

## EGYPT WEEKLY NEWSLETTER

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### POLITICAL OVERVIEW

#### Sisi to take part in World Economic Forum

Source: Egypt Independent, January 14, 2014

President Abdel Fattah al-Sisi will take part, among other 40 leaders, in the 45th session of the annual World Economic Forum which will occur between 21-24 January in Davos-Klosters, Switzerland. The forum will tackle the 'new global context' as well as critical global challenges, according to a statement issued on Wednesday. According to the statement, the context consists of 10 main global challenges that affect the world including: environment and resource scarcity; employment skills and human capital; gender parity; long-term investing, infrastructure and development; food security and agriculture; international trade and investment; future of the internet; global crime and anti-corruption; social inclusion; and future of financial systems. The meetings' agenda also include current affairs, such as the escalating geopolitical conflicts, pandemics, diverging growth and the new energy context are on the agenda as well. "The World Economic Forum serves the international community as a platform for public-private cooperation," said Klaus Schwab, Founder and Executive Chairman of the World Economic Forum. "Such cooperation, to address the challenges we all face, is more vital than ever before. But it requires mutual trust. My hope is that the Annual Meeting serves as the starting point for a renaissance of global trust."

### ECONOMIC OVERVIEW

#### Egyptian pound steady on official market, strengthens on black market

Source: Egypt Economist, January 11, 2014

The Egyptian pound was unchanged at a central bank dollar sale on Monday and strengthened on the black market. The bank offered \$40 million at the sale and said it had sold \$38.4 million at a cut-off price of 7.1401 pounds to the dollar, a rate unchanged from its last sale on Sunday. The rates at which banks are allowed to trade dollars are determined by the results of central bank sales, giving the bank effective control over official exchange rates. In the unofficial market, one money changer said the pound was trading at 7.75 to the dollar on Monday, stronger than levels of 7.79 reported on Sunday. The central bank introduced a fourth weekly dollar auction in December as part of efforts to curb a flourishing currency black market after the gap between the official and unofficial rates widened. Though the pound strengthened on Monday, overall the move has so far failed to narrow the gap substantially.

### **Egypt central bank sells \$971.3 mln in one-year T-bills**

**Source: Bloomberg, January 10, 2014**

Egypt's central bank said it sold \$971.3 million in one-year treasury bills at an average yield of 2.125 percent at its auction on Monday. The minimum yield was 2.1 percent and the maximum was 2.138 percent and the bills will be issued on Tuesday. Egypt last sold \$1.1731 billion worth of one-year dollar-denominated treasury bills in December at an average yield of 2.133 percent. The government has mostly relied on the local money market to finance its deficit since early 2011, when an uprising unleashed a prolonged period of political and economic volatility that deterred many foreign investors. It plans to tap international investors for \$1.5 billion in bonds this year, as the economy shows signs of recovering and the country's sovereign debt outlook improves.

### **Capital market gains EGP 6bn on ETFs' first trading day**

**Source: Egypt Independent, January 12, 2014**

The trade on Exchange Traded Funds (ETFs) in the Egyptian Exchange's (EGX) benchmark index EGX-30 started Wednesday, with the capital market registered an EGP 6bn gain that day. This is the first time ETFs were offered on the Egyptian stock market. The EGX-30 index increased by 2.53% to record 9544.08 points, and the broader index inched up by 1.13%. The Nilex index also increased by 0.96%, although the small and medium enterprises index decreased by 0.35%. Prior to the end of 2014, the EGX listing committee approved the listing of the first Exchange Traded Fund (ETF) certificates with an initial value of EGP 10m. "ETFs are similar to traditional investment funds, in being formed of a set of securities traded in the stock exchange, but the main difference is that ETFs are committed to follow a certain index performance (represented in the EGX 30 index in this case) and so its performance is close to the index performance," the EGX said in an official statement.

