

AFRICA RISK CONSULTING**Egypt Monthly Briefing January 2019****Egypt Summary 17 January 2019**

United Kingdom (UK)-based financial services company Standard Chartered tips Egypt as one of the world's top economies in 2030. An improvised explosive blast kills three Vietnamese tourists and a tourist guide in a terrorist bomb attack at the Giza Pyramid. Egypt's government studies changes to capital gains taxation under an income tax amendment that could even the tax burden of publicly listed and private companies.

Standard Chartered sees Egypt as 10 top economy by 2030

Egypt will be one of the world's top 10 economies by 2030, according to a forecast by **United Kingdom (UK)-based financial services company Standard Chartered**.¹ Using purchasing power parity exchange rates and nominal gross domestic product (GDP) to predict the world's GDP rankings, Standard Chartered placed Egypt in 7th place, ahead of **Russia, Japan** and **Germany**, in its report released on 8 January. The ranking is a further vindication of the Egyptian government's efforts to reform the country's previously flagging economy.² The report also noted that as many as seven of the world's top 10 economies in 2030 may be currently classified as emerging markets.³ The report came as **United States (US)-based Citi Bank** named Egypt as its favourite frontier market for 2019 on 8 January, noting above average growth, earnings momentum and other positive signals, including the government's continued push to implement a raft of economic forms.⁴

"The Sisi government is pushing ahead with an ambitious package of reforms, and while the country's 2016 [International Monetary Fund] IMF programme has faced some delays, the programme is likely to underpin macroeconomic stability, supported by growth in gas production and tourism."⁵

In a further sign of confidence in Egypt's economy, **United Arab Emirates (UAE)-based start-up platform MAGNiTT** has cited Egypt as the fastest growing startup ecosystem in the **Middle East and North Africa (MENA)** in 2018.⁶ In its **2018 Mena Venture Investment Report** released on 9 January, MAGNiTT reported that Egypt received the second highest number of deals at 22% of all deals, up 7% from 2017. The MAGNiTT report described Egypt as the second-largest MENA ecosystem after the UAE, with Egyptian-grown fintech startups increasingly gaining a lion's share of investment money in the region. Notable mentions included mass transit apps **Halan** and **Swvl**, which MAGNiTT estimated raised more than \$20m in a recent Series B round.⁷

¹ Bloomberg TV, 8 Jan 2019.

² Bloomberg TV, 8 Jan 2019.

³ CNBC Africa, Jan 8 Jan 2019.

⁴ CNBC Africa, 8 Jan 2019.

⁵ CNBC Africa, Jan 8, 2019.

⁶ MAGNiTT's 2018 Mena Venture Investment Report

⁷ MAGNiTT's 2018 Mena Venture Investment Report

Cairo-based Beltone Financial has also projected that the Egyptian economy will grow 6% this year, driven by infrastructure projects,⁸ while the **World Bank** on 27 December praised Egypt's renewable energy framework as one of the three fastest-improving globally.⁹

Bombing attack claims the lives of four tourists

Three **Vietnamese** tourists and an Egyptian tour guide were killed and at least 10 others injured on 28 December when an improvised explosive blast hit their tour bus as they were leaving the **Giza** pyramids.¹⁰ The bombing is the first deadly attack of its kind in over a year and comes as the tourism sector, a vital source of foreign currency flows, is recovering from a significant drop in tourist numbers since the 2011 revolution.¹¹ The attack came with security on high alert over the Christmas season when militants have previously targeted Egypt's minority Coptic Christian population. The government announced on 29 December that it had killed a total of 40 militants, although there was no announcement about whether the militants were responsible for the attack.¹² Just days later on the evening before Coptic Christmas day, a policeman was also killed trying to defuse a bomb planted outside a church in East Cairo.¹³

In a controversial interview with **CBS America's 60 Minutes** news magazine on 8 January, President **Abdel Fattah El Sisi** (2014-present) came under fire for his government's inability so far to quell what El Sisi has labelled "*a relatively small insurgency*", despite receiving billions of dollars of military aid from the US over the past five years.¹⁴ A Cairo-based think tank policy expert claims the Giza attacks show that the strategy against the militants has not worked:

*"If anything, the repression of the government has only served to gain the extremists an even larger following, that had not previously existed before so many people were radicalised during their time in prison."*¹⁵

Egypt has been at pains to assure Western tourists that the country is safe, following a slew of attacks, including the downing of a Russian airliner in 2015 that killed all 224 people on board.¹⁶ Despite the government's lobbying efforts, there are still no direct flights from major tourist markets such as the UK and Russia to Egypt's biggest **Red Sea** resort, **Sharm el Sheikh**, since the 2015 attack.¹⁷

Government studies changes to capital gains tax

Proposed amendments to income tax regulations would impose a 10% capital gains tax on listed and privately held companies alike,¹⁸ a move that some analysts hail as another important step in Egypt's road to economic reform.¹⁹ Currently, unlisted companies pay 22%

⁸ Beltone report, Jan 2019

⁹ World Bank

¹⁰ Associated Press, 28 Dec 2018.

¹¹ Associated Press, 28 Dec 2018.

