid package as soon as Morsi was isolated on July 3, 2013. The Saudis offered Egypt \$5 billion divided between a bank deposit of \$2 billion, large quantities of oil products worth \$2 billion and \$1 billion in cash. Abu Dhabi soon joined in, making a \$1 billion grant, a deposit worth \$2 billion and \$4.9 billion to start a service project. Kuwait came in third, with aid amounting to \$4 billion. Prior to Sisi's election, aid was managed by the government of interim Prime Minister Hazem Beblawi. Politicians and economic analysts had expected the aid to continue for a long time.

### **Egypt's balance of Payment records \$ 410 m. in Q1 of FY 2014/15**

**Source: Egypt Economist, December 30, 2014**

Egypt's balance of payments recorded US \$ 410 million surplus during the first quarter of FY 2014/2015, compared to U.S. \$ 3.7 billion in the same period of last year, according to a statement issued Tuesday from the Central Bank of Egypt (CBE). "The current account registered a deficit of about US\$ 1.4 billion (against a surplus of US\$ 609.6 million)," the statement read. As for the net Foreign Direct Investment (FDI) inflow, it saw an increase to around U.S. \$ 1.8 billion from U.S. \$ 745.4 million last year, "driven by the rise in the net inflow for oil sector investments from US\$ 377.6 million to US\$ 948.1 million," said the statement. On Dec. 24, Fitch Ratings upgraded the Long-term Issuer Default Ratings (IDR) of National Bank of Egypt SAE (NBE) and Egypt-based Commercial International Bank (CIB) from 'B-' to 'B' with Stable Outlook.

### **Fitch upgrades CIB-Egypt, NBE to B with Stable Outlook**

**Source: Egypt Daily News, December 27, 2014**

Fitch Ratings upgraded the Long-term Issuer Default Ratings (IDR) of National Bank of Egypt SAE (NBE) and Egypt-based Commercial International Bank (CIB) from 'B-' to 'B' with Stable Outlook, according to a statement posted on Reuters website. The rating agency upgraded the NBE's Viability Rating (VR) from 'b-' to 'b' and affirmed CIB's VR at 'b'. NBE's and CIB's Support Ratings were also raised to '4' from '5' and the Support Rating Floors (SRF) to 'B' from 'B-'. NBE's National Long-term Rating has been upgraded to 'AA (egy)' from 'AA-(egy)', according to the statement. "We have affirmed Credit Agricole Egypt's (CAE) Support Rating at '4' and its National Long- and Short-term Ratings at 'AA+(egy)' and 'F1+(egy)', respectively," Fitch stated. This decision comes few days after Fitch had raised Egypt's long-term foreign and local currency issuer default ratings (IDR) to "B" from "B-," keeping the outlooks at "stable," according to Friday's report. Fitch has also upgraded the issue ratings on Egypt's senior unsecured foreign and local currency bonds from "B-" to "B".

## Decline of international oil prices to decrease Egypt's subsidy bill by EGP 25bn: Dcode study

Source: **Egypt Economist, December 30, 2014**

Egypt's subsidy bill at the current oil prices per barrel would decline by EGP 25bn, a study released Sunday by Dcode economic and financial consulting firm said. This would represent almost 0.5% of the expected GDP for the next fiscal year (FY). This would create more fiscal space that could be utilised for financing infrastructure projects, the study added. The decline of international oil prices will have a positive short-term impact on the FY 2014/2015 real economy, fiscal accounts and price levels, the study stressed. The study noted that net oil trade balance will improve by \$0.3bn to \$0.4bn in the current fiscal year. It also added that remittance receipts from the Gulf could be affected negatively by almost 4%, to account for a reduction of \$0.6bn to \$0.7bn. Russian tourism will also be negatively affected due to the depreciation of the rouble, it said.