### **35% expected savings in petroleum subsidies due to low oil prices**

**Source: Egypt Daily News, January 12, 2014**

Savings on petroleum product subsidies will reach an estimated 35% of the current value of EGP 100bn for the FY 2014/2015 budget if current oil prices continue as is, Minister of Petroleum Sherif Ismail said in statements to Daily News Egypt. The savings will increase if prices drop further, he explained. The savings would bring the total amount of funds allocated towards petroleum product subsidies to EGP 65bn, while the same budget allocations reached EGP 126bn for FY 2013/2014. Ismail explained that consultations will begin on Sunday with an Iraqi delegation currently visiting Cairo, regarding importing Iraqi gas. Nonetheless, the quantity, price, and timing of supplies will depend on the outcome of negotiations, which will be completed soon. However, Ismail said that total expected savings on petroleum products will not directly affect liquidity for either the petroleum sector or the state, because some sectors still have issues paying petroleum and natural gas bills. Oil prices have fallen nearly 46% from their highest levels of the year; above \$115 per barrel last June.

## Egypt reforms to gain confidence of international business community

Source: *Egypt Economist*, January 11, 2014

The largest British trade delegation to Egypt to date, currently visiting, aims to consider increasing the volume of British investments in Egypt and increasing trade volume, said Sameh Seif El-Yazal, head of the British Egyptian Business Association (BEBA). During a meeting that brought together the British delegation, members of the government's Economic Group, and BEBA on Tuesday, El-Yazal revealed that a trip to the UK would take place in June through BEBA to follow-up on investment coordination between the two countries. He went on to say that the British delegation would visit the Suez Canal Axis Development project tomorrow to review the latest developments of the project, followed by bilateral meetings between British and Egyptian companies. Minister of Investment Ashraf Salman said that the world is currently experiencing an economic slowdown, but Egypt was expected to achieve approximately 4% economic growth by the end of FY 2014/2015, driven by recent economic and legislative reform. He said that Egypt's reform programme takes into account a number of challenges, the most important of which is inflation, and focuses on attracting foreign direct investment (FDI), especially from British investors.

## FINANCE

### SMEs Priority For Finance Ministry

Source: *Amwal Al Ghad English*, January 13, 2014

Fostering small- and medium-enterprises (SMEs) forms a crucial strategy for eliminating unemployment, Hany Kadry Dimian, Finance Minister, said, explaining that his ministry is working with the government to include SMEs in the formal economy. Dimian revealed a study conducted by the government to set out a system of integrated incentives to bring about a "renaissance" for SMEs in coordination with the Ministry of Trade, the Social Fund for Development, and the Central Bank of Egypt. The minister went on to say, during a conference on supporting SMEs in the Arab world, that harmful business practices that take place, such as customs smuggling for a number of materials, inhibit the growth of small businesses. He said that his ministry is now working to stiffen penalties for smugglers and protect the growth of small enterprises. Dimian also said that some smaller businesses will be exempted if they join the formal economy. According to Dimian, the government is on the right path to decrease the budget deficit to 8% of GDP and keeping domestic debt within safe limits, thanks to economic, legislative, administrative, and structural reforms.

## BANKING

### Citigroup Gets Bids From Emirates NBD, Mashreq in Egypt

Source: *Egypt Daily News*, January 12, 2014

Emirates NBD PJSC (EMIRATES) and Mashreqbank PSC (MASQ), two Dubai-based lenders, are among banks seeking to acquire Citigroup Inc.'s (C) consumer-banking business in Egypt, according to four people with knowledge of the matter. The two

submitted offers in the first round of bidding, the people said, asking not to be identified because the process is private. The value of the bank's portfolio in the Arab world's most populous economy may be about \$500 million, with a second round of bids to begin shortly, one of the people said. Barclays Bank Plc, Commercial International Bank Egypt SAE and Bahrain's Ahli United Bank BSC also bid for the assets, according to a report in Egypt's Al Borsa newspaper today, which cited a person it didn't identify. Citigroup, based in New York, is exiting its consumer-banking business in 11 countries to focus on markets where it has the greatest scale and growth potential. The bank has said it expects to complete most of those sales this year. Competitors including BNP Paribas SA (BNP) and Societe Generale SA also sold consumer businesses in Egypt to boost returns. Emirates NBD, Dubai's biggest bank, bought BNP Paribas' Egypt unit in a \$500 million deal in 2013, while Qatar National Bank SAQ acquired SocGen Egypt for \$1.97 billion the same year.