¹² Reuters, 29 Dec 2018.

¹³ Associated Press, 6 Jan 2019

¹⁴ CBS, 8 Jan 2019.

¹⁵ Source, think tank expert, Cairo

¹⁶ Reuters, 29 Dec 2018.

¹⁷ Reuters, 28 Dec 2018.

¹⁸ Enterprise, 8 Jan 2019.

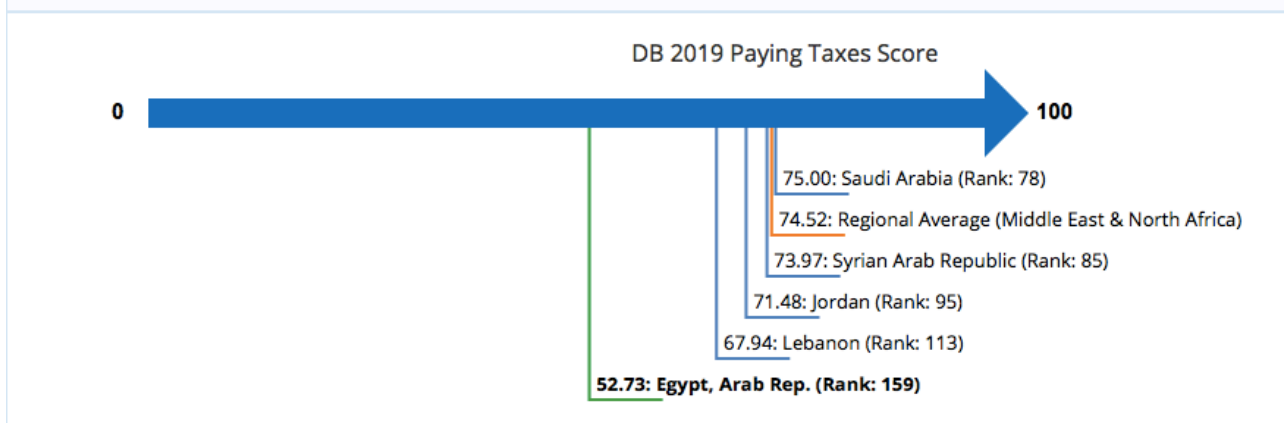
¹⁹ Al Borsa, 9 Jan 2019.

tax on capital gains, while listed corporations are subjected to a 10% tax.²⁰ The levy for listed companies has been on hold until 2020, following calls from investors to delay implementation.²¹ The amendments, which the government will discuss in the coming weeks, are related to the previous decision that would alter how banks pay tax on government debt (see *ARC Briefing Egypt December 2018*).

Those in favour of the proposed amendments say such measures are necessary to streamline the existing tax code.²² Private companies pay larger fees on financial transactions as well as stamp duty.²³ Some suggest that stamp duty could be removed altogether should these new amendments get the go ahead from parliament.²⁴ If the measure goes through it could streamline transaction costs and even the playing field so that private and public companies pay the same costs.

In its **2019 Doing Business Report**, the World Bank ranked Egypt 159th out of 180 countries in its “*Paying Taxes*” category, with a score of 52.73, well below the regional MENA average of 74.52.²⁵ The “*Paying Taxes*” topic records the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, and measures the administrative burden of paying taxes and contributions and complying with post-filing procedures.²⁶

Figure – Paying Taxes in Egypt, Arab Rep. and comparator economies – Ranking and Score



Source: World Bank Doing Business 2019

²⁰ Source, company CFO, Cairo

²¹ Reuters, 21 Mar 2017.

²² Al Borsa, 9 Jan 2019.

²³ Enterprise, 8 Jan 2019

²⁴ Enterprise, 8 Jan 2019

²⁵ World Bank, 31 Oct 2018

²⁶ World Bank, 31 Oct 2018

Planner

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

19 Jan 2019 **Cairo (Egypt)** *Enterprise*. **Cairo Criminal Court** scheduled hearing on **Gamal** and **Alaa Mubarak** stock manipulation case;

20 Jan 2019 **Cairo (Egypt)** **Cairo Court on Urgent Matters** to hear an amendment to the constitution to extend presidential term limits;

26 Jan 2019 **Cairo (Egypt)** **Supreme Administrative Court** to hear ride-sharing companies **Uber** and **Careem's** appeal.

Feb 2019 **Israel's** energy minister will visit Egypt in February for high-level talks;

Chronology

17 Jan 2019 **Cairo (Egypt)** *Enterprise*. Government considers jumpstarting privatisation programme in March;

16 Jan 2019 **Cairo (Egypt)** *Al Hayat*. Presidential decree requires senior officials to obtain government approval for overseas travels;

16 Jan 2019 **Cairo (Egypt)** *Bloomberg*. Egypt and **Israel** are in early talks to build a new underwater natural gas pipeline;

15 Jan 2019 **Cairo (Egypt)** *Reuters*. Eastern **Mediterranean** gas players (**Cyprus, Greece, Israel, Italy, Jordan, Palestinians**) vow to establish regional market, choosing Cairo as headquarters for the new organisation;

