

AFRICA RISK CONSULTING

Egypt Monthly Briefing December 2018

Egypt Summary 10 December 2018

Egypt's cabinet announces a new round of tax reforms that will restructure how local banks calculate tax. A group of Egyptian lawyers petitions the Administrative Court to alter the constitution to amend presidential term limits. Italian prosecutors name five Egyptian intelligence officials as suspects in the January 2016 murder of Cambridge University (United Kingdom) PhD student Giulio Regeni and Italy's parliament suspends ties with Egypt's legislature.

Egyptian banks to see tax rises

Egypt's cabinet approved new measures for banks on 1 December that would separately tax their earnings from government debt by eradicating a provision that lets them deduct taxes already paid on treasuries from their bottom-line income tax.¹ The move could mean a double-digit increase in the effective tax rate for some banks,² and if approved, will raise the cost of buying government securities, as well as potentially inducing banking entities to divert funds away from treasuries to other sectors.³ According to the cabinet's statement, the new division would bring current accounting practices in line with international practices, allowing the government to tax earnings on yields in a fairer manner.⁴ The move is part of the Egyptian government's programme of overall tax reform. Government officials said the new formula could raise taxes to the sector by EGP 10 billion (\$179.23m).⁵

The move has been hotly debated since it was announced. Whilst there was some market pushback in the immediate aftermath, others have suggested that the move could encourage lenders to boost credit to the private sector and push up yields on treasury debt, raising its appeal among foreign investors.⁶ Economists have praised the move, believing it will force banks, which have historically been heavy on government debt, to lend more to the private sector.⁷

Cairo-based investment bank **CI Capital** suggested it is unlikely the change in accounting standards would be applied retroactively, meaning *"this would not affect current profitability, and [would] make the implementation more feasible, in our view."*⁸

Egypt revisits amending controversial presidential term limits

A group of Egyptian lawyers filed a court case on 8 December to try to force parliament to debate amending a constitutional clause that currently bars President **Abdel-Fattah el-Sisi** (2014-present) from running for a third term in 2022.⁹ If the amendment passes, it would signal a rubber-stamped return to autocratic rule in Egypt and an official end to the revolutionary politics that spurred on the

¹ Reuters, 1 Dec 2018.

² Enterprise, 23 Nov 2018

³ Reuters, 1 Dec 2018.

⁴ Press release, 21 Nov 2018.

⁵ Al Mal, Nov 26, 2018.

⁶ Enterprise, 28 Nov 2018.

⁷ Source, finance commentator, Cairo

⁸ CI Capital, research note, 25 Nov 2018.

⁹ Associated Press, Dec 8, 2018.

2011 revolution. Currently the country's constitution allows a maximum of two four-year terms.¹⁰ The move confirms the fears of rights activists and many in Egypt's business and political establishment that Sisi and his military allies would seek to circumvent the current constitution through the courts, which have in recent years increasingly been stocked with judges loyal to the president.¹¹

While Sisi has said he would not seek a third term, his allies within parliament and the media have periodically raised the issue.¹² Most recently it has been reported in the local press that moves to orchestrate changes to the constitution are underway. Local media reported on 4 December that one of the president's sons, **Mahmoud el-Sisi**, who works in the **General Intelligence Directorate**, has been overseeing a committee in charge of facilitating the extension of term limits, which, if successful, would enshrine the president's already authoritarian hold on power.¹³

Sources say there is increasing rebellion within the business sector over Sisi's leadership, specifically the idea of him becoming a president for life.¹⁴ His close alignment with the military, and their continued domination over manufacturing, are of great concern. The army has numerous competitive advantages over the private sector when it comes to land allocation and the lack of taxation imposed on their activities at a time when the government is increasingly subjecting businesses to taxation hikes.

*"The frustration of the lower and middle classes is increasingly being felt by those higher up the chain, there is a sense that a combination of punishing austerity and repression is pushing the country closer to a tipping point. And then there is the purely selfish angle of the rich feeling tax hikes, feeling outnumbered by a growing nouveau riche, military elite that the president has ushered in. And seeing that the military and the police are more than ever commercial entities, buying and selling the country. They have the lion's share of the pie now. Or at least, the perception that they do is growing."*¹⁵

Others who were once staunch supporters of the president believe his almost complete annihilation of civil society and control over all forms of media, in the form of draconian media laws and dubious buyouts by intelligence agencies, have gone too far and are damaging the country.¹⁶

Italy names Egyptian intelligence officers as murder suspects in Regeni case

Italian prosecutors have named five members of Egypt's **National Security Agency** as suspects in the murder of Italian doctoral student **Giulio Regeni**, signaling a major escalation of tensions over a stalled investigation that has troubled relations between Italy and Egypt since Regeni vanished in Cairo in 2016.¹⁷ Regeni, a **Cambridge** PhD student, was living in Cairo and conducting research on the politically sensitive topic of labour unions when his mutilated corpse was found on a desert road outside Cairo nine days after he disappeared, on 25 January 2016.¹⁸ The Italian prosecutors' decision followed a meeting between investigators from the two countries in which Italy was frustrated by Egypt's continued failure to hand over evidence related to the case.¹⁹

Several sources have suggested that Italy has renewed its push to find those responsible for the student's death after renewed public appetite in Italy for Regeni's killers to be brought to justice, as the newly elected populist government in Italy had made election promises to do so. Pressure

¹⁰ Associated Press, Dec 8, 2018.