### **Gamal Negm addresses concerns over mass resignations of banking heads**

**Source: Ahramonline, January 14, 2014**

Personal choices and each individual's right to determine his fate and lifestyle was behind the mass resignations from public banks that took place following the implementation of the maximum wage, according to Deputy Governor of the Central Bank of Egypt Gamal Negm. Egypt's banking sector is made of steel and will not be broken by some leaders' decisions to resign due to the application of the maximum wage of EGP 42,000, Negm said on the sidelines of a regional conference supporting funding opportunities for SMEs in the Arab world. More than 150 banking leaders submitted their resignations in recent days in an objection to the application of a maximum wage. Banking sources say that the resignations will continue unless the government amends the maximum wage law for the banking sector. Negm, a member of the Monetary Policy Committee, declined to answer a question regarding the administration's vision for the coming period and what will be allowed in terms of a gradual decrease for the pound against the dollar. These efforts fall within a plan to limit imports and encourage production and manufacturing. He said: "All options are on the table for the Monetary Policy Committee."

## **INVESTMENT**

### **EBRD: Investments in Egypt rose to €593 million in 2014**

**Source: Egypt Economist, January 11, 2014**

The European Bank for Reconstruction and Development (EBRD)'s investments in Egypt rose to €593 million in 2014 compared to €151 million in 2013. The EBRD further said investments were primarily in the private sector, increasing its number of operations from 6 in 2013 to 15 in 2014. In its latest statement released on Wednesday, the EBRD announced it increased investments in 2014 to meet rising demand from emerging economies grappling with protracted weakness and the impact of geopolitical tensions. The EBRD continued to build up its presence in the southern and eastern Mediterranean region, where its portfolio has now topped €1.5 billion across Morocco, Tunisia, Jordan and Egypt.

## 60 local, international entities to review new investment law

Source: *Egypt Economist*, January 10, 2014

Investment Minister Ashraf Salman said the current draft of the investment law is “not final” and subject to revision based on ongoing consultations with all investment parties in Egypt. Salman said the law’s goal is to unify the process of obtaining licences and work through a ‘one-stop shop’ investment window. This is to occur without weighing investors down by having to interact with more than 60 government agencies. The law will also set out a mechanism for settling disputes quickly and successfully. He said that the draft law has been sent to over 60 local and international entities for review, as well as 33 ministries and universities. Salman told Daily News Egypt that the international bodies reviewing the draft law include the International Finance Corporation (IFC) and a large number of global audit and accounting firms.

## ENERGY

### Egypt may import Gas from Israel

Source: *Ahramonline*, January 9, 2014

Egypt is open to importing gas from Israel, its oil minister said in state-owned media on Wednesday, another sign that it may lean on its neighbour to help tackle its energy troubles. Egypt is going through its worst energy crisis in decades and is seeking fresh sources of natural gas, which powers most of its homes and factories, including Algeria, Russia, and Cyprus. But importing gas from Israel is more controversial. Popular mistrust of the Jewish state runs high following three wars with Egypt and its continuing occupation of Palestinian land. Oil Minister Sherif Ismail said gas imports from Israel were a possibility, when asked in an interview by the state-owned Al Mussawar magazine. “Anything can happen. Whatever achieves the best interests of Egypt, and of the Egyptian economy and the role of Egypt in the region. That will determine the decision to import gas from Israel,” he said.

## POWER

### Electricity ministry to provide additional 3,600 MW next summer against increased consumption

Source: *Journal Al Youm*, January 13, 2014

The Ministry of Electricity plans to add 3,600MW of electrical energy next summer to overcome growing electricity consumption, according to Electricity Minister Mohamed Hamed Shaker. During a press conference held Tuesday, Shaker said the government signed nine agreements with the Chinese government during President Abdel Fattah Al-Sisi’s visit. The agreements are for the construction of power plants that operate on coal with a 20,000 MW capacity over five years. The power stations will be constructed on the Red Sea and the Mediterranean, away from residential communities, Shaker said. “We will work to change the energy mix from almost total dependence on fossil fuels to renewable energy generated from the sun and wind as well as coal,” Shaker explained. Electricity subsidy allocations for the fiscal year (FY)

2014/2015 amount to approximately EGP 27bn, and the government plans to decrease this figure to EGP 20bn by FY 2015/2016 according to Shaker.

