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Economic and Commercial Report for the month of July, 2012

Overview:

Egypt economic outlook remains unpredictable during the month mainly because of delay in appointing the Prime Minister and the cabinet and the power struggles between the Presidency, the Judiciary and SCAF which continued to instill some uncertainty in the minds of the investors. However, the assumption of office by the new president helped bolster the stock market during the period from mid-June to mid-July.

In a move to control the subsidy bill, the Egyptian government decided on 4th July to increase the price of natural gas for energy-intensive industries and also to some non-energy intensive industries. The Egyptian net international reserves dropped to US$ 14. 4 billion at the end of July 2012, following the maturity of the Egyptian Bonds and payment of the Paris Club member countries' debt totaling about USD 1.64 billion.

The July headline CPI published by the Central Agency for Public Mobilization and Statistics on August 9, 2012, increased by 0.38 percent (m/m) in July compared to a decline of 0.55 percent (m/m) in June. The annual rate decelerated to 6.39 percent in July compared to 7.26 percent in June.

The month of July witnessed relative stability of major construction materials prices. The strategic wheat buffer stock reached 4,911 MT in July 2012 providing sufficient amount for 6,5 months of consumption.

Other Monetary indicators:

In its meeting held on July 26, the Monetary Policy Committee (MPC) of the Central Bank of Egypt (CBE) decided to keep the overnight deposit rate and overnight lending rate unchanged at 9.25 percent and 10.25 percent, respectively, and the repo at 9.75 percent. The discount rate was also kept unchanged at 9.5 percent.

Special funds to contribute to state budget: Egypt's Finance Minister Momtaz El-Saeed has ordered that 20% of revenues from the country's "special funds" be added to the state budget. Special funds are monies raised by Egyptian state institutions through means other than customs or taxes, such as revenue from hospital fees or parking tickets. The decision is expected to inject between EGP10-15 billion a year to the government's coffers. According to El-Saeed, around EGP36.1 billion is currently being held in 4,737 special funds. The additional funds come along government attempts to search for new sources to fund a widening budget deficit that stood at nearly 10.3% of GDP in FY2011/12. The suggested funds are the equivalent of 0.6-0.9% of GDP. The budget deficit is expected to widen to 11.1% of GDP in FY2012/13 as increased spending on wages, interest and subsidies outpace revenues that will remain dampened by slow economic growth.

Owners of multiple homes taxed: In an attempt to raise revenues, Egypt will require owners of multiple homes to pay property taxes beginning January 2013. According to Minister of Finance Momtaz Al-Saeed, primary residences will be exempt from the tax regardless of their value, but second homes worth at least LE 500,000 and those rented for amounts exceeding LE 6,000 annually will be taxed based on their value. The measure is expected to fetch annual revenue of LE 2 billion. Lawmakers have been attempting to impose such a measure since 2008, but past attempts have been blocked by resistance from owners of large properties.

$100 million allocated for fuel: In an attempt to ease Egypt's recent wave of fuel shortages and ensure a steady supply, Egypt's Ministry of Finance announced July 22 that it will release an additional $100 million for fuel purchases. The new funds bring the total allocation to the Egyptian General Petroleum Corporation to $6.1 billion.

<u>Canal revenue jumped in July:</u>

Revenue from Egypt's Suez Canal, a vital source of foreign currency, jumped to $433.1 million in July, up from $415.9 million the month before. There is a decrease of 11 Vessels (0.7 %) in the number of transits than previous month. The figures show 0.5 million tons (0.6 %) decrease in net tonnage due to decrease in net tonnage of LNG Ships, Container Ships while the net tonnages for all other types have increased.

<u>Stock Market Indicators:</u>

The trading values during July 2012 jumped by almost 40 percent to average more than LE 420 million a day, they are still far short of pre-revolution levels. The market has mostly been driven by Egyptian investors, with foreign investors appearing to shun Egyptian equities for now, awaiting more clarity on both the political and economic fronts. The market here is traded at just over eight times expected earnings, making it cheaper when compared to other emerging markets in Asia and Latin America. For the time being, future prospects depend on investor sentiment and quarterly results of the companies.

				Change (points)	
Item	July 2011	June 2012	July 2012	Monthly	Annual
EGX 30 Index	5022.25	4708.59	4862.53	153.94	-159.72
EGX 70 Index	632.63	422.03	436.59	14.56	-196.40
EGX 100 Index	945.74	729.54	750.79	21.25	-194.95

Bilateral developments:-

Visit of Delegation led by JS(Textiles): A 3- member delegation led by Mr. V. Srinivas, Joint Secretary(Textiles), visited Cairo from 28th to 30th July, 2012 to attend the consultations on 29th July, 2012 regarding safeguard investigation on import of cotton textiles and mixed cotton textiles from India initiated by the Ministry of Industry and Foreign Trade. The meeting was also attended by Mr. B. Vanlalvawna, DCM, Mr. Tapan Mazumdar, Director, Department of Commerce and Mr. Siddhartha Rajagopal, Executive Director, TEXPROCIL.

