

AFRICA RISK CONSULTING

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Egypt Summary 20 September 2018

An Egyptian criminal court orders the detention of Alaa and Gamal Mubarak, the sons of former president Hosni Mubarak (1981-2011), on charges of manipulating the stock market. Finance minister Mohamed Maait says international market woes have affected Egypt's economic progress. The finance ministry announces the completion of a new draft tax code.

Mubarak's sons re-arrested on graft charges

An **Egyptian** criminal court ordered the arrest of **Alaa** and **Gamal Mubarak**, the sons of deposed former President **Hosni Mubarak** (1981-2011), on charges of stock market manipulation on 15 September.¹ The sons of the ousted strongman were arrested along with seven others on charges of violating central bank and stock market regulations to make unlawful profits through dealing in shares of **Al Watany Bank of Egypt**.² The news followed a **Cairo** court's sentencing of former Mubarak-era information minister **Sawfat El-Sherif** to a three-year jail sentence and \$5.5m fine related to charges of corruption.³

The news of the Mubarak brothers' arrest caught many in Cairo by surprise. The case has been ongoing since 2012, and the accused have been allowed to remain on bail with travel bans in place.⁴ Some sources have suggested that the arrests are related to discomfort regarding the brothers' increasingly visible return to public life. The brothers are known for their flashy displays of wealth and obvious financial corruption, which remains a source of dismay for the current government. Amidst a punishing round of economic austerity measures, the government is keen to be seen as cracking down on corruption.

The EGX30 dropped to its lowest level since January 2017 on 16 September following the arrest. Shares in Egyptian investment bank **EFG Hermes** dropped 8.6% on news that the court also ordered the arrest of former co-CEOs **Yasser El Mallawany** and **Hassan Heikal**.⁵ The share price of **Qalaa Holdings** was down 6% after a staff member was detained in connection with the case.⁶

Several sources and some coverage in the local press argued that the arrest of those affiliated with EFG was unfair as it was having an unjust effect on the bank whose current management has no connection to the case. The suddenness of the arrests has once again prompted nervousness in the business community at a time when increasingly members of the political class or those in prominent positions are being targeted for court proceedings and or detention. Such arrests also do little to reassure investors that the political climate in Egypt is

¹ Al Mal, 15 Sep 2018.

² Reuters, 15 Sep 2018.

³ Al Ahram, 9 Sep 2018.

⁴ Al Arabaya, 15 Sep 2018.

⁵ Enterprise, 15 Sep 2018.

⁶ Bloomberg, 15 Sep 2018.

softening. On the contrary, they fit an ongoing pattern of escalation in an already tense political climate following the slashing of subsidies and high inflation.

Finance minister pits Egypt against growing market pains

Finance minister **Mohamed Maait** said on 5 September that Egypt's economy would have grown much faster had it not been for external shocks including high oil prices, rising rates in the **United States (US)**, and a strengthening US dollar. Maait said that Egypt is in a position to handle external market factors, though only up to a point:

*"It is worrying; however, we were able until now to absorb these negative effects. Egypt's economy has sources to address this. However, I have to be very honest – up to a limit. So hopefully what is happening will be corrected and will move into a stable position, because, yes, we are absorbing all these shocks – oil prices, emerging market problems, increasing interest rates – but if they continue like that, it will be a problem for us."*⁷

The minister has so far projected a face of public calm but sources have said that recent large-scale selloffs and a growing herd mentality arching against emerging markets have some in Egypt worried. Markets such as **Turkey, Argentina** and **Indonesia** are already seeing their currencies plunge, while **India** and **China** are seeing asset values slip.⁸ Several sources have aired concerns about the dangers of speculation in an expectation-driven market saying that if investors treat all emerging markets the same and sell regardless of the difference between countries like Egypt, compared to Argentina or Turkey it creates potential for upheaval.