## TOURISM

### Russian tourists visiting Egypt exempt from entrance fees

Source: Egypt Daily News, January 12, 2014

The Ministry of Interior has chosen to exempt Russian tourists from paying a \$25 entrance visa upon arrival to Egypt, effective through 15 January to 30 April. A publication sent by the Travel Documents, Immigration and Nationality Administration to tourism companies stated that the exemption would be temporary. According to Adela Ragab, economic adviser to the Minister of Tourism, the exemption forms a means to support incoming tourism traffic from Russia, in its position as one of the most important tourism exporting countries to Egypt. "The main reason behind the subsidy is a decrease in the value of the rouble against the dollar by more than 50%," Ragab said, explaining that she hoped tourism traffic would not be affected throughout 2015 by the weak purchasing power of the rouble against other currencies.

## AUTOMOTIVE

### Automech Formula exhibition set to kick off in March

Source: Egypt Daily News, January 12, 2014

The Egyptian automobile market is awaiting the March kick-off of the Automech Formula exhibition, which will be held from 12-17 March of this year. This year's session is considered highly important for the market, after the dramatic events experienced by the country over the past three years and low attendance rates for the exhibition. Participants include 30 passenger car companies, over 70 accessory companies, and more than ten mass and light transport companies from around the globe, all of which were keen to participate and represent approximately 90% of companies operating in the Egyptian market. There are many companies on the must-watch list, which prompted the expansion of the fair by setting up separate tents for each company that are connected to the fair. It is expected that the final number of participants will be announced in the coming days following the completion of tent construction.

### Elsabaa Automotive Group achieves EGP 1.1bn sales in 2014, targets 20% growth in 2015

Source: Egypt.Com, January 10, 2014

Alaa Alsabaa, Chairman of the Board of Elsabaa Automotive Group, in an interview with Daily News Egypt describes the reasons behind a boom in the automotive sector during 2014. Due to the anticipation of new customs reductions to be applied on European cars this year, how do you view the impact of the Egyptian-European partnership agreement on the automobile sector and competing markets? The automobile market witnessed a slowdown in sales in recent months as a result of

customers' anticipating the new customs reductions for European cars, which will account for 2.5% of the price of the car. However, the response means lower cash reserves of foreign currency, which has pushed the dollar to rise by 4% on the black market. The dollar increasing against the pound will erase the customs reduction on European cars this year, as 90% of international auto companies raise their prices by 2% each year. The price of currency is one of the most important challenges facing the automotive sector, which observes government trends toward investors' demands in Egypt regarding the price of the pound against foreign currencies. This will form one of the most important issues to be discussed at the economic summit held in March, and the response to these questions will chart the future of the Egyptian economy.

## CONSTRUCTION

### Egypt Construction Federation selects 500 Firms to join Arabtec Giant Project

Source: *Aswat Masriya (Egypt Voices)*, January 14, 2014

Around 500 companies working in the contractors sector will participate in Arabtec's one-million homes project, stated Chairman of the Egyptian Federation for Construction and Building Contractors (EFCBC) Hassan Abdel Aziz on Monday. Arabtec's mega-project is expected to provide one million affordable units for low-income citizens in six years to spread in 13 different locations in Egypt, with cost of US\$40 billion. Arabtec Construction, L.L.C.- the leading construction company in the United Arab Emirates- agreed with Ministry of Housing, Utilities and Urban Communities to build one million houses in a project worth EGP 280 billion (\$40 billion) as pursuant to the public-private partnership system (PPP). The project is planned to cover 160 million metres on land provided by Housing Ministry. Abdel Aziz pointed out that choosing qualified companies to participate in this project was as pursuant to the EFCBC's recent meeting with Arabtec representatives.