¹¹ Mada Masr, Dec 4, 2018.

¹² Al Akhbar, Mar 20, 2018.

¹³ Mada Masr, Dec 4, 2018.

¹⁴ Source, former diplomat, Cairo

¹⁵ Source, op-ed columnist, Cairo

¹⁶ Source, former politician, Cairo

¹⁷ The Guardian, Dec 3, 2018.

¹⁸ The Guardian, Nov 29, 2018

¹⁹ Coreire Della Sera, Nov 28, 2018.

increased as the Italian parliament severed its relations with Egypt's legislature, and Egypt's ambassador to Italy was summoned to discuss the case.²⁰

In light of these recent developments and growing nervousness within the **European Union (EU)** about support for President Sisi's government, some sources have suggested that Egypt might be forced to make some concessions if the situation escalates. This could further strain already fraught relations. Other sources point to continued trade and other key partnerships between the two countries, including the **Zohr** gas field, overseen by Italy's state energy company, **ENI**, as preventing any kind of long-term spat, or escalation in terms of a boycott that they say was previously discussed and dismissed.

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

Dec 2018 **Cairo (Egypt)** *Enterprise*. **India's** prime minister, **Narendra Modi**, to visit Cairo for defence cooperation and trade relationship;

Dec 2018 **Cairo (Egypt)** *Enterprise*. Government due to announce date of its first auction of up to 10 million square metres of 'unused' state land;

Dec 2018 **Cairo (Egypt)** Cabinet set to unveil comprehensive development and infrastructure strategy for **Sinai**.

2022 Presidential elections

Chronology

12 Dec 2018 **Cairo (Egypt)** *Enterprise*. Egypt faces \$230 billion investment gap in infrastructure over the coming 20 years, the vast majority of it in transport;

10 Dec 2018 **Cairo (Egypt)** *Al Masry Al Youm*. The **World Bank** and the **Asian Infrastructure Investment Bank** commit fresh capital to Egypt;

10 Dec 2018 **Cairo (Egypt)** *Reuters*. **United Kingdom**-based oil company **BP** acquires a 25% stake in **Italy**-based **ENI's Nour** concession;

10 Dec 2018 **Cairo (Egypt)** *Al Mal*. **Carbon Holdings** secures additional \$1.25 billion in financing for petrochemical complex;

10 Dec 2018 **Cairo (Egypt)** *Enterprise*. **Sawari Ventures** is about to close its Egypt-focused venture capital fund, and announces the close of its \$35m **North African** fund;

10 Dec 2018 **Cairo (Egypt)** *Al Mal*. The Egyptian government walks away from its fuel hedging plan as an oil price plunge sees crude trading below budget prediction;

9 Dec 2018 **Cairo (Egypt)** *Al Borsa*. Average yields on Egyptian treasuries are stable at first auction after scrapping of **Central Bank of Egypt (CBE)** repatriation mechanism;

9 Dec 2018 **Cairo (Egypt)** *Central Bank*. The **Central Bank of Egypt (CBE)** announces that it terminated the foreign exchange repatriation mechanism for new portfolio investments on 4 December;

7 Dec 2018 **Cairo (Egypt)** *Press release*. State banks will not be able to prop up the Egyptian pound for much longer than "a few more months at most";

7 Dec 2018 **Cairo (Egypt)** *Enterprise*. The **European Bank for Reconstruction and**

²⁰ The New York Times, Dec 4, 2018

Development (EBRD) has appetite for privatisation programmes and sees Egypt as one of its top two investment destinations in 2019;

6 Dec 2018 **Cairo (Egypt)** *The Guardian*. The lawyer of the family of murdered **Italian** doctoral student **Giulio Regeni** names 20 more Egyptians as suspects in his killing;

6 Dec 2018 **Cairo (Egypt)** *Energy Egypt*. **Spain-based Siemens Gamesa Renewable Energy** captures 97% of wind energy market in Egypt and 53% in **Africa**;