## Egypt vulnerable to adverse global economic developments: IMF Mission Chief

Source: **Bloomberg, December 28, 2014**

Speaking to Daily News Egypt, International Monetary Fund (IMF) Mission Chief for Egypt, Chris Jarvis, outlines how the IMF evaluates the Egyptian economy. Jarvis also spoke on the problems the economy is facing and the forecasted growth. **What is the IMF's view of the Egyptian economy's future?** The authorities have designed a good macroeconomic and reforms programme ahead of the March [2015] economic conference, and have started implementing some key measures: they have implemented the first phase of the energy subsidy reforms, taken measures to increase revenue mobilisation, affirmed their commitment to contain inflation by raising policy rates, and started wide-ranging structural reforms to unlock private-sector growth. However, Egypt is vulnerable to adverse global economic developments and regional security risks. For the reform effort to succeed it will need to be pursued steadfastly. The measures already taken by the authorities demonstrate their commitment to reform. However, building buffers, especially by raising international reserves and preparing contingency plans for the budget in case risks materialise, would be useful to address unforeseen shocks. **What are the projected growth rates, and can they be achieved?** The IMF projects that growth will reach 3.8% in [the fiscal year] FY 2014/15. These growth rates can be achieved if confidence continues to return and the authorities continue implementing the reform programme. **What are the problems facing the economy, and how can they be addressed?** Egypt faces many challenges. During the prolonged political transition, growth fell and unemployment and poverty increased to high levels. Budget deficits grew and external pressures led to a fall in foreign exchange reserves. However, the authorities recognise these challenges and have set appropriate economic objectives, including raising growth and steadily reducing inflation. The government is seeking to reduce the budget. The structural reforms planned by the authorities focus on improving the business climate, promoting investments and financial sector development, while addressing poverty and social gaps. The authorities are also seeking to improve Egypt's external position, though additional external financing will still be needed through the medium term. **Has the IMF been**

formally invited to the March economic conference to take place in Sharm El-Sheikh, and if invited, will the IMF attend? We have not received a formal invitation, but the authorities have indicated that they would like the Fund to participate and we will be attending the conference.

## FINANCE

### CBE APPROVES OPENING OF TWO OVERSEAS OFFICES FOR BANQUE MISR

Source: *Al Mal*, January 1, 2014

Banque Misr has recently obtained the approval of the Central Bank of Egypt to open two representative offices abroad. The bank is currently preparing the documentation of the two offices. Banque Misr intends to strengthen its presence in foreign markets. The banking institution is attempting to meet the requirements of the Central Banks of the countries where it intends to have representative offices. Earlier, Banque Misr addressed the Central Bank of the Republic of Turkey (CBRT) to get its approval to open a representative office in Turkey, but it has not gotten any response so far, despite satisfying all CBRT's requirements.

### CBE TO DOUBLE MORTGAGE INITIATIVE TO EGP20 BILLION BY 2015

Source: *Daily News Egypt*, January 2, 2014

The Central Bank of Egypt (CBE) will double to EGP20 billion the mortgage initiative proposed to banks in February, according to Minister of Housing, Utilities and Urban Development Mostafa Madbouly. He added that this increase will be implemented in 2015. Banks will receive a discount on the mortgage prices for the next 20 years so that they can later give loans back with deducted annual earnings at 7% for lower-income citizens. There will also be deducted annual earning at 8% for middle-income citizens, on condition that the banks use the money to buy housing units in the new urban communities.

### NUCA SEEKING EGP7.0 BILLION LOAN TO MEET ITS EXPANSION PLAN

Source: *Al Mal*, January 5, 2014

New Urban Communities Authority (NUCA) entered in serious negotiations to secure a loan amounting to EGP7.0 billion. NUCA will use the loan to meet its obligations regarding its expansion plan. The plan is centered on providing housing units for low-income households, in tandem with securing infrastructure utilities for NUCA's housing projects in Egypt.

## BANKING

### Egypt's banking sector led economy in 2014

Source: *Egypt Independent*, December 29, 2014

Egypt's banking sector showed a great performance during 2014, and has proven to be a backbone for Egypt's economy, with banks raising 64 billion EGP in an 8-day IPO

for the Suez Canal expansion project. Youm7 monitored the key events and decisions that affected the banking sector and Egypt's economy in turn during the course of the year.

### **Citibank Egypt still studying banks' offers to buy its consumer business**

**Source: Ahramonline, December 29, 2014**

Citibank Egypt is still studying banks' offers to buy its consumer business portfolio, the bank's Vice President Lamise Negm told Daily News Egypt Saturday. Commenting on media reports saying that Citibank received offers from 9 banks operating on the Egyptian market, Negm said the number is not accurate and that "it is too early to say". In October 2014, Citigroup announced it intends to exit its consumer business in Egypt, along with its businesses in 10 other countries, as part of the company's strategic actions to accelerate the transformation of Global Consumer Banking (GCB). It said that these steps will focus on the markets that have the "greatest scale and growth potential".

