



भारत का राजदूतावास, काहिरा

Embassy of India, Cairo

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OVERVIEW

During the month, Egyptian economy reverberated somewhat positively to the successful ratification and adoption of the new Constitution in December. Egyptian bourses made an impressive recovery and a sense of optimism pervades the market. However, budget deficit continues to be widened to reach US\$ 13.1 billion in the beginning of December and is expected to reach US\$ 33 billion by the end of the current fiscal year – 50 per cent higher than the projected figure. Similarly, Egyptian pound plummeted dangerously in December to reach an eight-year low figure prompting the Central Bank of Egypt and the government to initiate urgent measures. Further, talks with IMF for the conclusion of IMF loan deal have been postponed for the next year. Unfortunately, the Standard & Poor's downgradation of Egypt's sovereign rating to 'B-' from 'B', has also somewhat dampened the market sentiments. Nevertheless, as Egypt is gearing towards upcoming parliamentary

elections, the signs of political stability seem to be on the horizon. Consequently, Egyptian economy, however, has the potential to attract more investments and instill greater confidence among the businessmen and entrepreneurs.

MONETARY INDICATORS

Budget Deficit climbed to LE80.7 billion in current fiscal year; State revenues jumped by 40.3 per cent.

Egypt's budget deficit has risen to US\$ 13.1 billion (LE80.7 billion) in the first five months of the current fiscal year which is equivalent to 4.5 per cent of GDP. It was LE 58.4 billion during the same period last year. The state revenues has increased by 40.3 per cent to reach LE 108.5 billion during the first five months of the current fiscal year which is largely attributed to the increase in tax (46.1 per cent) and non-tax revenues (26.7 per cent).

Budget Deficit may rise to LE200 billion.

The Planning Minister announced that the Egypt's budget deficit may rise to LE200 billion (US \$33 billion) by the end of the current fiscal year. This is 50 per cent higher than the 2012/13 projected budget deficit of LE135 billion (US\$ 22 billion).

Egypt's stocks make impressive recovery in 2012.

Egypt's stocks defied political upheaval in 2012 when it emerged as the third-best performing stock market in the world in terms of per cent earnings. The main EGX30 index ended the year at 5,462 points – 50.8 points more than 2011

figure. Blue-chips Orascom Construction Industries (OCI), Commercial International Bank (CIB), Talaat Mostafa Group Holding (TMGH) and Orascom Telecom Holding (OTH) were the main market leaders for the year 2012.

Egypt pound falls to an eight year low figure.

The Egyptian pound plummeted to an eight year low, at LE 6.365, against the US dollar on in December. Fragile political situation, low foreign exchange reserves, uncertainty over the much awaited IMF loan deal and the rumors about a looming crisis and possibilities of Egypt going bankrupt are being cited as the reasons for such a fall in the value of the pound. EFG-Hermes, the largest investment bank in Egypt and the Middle East, in his report pointed out that the Egyptian currency may drop to 6.6 by the end of 2013.

Foreign exchange reserves at critical low; CBE introduced measures to boost currency market.

Central Bank of Egypt has announced that the foreign reserves have reached at a critically low level and must be maintained to repay the foreign debt and to import strategic goods in the country. To preempt the looming foreign currency crisis, the CBE has introduced a new FX auction system for buying and selling US

dollars. The new system took effect on 30 December, and is running alongside the current interbank currency market. The CBE made two auctions - US\$ 75 million, on each occasion, were offered to local banks with a maximum of US\$ 11 million per bank - in December under the new auction system. Further, the CBE introduced several measures to curb speculation on the US dollar in the domestic market. Firstly, the CBE put a limit on corporate cash withdrawals at \$30,000 per day. Secondly, it placed a two per cent administrative fee on individuals who purchase foreign currencies. Thirdly, the Egyptians banks are not allowed to hold long positions in US dollars of more than one per cent of their capital compared to 10 per cent before. Finally, President Morsy, in an earlier decree, forbidden a traveler to carry more than \$10,000 or its equivalent from the country.

Standard & Poor downgrades Egypt's sovereign rating to 'B-' from 'B'.

Standard & Poors' Credit Rating Agency has downgraded the Egypt's long-term sovereign rating to 'B-' from 'B' citing worsening domestic political situation as the reason behind the reduction in the rating. However, the agency kept the short-term rating unaffected at 'B' for both the foreign and the local currency debt. It warned that the rating

may reduce further if the government does not initiate effective measures to improve the nation's fiscal situation.

Egypt's PM in Amman to boost trade and energy ties.