5 Dec 2018 **(Egypt)** *Egyptian Streets*. **World Bank** pledges \$1 billion loan to support Egypt's reform programme;

5 Dec 2018 **(Egypt)** *Youm7*. Finance ministry looks to speed-up tenders for PPP projects: enabling private sector bidders to submit unsolicited bids and government to approve without tender process;

4 Dec 2018 **Cairo (Egypt)** *Reuters*. **Italy** places five Egyptian security forces members under investigation for kidnapping Italian student **Giulio Regeni**;

4 Dec 2018 **Cairo (Egypt)** *The Washington Post*. **Uber** CEO **Dara Khosroshawi** rolls out **UberBus** in Cairo;

4 Dec 2018 **Cairo (Egypt)** *Enterprise*. **Enterprise Egyptian Stock Exchange (EGX)** drops 2.4% to an 18-month low, as **Commercial International Bank's (CIB)** shares slip amid concerns over proposed amendments to the tax code that could see banks pay more into state coffers;

4 Dec 2018 **Cairo (Egypt)** *Youm7*. **Egyptian Stock Exchange (EGX)** is looking to roll out short-selling as early as 1Q2019;

3 Dec 2018 **Cairo (Egypt)** *Enterprise*. Finance ministry debt control strategy looks to reduce public debt to 72-75% of GDP by 2021-22.

2 Dec 2018 **Cairo (Egypt)** *Enterprise*. **Beltone** goes on offensive against IB division's suspension, saying it is bad news for ECM and M&A activity market-wide;

2 Dec 2018 **Cairo (Egypt)** *Press release*. **Naguib Sawiris' Orascom Investment Holding** aims to invest EGP 10 billion (\$557.8m) in real estate, consumer, logistics and non-banking financial services within two years;

2 Dec 2018 **Cairo (Egypt)** *Enterprise*. **TAQA Arabia, Hassan Allam** to inaugurate EGP 1.35 billion (\$75.3m) **Benban** solar plant next month;

30 Nov 2018 **Cairo (Egypt)** *Bloomberg*. **Morgan Stanley** favours Egypt as it sees emerging market bonds kicking off 2019 with "above-average returns";

28 Nov 2018 **Cairo (Egypt)** *Mada Masr*. **Italy's** Chamber of Deputies will cut ties with the Egyptian parliament over the **Giulio Regeni** murder;

28 Nov 2018 **Cairo (Egypt)** *The Hill*. The **United States Pentagon** approves \$1.2 billion in arms sales to Egypt;

28 Nov 2018 **Cairo (Egypt)** *Enterprise*. Foreigners dump Egyptian debt for the seventh month in a row amid further speculation that state banks are propping up the Egyptian pound;

28 Nov 2018 **Cairo (Egypt)** *Central Bank statement*. Foreign investors exited some EGP 24.3 billion-worth of Egyptian treasuries in October;

28 Nov 2018 **Cairo (Egypt)** *Enterprise*. Government treasuries to trade on the **Egyptian Stock Exchange (EGX)** in 1Q2019;

27 Nov 2018 **Cairo (Egypt)** *Enterprise*. **Egyptian Stock Exchange (EGX)** posted its fifth straight day of losses on 26 November amid selloff of financial shares as banks face higher effective tax rate;

27 Nov 2018 **Cairo (Egypt)** *Press release*. **Financial Regulatory Authority (FRA)** approves **Orascom's** bid for large minority stake in **Sarwa Capital**;

26 Nov 2018 **Cairo (Egypt)** *Al Borsa*. **Central Bank of Egypt (CBE)** is finalising the revised **Banking Act**;

25 Nov 2018 **Cairo (Egypt)** *Enterprise*. Egypt is on track to record a 2% primary budget surplus as revenue growth outpaces rising state expenditures;

25 Nov 2018 **Cairo (Egypt)** *Press release*. Mass transit app **Swvl** says it is valued at nearly \$100m after latest fundraising round;

22 Nov 2018 **Cairo (Egypt)** *Al Borsa*. Egyptian banks will see their taxes rise as a result of separately accounting for income from holdings of state debt;

20 Nov 2018 **Cairo (Egypt)** *Al Borsa* The **United Kingdom** is the leading non-**Arab** investor in **Egypt** and is reportedly in early talks with Egypt on a post-**Brexit** trade agreement;

18 Nov 2018 **Cairo (Egypt)** **Central Bank of Egypt** leaves interest rates unchanged;

15 Nov 2018 **Cairo (Egypt)** *Transition Report*. **European Bank for Reconstruction and Development (EBRD)** says Egypt's economy has seen "notable" decline in transparency of policymaking over past year, but gives Egypt high marks on other key indicators;

15 Nov 2018 **Cairo (Egypt)** *Press release*. Egypt paid **Dana Gas** \$111m in arrears owed in 2018.

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