## **IT & TELECOMMUNICATION**

### **Egypt Internet service downed by cable cut**

**Source: The Cairo Post (A Youm 7 Publication), December 28, 2014**

Telecom Egypt, the State's main telephone company, said in a statement Saturday afternoon that Internet services in parts of Egypt were disrupted Saturday due to local telecommunication landlines being damaged 18 kilometers outside Alexandria. Many areas witnessed slow or cut Internet services because of the damage, including the news websites of The Cairo Post and its parent Youm7 newspaper. Telecom Egypt said the affected areas ranged from Kafr el-Dawwar on the Mediterranean all the way down the Nile to parts of Cairo.

## **ENERGY**

### **SAUDI-EGYPT POWER LINK PROJECT TO START IN NEW YEAR**

**Source: AFP, January 5, 2014**

A project to link the electricity grids of Egypt and Saudi Arabia will start in 2015 at a cost of at least USD1.5 billion, officials said. "The project will be awarded mid-2015, and take three years to complete," Saleh al-Awaji, an undersecretary in the Kingdom's Ministry of Water and Electricity, said. The link will allow the two countries, separated by the Gulf of Aqaba and the Red Sea, to share power during peak periods. It will cost USD1.5-2.0 billion, Awaji told reporters. "The power link project with Saudi Arabia is in the final stages of the award," said Gaber Desouky, Chairman of the Egyptian Electricity Holding Company. He said the Egyptian investment is estimated at USD600 million while Saudi Arabia's would reach about USD900 million.

## **EGYPT SAYS LOWER OIL PRICES TO SLASH ENERGY SUBSIDIES BILL BY 30%**

**Source: Reuters, January 1, 2014**

Egypt expects its energy subsidies bill to decline by 30% in FY2014-15 if global oil prices remain low, Oil Ministry said, potentially lightening the burden on the cash-strapped country's finances. "If low world oil prices continue during the second half (of the fiscal year) it is estimated that the year's total petroleum subsidies bill will decrease by about EGP30 billion (USD4.2 billion)," the Ministry said in a statement on Monday. "The expected savings still leave the state paying the large sum of EGP70 billion for subsidies through the fiscal year."

## **POWER**

### **EGYPT AND CHINA TO COOPERATE IN COAL-POWER GENERATION**

**Source: Ahramonline, January 3, 2014**

Egypt and China have made plans to cooperate in the energy sector, particularly when it comes to the construction of coal-powered power plants. Egyptian Holding Electricity Company will sign seven partnership agreements with private Chinese companies operating coal-powered plants; a statement by Egypt's Ministry of Electricity and Renewable Energy said. The Egyptian government has also signed other memoranda of understanding with Chinese companies operating in renewable energy, in addition to three other agreements to renew the national electricity grid, develop the electricity transmission net and create a smart grid, all of which are expected to optimize energy efficiency.

## **TOURISM**

### **FALLING RUBLE NEGATIVELY IMPACTS RUSSIAN TOURISTS' ARRIVALS TO EGYPT**

**Source: Al Masry Al Youm, January 2, 2014**

The slide of the ruble is keeping Russian tourists away from Egyptian beaches and halting the nascent recovery of a tourism industry already suffering from three years of turmoil, industry insiders say. Demand from Russian vacationers is down 40% Y-o-Y this January as spending a holiday in Egypt becomes more expensive, Ehab Wahdan, general manager of the Egypt office of Moscow-based tour operator Tez Tour, said of his company's business. Tez Tour's Wahdan sees no solution but to wait it out. "The ruble needs to stabilise, for people to adapt and make travel plans and budget accordingly." "Until then," says Wahdan, "all the sector can do is keep the rates low and hope for cold weather in Russia this winter." The worst hit places are Egypt's Red Sea resorts, the most popular destination for Russian tourists, particularly in the winter months when Egypt offers a warm climate at relatively affordable prices.

## PROJECTS

### TECHNICAL STUDIES ON AIRPORT CITY ARE FINISHED

**Source: Al Alam Al Youm, January 3, 2014**

Hosam Kamal, Egyptian Minister of Civil Aviation announced that EKOM, a British company, finished the technical studies for Egypt's Airport City. The project will be officially launched in Egypt's 2015 Economic Forum. Kamal added that the investment value of the project will amount to EGP80.0 billion. Airport City will include commercial, industrial, entertainment and logistic services. Airport City will be linked with the national project of the Suez Canal and Ain Sokhna port.