14 Jan 2019 **Cairo (Egypt)** *Al Mal*. The oil ministry states Egypt will halt fuel imports within two years;

14 Jan 2019 **Cairo (Egypt)** *Press release*. **United States (US)**-based **Citi Bank** names Egypt as its most attractive frontier market for 2019;

10 Jan 2019 **Cairo (Egypt)** *MAGNiTT Report*. Egypt is the fastest growing startup market and second largest in the **Middle East and North Africa (MENA)**;

10 Jan 2019 **Cairo (Egypt)** *World Bank Press release*. Egypt's growth will accelerate 0.2% faster this year;

10 Jan 2019 **Cairo (Egypt)** *IFC press release*. **United States**-headquartered **International Finance Corporation (IFC)** aims to invest \$5 billion in Egypt over the next five years;

10 Jan 2019 **Cairo (Egypt)** *Enterprise*. The finance ministry completes its draft of a "more realistic" comprehensive debt control strategy, and raises public debt targets;

9 Jan 2019 **Cairo (Egypt)** *Standard Chartered report*. **United Kingdom**-based financial services company **Standard Chartered** sees Egypt as one of world's top 10 economies in 2030;

8 Jan 2019 **Cairo (Egypt)** *Youm7*. Foreign exchange reserves fall for the first time since the float of the Egyptian pound;

8 Jan 2019 **Cairo (Egypt)** *Enterprise*. 95-octane fuel could move up or down 10% as a result of the new price mechanism imposed by the **International Monetary Fund**

(IMF);

8 Jan 2019 **Cairo (Egypt) Enterprise**. The **Financial Regulatory Authority (FRA)** is looking to file criminal case against **Beltone** officials over the **Sarwa IPO**;

8 Jan 2019 **Cairo (Egypt) Al Mal**. **Alexandria Mineral Oils Company (AMOC)** has decided to hold off on the sale of a 20% stake on the **Egyptian Stock Exchange (EGX)** until the company's profitability rebounds;

6 Jan 2019 **Cairo (Egypt) Associated Press**. An Egyptian policeman is killed while trying to defuse a bomb outside a church;

6 Jan 2019 **Cairo (Egypt) Enterprise**. **New Administrative Capital** will hire foreign companies to manage new capital services;

6 Jan 2019 **Cairo (Egypt) Al Borsa**. The **EGX30** fell 13.2% in 2018 amid emerging markets sell-off;

6 Jan **Cairo (Egypt) Press release**. Egypt will auction \$750m worth of one-year **United States** dollar-denominated treasury bills;

6 Jan 2019 **Cairo (Egypt) Press release**. The **National Investment Bank (NIB)** is expected to nominate nine state-owned companies for the second phase of the state privatisation programme;

6 Jan 2019 **Cairo (Egypt) Enterprise**. The finance ministry aims to reduce Egypt's public debt to 80-85% of GDP by the end of FY2021-22;

3 Jan 2019 **Cairo (Egypt) Reuters**. **Israel's** energy minister will visit Egypt in February for high-level talks;

2 Jan 2019 **Cairo (Egypt) IMF press release**. Egypt will receive the fifth tranche of its **International Monetary Fund (IMF)** facility this month;

2 Jan 2019 **Cairo (Egypt) Al Borsa**. The **Central Bank of Egypt** leaves interest rates on hold, sets new, lower inflation target;

2 Jan 2019 **Cairo (Egypt) Beltone report**. Egypt's economy is forecast to grow 6% this year, driven by infrastructure projects;

2 Jan 2019 **Cairo (Egypt) Associated Press**. Four people are killed in a terror attack near the **Giza Pyramids**;

27 Dec 2018 **Cairo (Egypt) World Bank statement**. Egypt's renewable energy framework is one of the three fastest-improving globally;

26 Dec 2018 **Cairo (Egypt) Bloomberg**. The **International Monetary Fund (IMF)** will disburse its fifth tranche of Egypt's extended fund facility this month, following extended talks with the government over elements of its reform programme;

27 Dec 2018 **Cairo (Egypt) Bloomberg TV**. President **Abdel Fattah El Sisi** expresses frustration with Egypt's slow pace of change;

24 Dec 2018 **Cairo (Egypt) Press release**. **Global Egypt** ranked 135 out of 149 countries in the **World Economic Forum's** gender index;

24 Dec 2018 **Cairo (Egypt) Enterprise**. The **Financial Regulatory Authority** rejects **Beltone Financial's** appeal of a six-month suspension handed to its investment banking arm over alleged irregularities in the IPO of **Sarwa Capital**;

23 Dec 2018 **Cairo (Egypt)** *Enterprise*. **Sarwa Capital** shares are down 7% in day two after **Orascom Investment Holdings (OIH)** acquisition;

18 Dec 2018 **Cairo (Egypt)** *Capital Economics research note*. Egypt is “*paving the way*” for a weaker Egyptian pound with simplified foreign exchange policy;

13 Dec 2018 **Cairo (Egypt)** *Enterprise*. Egypt asks the **World Bank** and the **International Monetary Fund (IMF)** to include the parallel economy in its gross domestic product (GDP).

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