

Embassy of India
Cairo

No. CAI/CW/201/02/2010

22 December, 2011

Economic and Commercial Report for the month of November, 2011

Overview

The Egyptian government forecast a deficit of 8.6 percent of gross domestic product in the financial 2011-2012 (July-June) although some economists described this as optimistic. The 2010-11 deficits have been officially estimated to come in around 9.5 percent. The facility had a three-year term at an interest rate of 1.4 percent, with an 18-month grace period.

Revenue from Egypt's Suez Canal rose 4.8 percent from a year earlier to US\$447.9 million in October, up 2.2 percent from a month earlier.

Egypt's Central Bank lost US\$2 billion from its international cash reserves in October, bringing its reserves down from \$24.1 billion in September to \$22.1 billion the following month.

Monetary Indicators

Total deposits in banking system, (excluding the Central Bank of Egypt), attained LE 972.8 bn. during August 2011, increasing by about 6.8% compared with its level during the same month of the previous year. Besides, total domestic liquidity reached LE 1024.3 bn. during August 2011, attaining a rise of around 9.5% compared with its level during the same month of the previous year.

Suez Canal revenues

Receipts of Suez Canal attained US\$ 447.9 million during October 2011, recording a decrease by about 5.2% compared with their level during the same month of the previous year.

The canal's revenues in October 2010 were \$427.3 million. Revenues in September 2011 were \$438.3 million.

International Reserves

Net international reserves reached US\$ 22.1 bn. at the end of October 2011, achieving a decrease by nearly 37.7% compared with its level during the same month of the previous year. Total cash reserves fell from \$26.6 billion in June and \$ 36 billion in the beginning of the year

Foreign assistance

The government said it is open to fresh proposals from the IMF. Egypt had earlier turned down a \$3.2 billion financing package offered by the International Monetary Fund in the summer, arguing at the time that it would meet its financing needs locally and that the ruling military did not want to build up debts.

Egypt was to receive US\$200 million to support its budget from the Abu Dhabi-based Arab Monetary Fund (AMF) in November and a second tranche of financing worth \$270 million in December. Egypt has so far received \$1 billion in budgetary support from Gulf States to help to cover its deficit which expanded after the uprising in January-February 2011.

Electricity

Total generated electricity attained 12898.0 million kwh during October 2011, recording an increase by about 0.8% compared with its level during the same month of the previous year. Total consumption of electricity reached 11886.1 million kwh during October 2011, increasing by about 4.4% compared with its level during the same month of the previous year.

Railway Transportation

Revenues of railway passengers reached LE 740.1 million during the period (Jan. – Oct.) 2011 decreasing by about 0.4% compared with their level during the same period of the

previous year. As for the revenues of railway cargo, they attained LE 175.1 million during the period (Jan. – Oct.) 2011 registering a 31.1% decrease compared with their level during the same period of the previous year

Inflation Rate

Inflation Rate	September 2010	August 2011	September 2011	Amount of Change	
				Monthly	Annual
Monthly	1.4	1.4	0.3	-1.1	-1.1
Annual	11.0	8.2	7.1	-1.1	-3.9

Stock Market Indicators:

Item		October 2010	September 2011	October 2011	Change (points)	
					Monthly	Annual
General Index of the Egyptian capital market		1433.06	474.30	555.56	81.3	-887.5
EGX Index	30	1429.91	920.95	990.20	69.3	-439.7
EGX Index	70	668.24	458.40	486.65	28.3	-181.6
EGX Index	100	1090.39	707.65	764.66	57.0	-325.7

Bilateral Developments

Trade

The total trade between India and Egypt during the first quarter of Egyptian FY (July-Sept. 2011) increased by 23.8% reaching US\$ 825.15 million against US\$ 666.10 million in the corresponding quarter (July-Sept. 2010). Indian exports to Egypt during the period decreased by 3.4% reaching US\$ 374.83 million against US\$ 387.93 million in the corresponding quarter last year while India's imports from Egypt increased by 61.8% reaching US\$ 450.32 million against US\$ 278.17 million. Top items exported to Egypt during the quarter were Frozen Meat (US\$ 42 million), Cotton Yarn (US\$ 33 million), Synthetic Filament Yarn US\$ 17 million, Telephones for cellular networks US\$ 14 million and Motorcycles with reciprocating internal Combustion piston engine 50-250cc US\$ 10 million). Higher quantities of crude oil contributed in a major way to the quantum jump in India's imports (US 395 million against US\$ 224 million in the corresponding quarter of 2010). Other items of Indian imports included Lucerne (alfalfa) seeds (US\$ 11 million) and Natural Calcium Phosphates US\$ 10 million).