Egypt's Prime Minister Hisham Qandil met with his counterpart Abdullah Ensour and Jordanian king Abdullah in Amman in December. Energy ties, conditions of Egyptian workers and bilateral trade featured prominently in their discussion. Egypt on its part agreed to resume natural gas supply to Jordan by agreed-up volume of 250 million cubic feet per day after the supply got disrupted due to political upheaval in the nation.

Egypt and IMF agree to delay loan decision.

Egypt and the International Monetary Fund have agreed to postpone a decision on a US\$4.8 billion loan, which was scheduled to be concluded in December, due to the domestic political situation. The discussions on the decision are now likely to be concluded in March-April next year.

Egyptian Economy may lose EGP 100 billion from strikes and demonstrations.

Minister of Planning and International Cooperation, Ahmed Al-Araby, revealed that strikes and demonstrations may cause a loss of EGP 100 billion, equivalent to 1 per cent of GDP, in the financial year 2012/13. About 1400 strikes and demonstrations took place in 2012, which have adversely affected the economy.

Draft law to raise sales tax on steel; Imposition of temporary protectionist fees on steel.

The Cabinet of Ministers has approved amendments to the sales tax law of 1991 which contemplates an increase in sales tax from 8 per cent to 10 percent. Meanwhile, the Ministry of Foreign Trade and Industry has imposed temporary protectionist fees of 6.8 per cent on imported steel, with a minimum rate of EGP299/ton for 200 days, aiming to protect the domestic industry from harmful trade practices.

Cabinet 'in principle' approves Islamic bonds.

The Cabinet has 'in-principle' approved a draft law on sovereign Islamic bonds, or sukuk, which would be further reviewed by the government's legislative committee before its submission to the legislative authority. The proposed law regulates the provisions and procedures

for issuing Islamic bonds, or sukuk, and determines financing, leasing and investment instruments. The law also regulates the authority that would issue and manage these bonds, and states that a special fund shall be established and financed by the owners of these instruments.

President's Morsy vacillated in his decision to raise taxes.

The ramifications of political turmoil became discernible on economics when President Morsy dithered in his decision to raise taxes on a wide range of consumer goods and services. On December 9, public announcement was made to raise taxes but within hours, on December 10, President Morsy put on hold the tax hike and ordered the government to carry out a 'societal dialogue' before its implementation. Analysts, however, believe that the possibility of an impending public anger due to rise in taxes, just a week before the referendum, might have influenced the President's retraction.

Egypt bans ownership of land and properties in 'Strategic Zones'.

Egyptian Minister of Defense, Abdel Fattah El-Sisi, put a ban on the ownership of properties (land and real estate) located in "strategic areas" of military

importance in Sinai and the Red Sea. The Armed Forces' Decree No 203 in 2012 is inclusive of land and houses that are five kilometers from the country's eastern borders with Gaza, except properties in the North Sinai city of Rafah. Neither Egyptians nor foreigners would be allowed ownership, usufruct or rent of lands or properties in affected zones, including the Red Sea's islands, natural reserves and archaeological areas.

Egypt is a gas-importing nation now.

Egypt's domestic production of gas is not able to match the rising demands and on December 17, Petroleum Minister unveiled that Egypt has been changed from a gas-exporting to a gas-importing country. The demand-supply deficit is likely to reach 3.7 billion cubic feet by 2018 at the current rate of consumption.

Slight reduction in Egypt's Foreign Reserves.

Egypt's net international reserves dropped US\$ 21 million to reach US\$ 15.014 billion at the end of December, compared to US\$ 15.035 billion at the end of November. Banking experts attribute such decline in international reserves to the political turmoil which affected negatively the volume of tourism income, direct investments and exports.

Rise in Suez Canal Revenues.

Revenues from Suez Canal reported to be US\$ 424.6 million in December. It has risen about 4 percent from the November revenues of US\$ 407.7 million.

Suez Canal fees may increase by 5 per cent from March 2013.

The Suez Canal Authority is contemplating to increase the Canal fees between 3 and 5 per cent from March 2013. Previously, the fee was increased by 3 per cent in March 2012.

BILATERAL RELATIONS

Ambassador Navdeep Suri met Dr. Osama Kamal, Governor of Cairo on 11 December 2012 to discuss various issues of cooperation particularly in the field of commerce and culture between the Embassy and Cairo Governorate. Ambassador also visited Aswan and Luxor from 21-24 December 2012 and met the Governors of the two governorates respectively. Ambassador took up various issues for collaboration between the Embassy and the two governorates.