*"I think it's unfair to put Egypt in the same basket as Turkey or Argentina, both of whom have been facing issues for some time now. The crises we are seeing have been building for a long time, whereas we see in the Egyptian market renewed positivity and growing proof of recovery."*⁹

Sources pointed to Egypt's push to move away from oil dependency and establish itself as an energy exporter in the region to quash claims that rising oil prices present a challenge to the government:

*"While higher oil prices could be problematic for Egypt, the market has taken active steps to reduce dependency and on the other hand macro-political indicators suggest that oil prices won't see overly significant hikes and that overemphasis on oil prices is causing unnecessary angst."*¹⁰

Other commentators have pointed to the recent cancellation of Egypt's third bond sale in a month, which would have seen offerings on 19 September for three- and seven-year bonds worth EGP 3.5 billion (\$195.4m), as evidence of trouble ahead, with yields soaring to highs of 19.64% amid a wider emerging market sell-off.¹¹

The **Central Bank of Egypt (CBE)** has also faced questions as to whether it has been carrying the Egyptian pound amid the ongoing selloff.¹² **Capital Economics** and several commentators on social media have suggested that the bank has intervened to support the

⁷ CNBC, 5 Sep 2018.

⁸ CNBC, 5 Sep 2018.

⁹ Source, venture capitalist, Cairo

¹⁰ Source, fund manager, Cairo

¹¹ Enterprise, 18 Sep 2018.

¹² Enterprise, 6 Sep 2018.

Egyptian pound in recent months, pointing to the relative stability of the EGP throughout the sell-off when compared to other currencies. CBE head **Tarek Amer** has denied these claims.

While Egypt is as on track as it can be to weather the emerging market storm, any sign that the central bank is intervening to prop up the pound is potentially problematic. However, watchers expect that under pressure from the **International Monetary Fund (IMF)**, this will not continue in the long term.

Finance ministry announces tax code overhaul

Finance minister Mohamed Maait announced the completion of a draft for a new tax code on 17 September.¹³ The bill has been sent to President **Abdel Fattah El Sisi** (2014-present) and is set to include an overhaul of the **Tax Authority's** inner workings in an effort to streamline tax procedures.¹⁴ Maait had said the law would reduce bureaucratic barriers and include provisions that would impact sales and real estate taxes. He had also said that the new policies seek to address tax evasion and corruption through improved transparency.¹⁵ The imposition of further taxes on tourism and real estate is also being studied. There has been repeated talk that the government will seek to tax advertising on social media.¹⁶ The draft budget has already seen tax revenues jumping to EGP770.28 billion (\$42.9m) in the new fiscal year 2018/19 from EGP624.20 billion (\$34.8m) in the current fiscal year.¹⁷

The move to overhaul the tax system comes as the government has also announced its intention to complete a comprehensive census of the country's informal economy which has long been unregulated and thus not subjected to taxation.¹⁸ Overhauling the taxation system is the most recent installment of an aggressive economic reforms package that was agreed to under the terms of a \$12 billion bailout loan from the IMF in 2016.

Plans to increase taxes and overhaul the collection and auditing processes have not been without controversy. The CBE said that it will not allow third parties to access bank account data belonging to companies or individuals, referring to a proposal by the tax authority to amend the law to allow access to account data by the finance ministry.¹⁹ CBE governor Tarek Amer said that the bank will not accept amendments to the income tax act that would allow the finance ministry access to company accounts.²⁰ Amer's statements came after tax authority head **Emad Samy** said that the finance ministry is seeking access to corporate bank data under proposed amendments to the income tax act to help combat tax evasion.²¹

Ultimately tax reforms further reflect the government's ongoing efforts to restructure finances through a range of measures including increasing targeted taxes, which is expected to help decrease Egypt's debt over time.

¹³ Enterprise, 18 Sep 2018.

¹⁴ Enterprise, 18 Sep 2018.

¹⁵ Enterprise, 18 Sep 2018.

¹⁶ Al Mal, 7 Sep, 2018.

¹⁷ Egypt Today, 25 Apr 2018.

¹⁸ Al Masry Al Youm, 5 Sep 2018.

¹⁹ Al Ahram, 26 Aug 2018.

²⁰ Al Ahram, 26 Aug 2018.

²¹ Al Ahram, 26 Aug 2018.