Visits

A 3-member delegation led by Shri K. Ramalingam, Joint Secretary(FT &TR-II) accompanied by Shri Sukesh Kumar Jain, Director(FT & TR-IV) and Shri Prashat Kumar Jha, US(FT &TR-IV) visited Cairo from 14-17 November, 2011 and held Fourth Round of negotiations on Double Taxation Avoidance Convention(DTAC) with Egyptian Tax Authorities. The Egyptian delegation was headed by Dr. Mostafa Abdel Kader, Head of Egyptian Tax Authority, Ministry of Finance, and Egypt.

Other activities

5(five) Egyptian delegates were selected by PHARMEXCIL to attend the International Pharma Business Meet and Reverse BSM in Mumbai on 28th & 29th November 2011.

Total Trade Enquiries: 73

Indian enquiries : 32

Egyptian Enquiries : 41

Trade Disputes : 3

Indian : 0

Egyptian : 3

9 ITEC Candidates traveled to India in November, 2011.

One Egyptian nominee traveled to India for training under IAFS scheme.

Market Watch

Egypt's wheat production from declined

Egypt's wheat production from the fiscal year 2009 to 2010 declined by 15.8 percent from the year before to reach 7.17 million tons, a government report indicated. According to the plant production report for the fiscal year 2009-2010, price drops and low productivity due to global warming caused the decline. The report also said that Egypt's rice production declined to reach 4.33 million tons as compared to 5.52 million tons the year before. This decline was attributed to a decision by Ministry of Water Resources and Irrigation last year to reduce land allocated to rice cultivation.

The Egyptian pound lowest in almost seven years

The Egyptian pound was bid as weak as 6.0036 to the US dollar, its lowest in almost seven years owing to country's deepening funding crisis. The central bank spent almost US\$2 billion of its foreign reserves in October, partly to

support the currency, traders say. The pound was at its weakest since January 2005.

The Central Bank of Egypt unexpectedly raised interest rates

The Central Bank unexpectedly raised interest rates for the first time in about two years, trying to defend the local currency which has weakened following a depletion in country's foreign reserves.

LE90 billion in investments suspended due to upheavals

According to Petroleum Minister Abdullah Ghorab, a number of global companies have suspended some US\$15 billion (LE90 billion) in investments because of the current political upheaval. "These investments were going to create 15,000 direct and indirect job opportunities," Ghorab said.

Availability of food

As per the Head of the surveillance and distribution section at the Social Solidarity Ministry, sufficient food is available in Egypt for the remainder of the transition period. The ministry has a strategic reserve of wheat estimated at five million tons which can last up to six months. The ministry also has large amounts of subsidized cooking oil estimated at around 250,000 tons, enough for three months, he added. Sugar stock will be sufficient until the end of February. The Social Solidarity Ministry has 265,000 tons ready to be distributed, in addition to 179,000 as a strategic reserve. The ministry also has enough rice for three months.

Tourism

According to Tourism Minister, travel agencies in four major markets for tourists have stopped booking flights to Egypt; the Ministry has received official reports describing international reactions to the events in Tahrir. He added that several travel agencies in Russia, Japan, Italy and Britain have canceled their reservations in Egypt which may bring a sharp drop in the flow of tourists to Cairo.

International Monetary Fund package

Egypt intends to accept a funding package of US\$3.2 billion from the International Monetary Fund (IMF) it had rejected earlier this year, according to Egypt's Finance Minister, who explained that Egypt will accept the funding because of an increase in local government debt. Egypt needs to diversify its debt and decrease its dependence on domestic borrowing ever since treasury bills have jumped to high levels. In June this year, the government rejected a \$3.2 billion loan package from the IMF and said it would depend on local funding sources, explaining that the Supreme Council of the Armed Forces was not keen to increase Egypt's foreign debt. Egypt's budget deficit is expected to reach 8.6 percent of GDP in fiscal year 2011-2012.

Bidding for natural gas exploration

Egypt's state-owned gas company Egas plans to hold a bidding round for natural gas exploration early next year. In October, the Egyptian General Petroleum Corporation (EGPC) said it would hold the bidding round to explore for oil and gas and had invited international companies. Egypt's current oil and condensate production is currently in the range of 700,000 barrels per day (bpd), while gas output is around 6 billion cubic meters. Egypt's proven reserves of oil and gas rose to 18.3 billion barrels of oil equivalent in the year ending June 2010.