On 30 December 2012, Ambassador met the Egyptian Minister of Planning and International Cooperation Mr. Ashraf El Araby and reviewed various

issues including launching of second phase of Pan-African E-Network, upgradation of vocational training centre in Shubra El-Kheima, project to light a village in Siwa using solar energy, setting up of IT centre of excellence at Al Azhar University and ITEC Programmes.

Reverse Buyer-Seller Meet.

Mission nominated and sent 5 delegates to Reverse Buyer Seller Meet of CAPEXCIL MEET 2012 which was held from 14th to 17th December 2012, coinciding with INDIA CHEM 2012 in Ahmedabad/ Jaipur, India.

Trade Enquiries.

During the month of December, 2012, there were a total of 42 trade enquiries, out of which 25 enquiries were from India and 17 from Egypt.

Trade Disputes.

There were a total of 6 trade disputes, 3 of which were received from Egypt, and 3 were received from India.

Training Programme.

Two ITEC candidates travelled to India for participating in the ITEC Programmes.

Dubai bank proposed to buy BNP Paribas.

Emirates NBD, the largest bank in Dubai, has decided to purchase the Egyptian arm of French bank BNP Paribas SA for US\$500 million. BNP has a network of 69 branches in Egypt and operates retail, corporate banking and private banking operations with retail banking making up the majority of its business. Emirates NBD would buy BNP's 95.2 percent stake in its Egyptian arm and has made an offer to minority shareholders for the remaining 4.8 percent. The deal is expected to conclude by early 2012.

Korean company wins bid to provide 20 AC trains to Egypt.

Rotem, a Korean company, has won a bid to provide 20 air-conditioned trains for Cairo's Marg-Helwan metro line. The project cost is EGP 2.16 billion (US\$ 338 million) and will commence one and half year after the signing of the contract between Rotem and the National Authority for Tunnels (NAT).

EU postpones aid to Egypt.

The European Union has reiterated that no promised aid would flow to Egypt until the country successfully concludes its deal with the IMF and initiates measures to improve the economy. It may recalled that the EU had announced

MARKET WATCH

several financial assistance packages for Egypt, the most recent one is the allocation of US\$5 billion to support the Egyptian economy.

African Development Bank tentatively agreed to provide US \$2.5 billion to Egypt.

The African Development Bank has tentatively agreed to provide Egypt with US\$2.5 billion loan over the next two years for investment and developmental projects, such as expanding the Sharm al-Sheikh International Airport, as well as other projects for renewable energy, electricity and sanitary drainage.

Turkey immunizes loan of US\$2 billion to Egypt against judicial rulings.

It has been reported that Turkey has immunized its US\$2 billion loan to Egypt against variables such as a court ruling. Turkey agreed to lend money to Egypt in advance of the International Monetary Fund decision, of which US\$500 million have already been disbursed, with US\$500 million to be paid in January 2013.

OAPEC Meeting in Cairo.

The 89th meeting of the Organization of Arab Petroleum Exporting Countries (OAPEC) Ministerial Council was held in

Cairo on 22 December. A number of Arab oil ministers and delegations from the UAE, Algeria, Saudi Arabia, Iraq, Kuwait, Qatar, Libya, Bahrain and Egypt attended the OAPEC meeting. The meeting, inter-alia, approved the OAPEC budget for 2013 and reviewed the latest developments related to the United Nations (UN) Framework Convention on Climate Change and Kyoto Protocol. Speaking on the occasion the Egyptian Minister of Petroleum and Mineral Resources, Osama Kamal, highlighted some of the recent measures taken by the Egyptian government to boost the energy security of the nation. He stressed on the importance of OAPEC meetings and said that it provides opportunities to discuss ways and means to achieve joint cooperation and exchange ideas to achieve better integration of the Arab oil markets.

African Stock Exchange Association (ASEA) Conference in Cairo.

The 16th annual general assembly of the 23-members African Stock Exchange Association (ASEA), themed as 'Unleashing Africa's investment potential', was held in Cairo on 2-4 December. In his inaugural speech the chairman of the Egyptian Stock Exchange highlighted the investment potential of Africa and the current challenges faced by the Egyptian economy. The president

of the ASEA made forecasts of the world economy in which he mentioned that India and China would occupy first and second position in world's top 10 economies in 2050. This list, he said, would also include Nigeria in sixth place and Egypt in tenth place. Prime Minister Qandil, inter-alia, spoke about the investment potentials of Egypt and the proposed loan deal with the IMF. He stressed on the need to improve the technical and legal infrastructure to achieve the desired integration among African markets. The ASEA Pan African Index, based on the FTSE methodology, was launched during the conference.

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