Planner

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

25 Sep 2018 **Cairo (Egypt)** *Al Masry Al Youm*. President **Abdel Fattah El Sisi** to attend the **General Assembly of the United Nations** where he is expected to meet **United States** President **Donald Trump**, **German** Chancellor **Angela Merkel** and **French** President **Emmanuel Macron** on the sidelines;

26 Sep 2018 **Cairo (Egypt)** *Enterprise*. **E-commerce Summit** takes place in Cairo;

27 Sep 2018 **Cairo (Egypt)** *Al Mal*. **Central Bank** meets to review interest rates;

Oct 2018 **Khartoum (Sudan)** *Press release*. Presidential summit between **Egypt** and Sudan;

Oct 2018 **Cairo (Egypt)** *Enterprise*. **Moroccan** trade delegation will visit Egypt to discuss ways to step up Egyptian exports to **West Africa** through **Rabat**,

Nov 2018 **Cairo (Egypt)** *Al Masry Al Youm*. **French** President **Emmanuel Macron** to visit Cairo with trade delegation;

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

Chronology

18 Sep 2018 **Cairo (Egypt)** *Press release*. **A15** completes dragon sale of 76% stake in **TPAY** to **Helios Investment**;

17 Sep 2018 **Cairo (Egypt)** *Enterprise*. The **EGX30** posts its biggest one-day loss in more than 18 months;

17 Sep 2018 **Cairo (Egypt)** *Press release*. Foreign minister **Sameh Shoukry** discusses power interconnection with his **Greek** and **Cypriot** counterparts ahead of a planned summit set to take place soon;

16 Sep 2018 **Cairo (Egypt)** *Al Masry Al Youm*. **Gamal** and **Alaa Mubarak** are detained along with **Hassan Heikal**, **Yasser El Mallawany**;

16 Sep 2018 **Cairo (Egypt)** *Press release*. Government signs \$1 billion in exploration agreements with **Shell**, **Petronas**;

16 Sep 2018 **Cairo (Egypt)** *Press release*. Government is hoping to raise EGP 2.8 billion (\$156.3) from the sale of a 20% stake of the **Alexandria Mineral Oils Company (AMOC)** on the **EGX**;

13 Sep 2018 **Cairo (Egypt)** **KarmSolar** to raise EGP 500m (\$27.9m) for expansion plans, contracts **Attijari** as adviser;

12 Sep 2018 **Cairo (Egypt)** *Press release*. **French** companies, including **Air Liquide** and **L'Oréal**, are looking expand their investments in Egypt;

12 Sep 2018 **Cairo (Egypt)** Egypt signs €20m (\$23.5m) solar energy agreement with **TSK**;

12 Sep 2018 **Cairo (Egypt)** *Press release* Egypt cancels second T-bond sale this month due to high yields;

10 Sep 2018 **Cairo (Egypt)** *Press release* Headline inflation inches up again in August after brief slowdown in July, monthly core inflation eases to 1.8%;

10 Sep 2018 **Cairo (Egypt)** **CIRA** announces price range for IPO, first day of trading by 1 October;

9 Sep 2018 **Cairo (Egypt)** *Al Mal*. Five state companies to list, sell shares in the **EGX** in 1Q2019;

9 Sep 2018 **Cairo (Egypt)** *Enterprise*. **BP** to invest \$2 billion in Egypt next year;

9 Sep 2018 **Cairo (Egypt)** *Bloomberg*. **Kuwait** is new “darling” of investors in regional equities;

10 Sep 2018 **Cairo (Egypt)** *Enterprise*. Managing Egypt’s foreign debt is now top priority for the **Madbouly** cabinet;

10 Sep 2018 **Cairo (Egypt)** *Reuters*. Egypt’s foreign debt grew to \$92.64 billion at the end of FY2017-18,

9 Sep 2018 **Cairo (Egypt)** *Enterprise*. Foreign investors exited some EGP 29.9 billion worth of Egyptian treasuries in June, but finance ministry downplays impact of emerging markets crisis on Egyptian pound.

7 Sep 2018 **Cairo (Egypt)** *Al Borsa*. State energy contractor **Enppi** IPO “likely” to take place in 1Q2019;

6 Sep 2018 **Cairo (Egypt)** *Enterprise*. **Carbon Holdings** to sell a 30% stake in an IPO slated for 2Q2019, and looks to borrow \$1 billion for **Tahrir** petrochemical complex;

5 Sep 2018 **Cairo (Egypt)** *Al Mal*. Short-selling to be introduced early in 2019;

4 Sep **Cairo (Egypt)** *Al Mal*. Egypt wealth fund to initially focus on petrochemicals, tourism, pharma;

30 Aug 2018 **Cairo (Egypt)** *Al Mal*. President El Sisi in **China** this weekend for **GERD** meeting, bilateral talks, **Hamrawein** contract signing;

28 Aug 2018 **Cairo (Egypt)** *Enterprise*. **TAQA Arabia, Hassan Allam** break ground on solar plant in **Benban** complex.

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