Trade enquiries:

During the month of July, 2012, there were a total of 72 trade enquiries, out of which 35 enquiries from India and 37 from Egypt.

Trade disputes:

There were a total of 8 trade disputes, 3 of which were received from Egypt, and 5 were received from India.

ITEC Training:

Two Egyptian candidates visited India under the ITEC Programme.

Market watch:

Expensive energy for all: The Egyptian Natural Gas Holding Company (EGAS) has decided to apply a government decision to increase the price of natural gas for heavy industries and some industries that consume less gas.

Mohamed Shoaib, head of EGAS, announced on 4th July that glass, porcelain and ceramic factories would pay \$3 per thermal unit of natural gas instead of \$2.3. The increase is part of a government plan to save LE4 billion of the total amount of subsidies allocated for energy every year. In November 2011, the government decided to increase the prices of gas sold to steel and cement factories from \$3 per thermal unit to \$4 for the same reason. The government had allocated LE95 billion for subsidizing energy in the past fiscal year, as opposed to the LE70 billion slated for the current fiscal year.

According to Shoaib, the new prices will be applied retroactively as of January 2012, after forming a committee that would classify factories according to their level of energy consumption in order to determine the percentage of increase in the prices of gas that each factory receives.

He added that factories that sell subsidized products would be supplied with natural gas at lower prices. Bakeries that sell subsidized bread, for example, would not pay more for energy prices. Shoaib said during a press conference that the committee will finish the classification work by the end of this month.

Government officials, including Mahmoud Eissa, (former minister of industry and foreign trade), promised to prevent any price increase in end products from factories affected by the new gas prices.

However, Ezzeddin Abu Awad, head of the Central Association of Cement Dealers, says the government cannot prevent cement factories from increasing their prices. "The problem is that more than 90 per cent of cement factories in Egypt are owned by non-Egyptians who can raise the prices of their product at any time because the law allows them to do so, he explained.

Electricity prices will not be increased for less energy-consuming industries, but they have already been raised early this year for heavy industries and vary according to the type of voltage. Industries that use super voltage electricity now pay 24 piastres per kilowatt, while others that use high voltage pay 29 piastres.

Wave of strikes hits Egypt: Protesting workers have brought factories to a halt across the country this summer. While such strikes precipitated the revolution and have closed ports in the year and a half since, 2012 had been quiet on the labor front. But starting July 15, some 23,000 employees at Mahalla Misr Spinning and Weaving, a state-owned textile factory, held an eight-day strike over pay, working conditions, profit sharing and unmet promises from management pertaining to previous negotiations. They resumed work after receiving some concessions, but workers threaten to strike again if further demands are not met. Some 12,000 other government textile workers went on strike in the same region, Mahalla, many at the Mit Ghamr factory, and are at negotiating with the management.

In Upper Egypt, 1,200 workers at the Sukari gold mine also walked off the job in late July. The management responded by firing 29 employees. In addition to pay rise, housing stipends, laborers want the mine owners to provide bonuses based on legislation that says workers are entitled to such payouts for doing dangerous work. Ceramica Cleopatra, meanwhile, survived a 28-day strike that started in late June and included a weeklong lockout after angry workers stormed the factory. The two ceramics factories in 10th of Ramadan Industrial City and Ain Sokhna may be liquidated by their owner Mohammad Abul Enein. The United Sugar Company and the Egyptian Petroleum Services Company (EPSCO) have also experienced labor unrest in recent weeks.

Egyptian Refining Company gets $3.7-billion to construct Cairo refinery: Citadel Capital said its subsidiary, the Egyptian Refining Company (ERC), won a $3.7-billion contract to construct a Greenfield petroleum refinery project in the Cairo area. The project will be financed by debt ($2.6 billion) and equity ($1.1 billion). The project's annual capacity will be 4.1 million tons of refined oil products and high-quality oil derivatives. The facility's liquid fuels production will be sold to the state-owned Egyptian General Petroleum Corporation (EGPC) under a 25-year "off-take" agreement.

NBD AIDS COMPLETION OF NEW ELECTRICITY PLANT: The National Bank for Development (NBD) called on banks holding Islamic licenses to participate in granting an Islamic loan of USD120 million to the East Delta Electricity Production Company (EDEPC). Some of the banks expected to participate in the loan include Alwatany Bank of, the Egyptian Gulf Bank and United Bank.The loan's period is five years and is a Mudarabah loan, one of several non interest-bearing Islamic financial instruments. The loan will be used to finance expansions at the electricity production station in Damietta. In mid 2011, EDEPC received financing of EGP 4.6 billion from 14 local banks. The financing covered 85.4% of the investment cost of EGP 5.5 billion total, needed to install 12 additional electricity-generating units—8 units for Elshabab station in Ismailia and 4 units in the Damietta station. The expansions are part of a Ministry of Energy and Electricity's project to address the pressure on the electrical grid during the summer season.