## REAL ESTATE

### Real estate companies offer new diverse offers to attract clients to face recession

Source: *Bloomberg*, January 11, 2014

Buy an apartment and win a trip to the Asian country: this was the slogan adopted by some real estate companies to promote its housing units and projects during the recession of the real estate market in Egypt. Some of small- and medium-sized real estate companies tended towards providing gifts to motivate the client to buy their units. For each sold apartment, the company offers a free trip for four to Lebanon, Dubai, Bangkok and Malaysia, according to sales and marketing manager in Azmeel Group Real Estate Mostafa Saeed. Saeed said that every company has an expected and a possible profit target for itself during the year, and in order to reach it, the company tries to achieve the largest possible earnings through advertising and marketing. He added that method of marketing varies according to what every company requires. "Competitiveness between real estate companies is very high, especially since the housing unit prices are very limited to the same range, and

companies cannot compete on unit prices because the price is determined by the area in which the unit is located,” Saeed continued.

## INTERNATIONAL RELATIONS

### Ambassador reassures British companies’ commitment to Egypt

Source: [Ahramonline](#), January 13, 2014

“This is the right delegation to visit Egypt at the right time,” the British Ambassador to Egypt John Casson said during the UK ministerial delegation conference on Tuesday. He added that Egypt remains a land of opportunities and challenges for doing business. The visit of the British delegation to Egypt shows the commitment of the British side, the British ambassador said. The delegation is comprised of 51 companies. British investments in Egypt surpass \$5bn, Minister of International Cooperation Naglaa El-Ahwany announced on Tuesday. The minister discussed the Economic Summit, which will take place in March, stating that the main rationale behind the government efforts is to increase domestic and foreign investments. “The main goal is to place Egypt on the investment map, and the March conference will be the first step to accomplishing that,” the minister said.

## LAWS & REGULATIONS

### Customs confuses automobile market calculations

Source: [Al Monitor](#), January 11, 2014

The state approved December a 10% reduction in the current customs value according to the European partnership agreement signed by Egypt with the European Union (EU) in 2008 and applied in 2009. The agreement provided for a reduction in the customs value on products of European origin, deducted from the actual customs value for that year. Automobile sector workers were surprised at the beginning of 2015 to find new calculations applied under the name “pilot price”. It implies the rejection of prices offered by the company importing automobiles, whether agents, dealers, or even personal importers. The only prices accepted are those defined by customs, which has led to confusion within the sector, and many vehicles remain in the customs hangar. This decision, made by the customs authority, is due to the large number of incorrect bills for the values of cars received. These bills’ values were less than the real value announced by parent companies by nearly 50%, proving that importers have manipulated the selling price presented to customs. The authority took this step to limit the manipulation, said Magdy Abdel Aziz, chairman of the Egyptian Customs Authority, at the Business News conference in December.



**External debt rises to \$46.1bn at end of June 2014****Source: Egypt Independent, January 14, 2014**

Egypt's external debt has surged by 6.6% at the end of June 2014, totalling \$46.1bn, the Central Bank of Egypt (CBE) announced. During the same period the preceding year, external debt stood at \$43.2bn. The rise in debt is attributed to the "increase in net disbursement of loans, facilities and deposits (all maturities) to \$ 2.4bn". The CBE pointed out that the increase in debt was also due to the rise in most currencies used for borrowing against the dollar. "Debt service increased by \$109.5bn to \$3.2bn in FY 2013/2014, relative to the previous fiscal year," the CBE added. The ratio of the debt to gross domestic product (GDP) dropped to 16.4%, compared to 17.3% at the end of June 2013. Following the ousting of Mohamed Morsi, Egypt received financial support in the form of loans, deposits and funds from several countries and international bodies. Domestic debt reached EGP 1.8tn in June 2014, of which 84.7% was government debt and 3.2% was public economic authorities' debt. Between the end of June 2014 and the end of November 2014, the international foreign reserves declined from \$16.7bn to \$15.9bn, dropping by 4.8%. The reserves decreased again at the end of December to reach \$15.3bn.