### GOVERNMENT LAUNCHES START-UP INCUBATOR WITH EGP10 BILLION CAPITAL

**Source: Ahramonline, January 1, 2014**

Egypt's government and private sector representatives announced the creation of a start-up incubator to promote economic growth and create jobs. With EGP10 billion (USD1.4 billion) in capital, Ayady for Investment and Development will be 20% state-owned and 80% private, Planning Minister Ashraf El-Araby said at the launch. The company will provide training, feasibility studies, funding and export opportunities to young entrepreneurs, said the Minister, acting as an 'incubator' for nascent projects, with an on-the-ground presence in Egypt's 27 governorates, said El-Araby. Ayady will own a 25% to 40% stake in the projects it takes on, for a period of three to five years, said Assem Ragab, Executive Partner of Investment Banking and Corporate Finance Advisory firm FACT, and former chairman of state-run General Authority for Investment (GAFI).

## INTERNATIONAL TRADE

### GOVERNMENT LOOKING TO REDUCE CUSTOM DUTIES ON RENEWABLES TECHNOLOGY

**Source: Al Masry Al Youm, January 4, 2014**

The Ministry of Finance is considering the reduction of custom duties on renewable energy technologies to 2% from the current 20%, according to Head of the Public Private Partnership central unit at the Ministry of Finance. The planned move comes as part of government efforts to improve the profitability of the announced tariff for small capacity solar projects lower than 50MW. The Ministry is also holding discussions with banks in order to obtain financing for these projects, extending loan maturities to seven years and a grace period of six months.

## TRANSPORATION

### RANCE TO FUND NEW TRAINS FOR EGYPT'S METRO

**Source: Ahramonline, January 6, 2014**

The Egyptian government signed a EUR344 million (USD429 million) agreement with France's ambassador to Cairo to fund the purchase of sixty-four trains for the third

and fourth metro lines. The French government will provide Egypt with EUR172 million in a concessional loan to be repaid in 53 years with a 20-year grace period at an annual interest rate of 0.1%. The second half of the loan will come in the form of credit facilities by a French credit company. France has already funded the construction of Egypt's three metro lines from 1979 to 2012, with loans amounting to EUR1.2 billion, according to International Cooperation Minister Naglaa El-Ahwany.

### **GOVERNMENT MULLS RAISING CAIRO METRO TICKET PRICE**

**Source: Ahramonline, January 2, 2014**

The government is considering increasing the price of the underground's tickets in order to narrow losses, according to Mohamed Ezz Eldin, spokesperson for the Transportation Ministry. A ride in Cairo's underground metro is sold for LE1 (USD0.13) per ticket for all destinations for passengers despite a cost of LE9 for the government, Ezz Eldin said, adding that the government will study options to increase revenues, including raising ticket prices, at the beginning of 2015. "We will study whether advertisement inside the metro would be enough to cover the operation costs," Ezz Eldin said adding that if not, prices may be raised in accordance with "the number of stations travelled to by each passenger." Ezz Eddin said that any additional revenues raised will be used to upgrade the metro,

### **HOT ISSUE**

### **ISIS Is Getting More Organized—and Lethal—in Egypt**

**Source: Aswat Marsria (Egyptian Voices), December 29, 2014**

For most of the last few years, ISIS has been fighting the fiercest battles—and acquiring most of the territory it now controls—in Iraq and Syria. More recently, militants has been trying to expand that base by gaining a foothold in places like Gaza, Yemen and Egypt. ISIS has been operating loosely in Egypt's northern Sinai Peninsula, for the past six months, launching attacks here and there. But the group has released video and other documents that suggest it is getting more organized in the Sinai—and also more lethal. For the first time, ISIS is setting up military checkpoints, as shown in this ISIS video, on the main road between the major cities of Al-Arish and Rafah. In the video, militants explain that they chose that location, close to the Gaza Strip and the Israeli border, because it will allow them to "catch spies from the Egyptian army and spies for the Jews." as we previously reported, the new Egyptian arm of ISIS—which the group has named "Sinai Province"—is actually a reconstituted version of Ansar Beit al-Maqdis, which for years had been Egypt's deadliest militant organization. Ansar Beit al-Maqdis pledged allegiance to the Islamic State earlier this year and was embraced officially by ISIS leader Abu-Baker al-Baghdadi.