Methanex Corp to shut down plant

Canada's Methanex Corp, the world's largest methanol supplier, said it will shut down its plant in Egypt due to political unrest in the country. Vancouver-based Methanex, which supplies methanol to markets in the Americas, Asia-Pacific and Europe, said it will restart the plant in a timely manner once order has been restored in the area. The Egyptian facility started commercial operations in March.

Telecom Egypt posted a 21 percent drop in third-quarter net profit

Land-line monopoly Telecom Egypt posted a 21 percent drop in third-quarter net profit. The company, which is banking on data services to offset lower fixed-line income, said its net income fell to LE622.7 million (US\$104.2 million) from 789.8 million in the same period a year earlier. Consolidated operating revenues fell 10 percent to LE2.35 billion amid continued disruption to Egypt's business environment and seasonal effects of the Muslim holy month of Ramadan, it said.

Ghabbour Auto third-quarter net income rose 25 percent

Egypt's Ghabbour Auto (GB) reported its third-quarter net income rose 25 percent year-over-year to LE89 million (US\$14.9 million), but added that this growth may be temporary due to market volatility. The firm, Egypt's biggest listed automobile assembler, said its net income was 71.4 million pounds in the same quarter of 2010. It also reported revenues of 2.38 billion pounds for the third quarter this year, a 16.5 percent increase over last year. The company's second quarter net profit fell 35 percent. GB Auto, the top passenger car importer and distributor in the Middle East and North Africa, said growth was underpinned by its financing business and strong sales of motorcycles and three-wheelers. Three-wheeler unit sales were record-breaking for the third consecutive quarter, while the expansion of the financing businesses has paid off in significant revenue gains," the company said.

The government to continue ban on rice exports

The government intends to continue banning rice exports to meet the needs of the local market, a senior Agriculture Ministry official said, adding that some exporters are circumventing the export ban. The report has found that 1.5 million acres of land have been planted with rice this year in the northern Nile Delta. According to international statistics,

the Egypt's per capita consumption of rice is 40kg. Egypt's total production of rice in 2011 has been 5 million tons, as compared to 6 million tons last year. The total area on which rice has been cultivated amounts to 1.6 million acres, with an average productivity of 3.5 tons per acre, down from 4 tons last year. Although the government has announced its intention to buy 1 million tons of rice from farmers, it has only received 200,000 tons so far, meaning that its strategic rice reserves could decrease significantly.

NSGB improves its results

National Societe Generale Bank (NSGB), Egypt's second-biggest private bank by market capitalization, despite domestic economic and political crisis in the country, improved its performance in the third quarter. The bank posted a 10.7 percent rise in third-quarter net income to LE354 million (US\$183 million), though the improvement was aided by the ending of a LE90 million quarterly amortization charge it had been taking following its 2005 purchase of Egypt's MI Bank. Egyptian banks were hurt by the January uprising that toppled President Hosni Mubarak, pushed the economy into recession, prompted investment to slow and caused capital to flee abroad. However the sector has benefited from increased borrowing by the government, which is trying to shore up a widening budget deficit in the wake of the uprising. Since January, the average yield on 91-day treasury bills has jumped by 3 percentage points to more than 12 percent. NSGB, owned 77 percent by France's Societe Generale, said net interest income in the third quarter rose 9.5 percent to LE543.5 million. NSGB said that on an annual basis it had increased lending by 9 percent. NSGB was the second of Egypt's big private banks nine-month net profit fell 25 percent from a year earlier.

Banks compete to raise the interest rates

Egyptian public and private banks are competing to raise the interest rates of certain services in an attempt to attract deposits and provide liquidity for government domestic borrowing, after sources dried up after financing the budget

deficit for four whole years. The National Bank and the Misr Bank raised the interest on medium and long term deposits and certificates from 9.5 percent to 11.5 percent, which has prompted other financial institutions to do the same. These include the National Development Bank, which is owned by the Abu Dhabi Islamic Bank, the Urbanization and Housing Bank, Credit Agricole, the United Bank, the Suez Canal Bank, BNP Paribas, the Commercial International Bank and Societe Generale.

New oil discovery in Sinai

Belayim Petroleum Company has made a new oil discovery in Sinai region of Egypt, according to the Ministry of Petroleum. The head of Belayim Petroleum Company informed that the output of the newly discovered well already reached 2270 barrels of crude oil per day. Production started immediately after the well was detected. The find was discovered 40 km south of Abu Rudais City in South Sinai after drilling at a depth of 3.12 meters under about 2734 kilometers from the beach, The estimated new reserves resulting from the discovery are estimated at 5.5 million barrels of crude oil, said a press statement issued by the Petroleum Ministry. The last oil discoveries in Sinai were made nearly 55 years ago.

(Pritam Lal)
First Secretary(E&C)