PIRAEUS BANK HALTS SALE OF EGYPTIAN OPERATION: The Greek Piraeus Bank SA, a Greek lender, said it is terminating with immediate effect the sale process of its unit, Piraeus Bank Egypt. Piraeus said it does not intend to solicit any purchase offers in the near future for the unit and will focus on providing full support to its Egyptian banking operations, according to an Athens bourse filing on 31 July 2012.

EGYPT AND SAUDI ARABIA TO SIGN ELECTRICITY SWAP DEAL: Egypt will conclude an electricity swap deal with Saudi Arabia, whereby each country will borrow from the other during hours of peak demand, in an attempt to combat soaring energy demand during the blistering summer. Such a deal came with the Egyptian government efforts to implement a series of measures to face the country's electricity shortage. Energy demand during peak times is around 3000 megawatts more that can be comfortably supplied, and the additional demand is forcing up the cost of production, according to the Ministry of Energy and Electricity. The Ministry said that new power stations will soon be inaugurated, including one in Damietta and another at Abu Kier in Alexandria governorate, with total investments worth L.E. 12 billion to generate an additional 1800 megawatts of energy.

BRITISH GAS ANNOUNCES NEW FINDING IN RED SEA: The Ministry of Petroleum announced that the British Gas Company made a commercial gas finding in the Red Sea that has the capacity to pump 40 million cubic feet per day. Petroleum Minister said that the new finding’s limited output capacity may increase with the digging of new wells. The new finding will enter the production phase in three months, Minister said, adding that El Borolos Gas Company will take on the works in the deep waters of the West Delta concession.

MINISTRY OF HEALTH TO REDUCE PRICES OF 40 DRUGS: The Ministry of Health has decided to reduce the prices of 40 drugs for blood pressure, kidney disease, rheumatism, breast cancer and cholesterol, starting October 2012. Price reductions will range between 15-20%. The decision was reached following discussions with the different pharmaceutical companies. The Minister of Health announced last week that prices of 50 drugs will be reduced. While the impact on pharmaceutical companies is clearly negative, it will depend on each company's share of the aforementioned 40 drugs.

EGYPT LEADS ARAB WORLD IN MERGERS AND ACQUISITIONS: Mergers and acquisitions in the Arab world increased from April to June of this year compared with the previous quarter. Forty-three transactions were announced during the period, worth a total value of some USD16.73 billion, according to a report released by the Capital Link Globe Institute, which specializes in news on mergers and acquisitions worldwide. Despite Egypt's current state of political uncertainty and economic malaise, the country boasted the largest number of major corporate transactions in the region for the period, including eight mergers and acquisitions. The most significant of these was France Telecom's takeover of Egyptian mobile-phone provider Mobinil in a USD2.96 billion tender offer. The United Arab Emirates came in second with six major corporate transactions, followed by Kuwait with five. On the purchasing side, Qatar came in the first place with six transactions, mostly carried out by the Qatar Sovereign Wealth Fund. Egypt came in last in terms of purchasing, with current conditions not affording sufficient liquidity to local firms with which to finance such transactions, according to Capital Link Globe Institute. The financial sector, meanwhile, topped the list with five transactions. This was followed by the services sector, with three transactions. The health, tourism, entertainment and media sectors all shared third place with two transactions each. The total value of announced transactions in the Arab world grew significantly in the second quarter of 2012. In the first quarter of the year, which saw 34 transactions, the figure stood at USD1.6 billion.

Al-Shater's son launches grocery chain: Saad Al-Shater, son of senior Muslim Brotherhood figure Khairat Al-Shater, has opened a discount grocery chain in middle class neighborhoods in Cairo. The July 15 launch of 15 branches of Zad, as the store is called, is the first wave of planned openings of the store across Egypt. The chain aims to compete with local and international retailers like Metro and Spinneys by offering slightly lower prices on basic household goods, but it remains more expensive than government-subsidized commodities available from state-run outlets that are targeted at meeting the needs of the poor. Shater told local reporters that the company did not take out any loans, and that its capital was "100% Egyptian."

THREE BANKS TO LEND USD500 MILLION FOR NEW FERTILISER PLANT: National Bank of Egypt, Banque Misr and National Investment Bank of Egypt, agreed in principle to lend USD500 million to the coalition of Abou Kir Fertilizers, Misr Phosphate and El Wadi El Gedid for construction of the new fertilizer plant in El Wadi El Gedid, with an estimated total cost of USD1.7 billion. According to El Wadi El Gedid Governor, Mr. Tarek El Mahdi, phase one of the project will start in January 2013, with an initial cost of USD850 million. The companies will arrange 40% of the financing for the project, with the remainder being financed through an initial public offering (IPO).

(NLP Choudary)
Commercial Attaché

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