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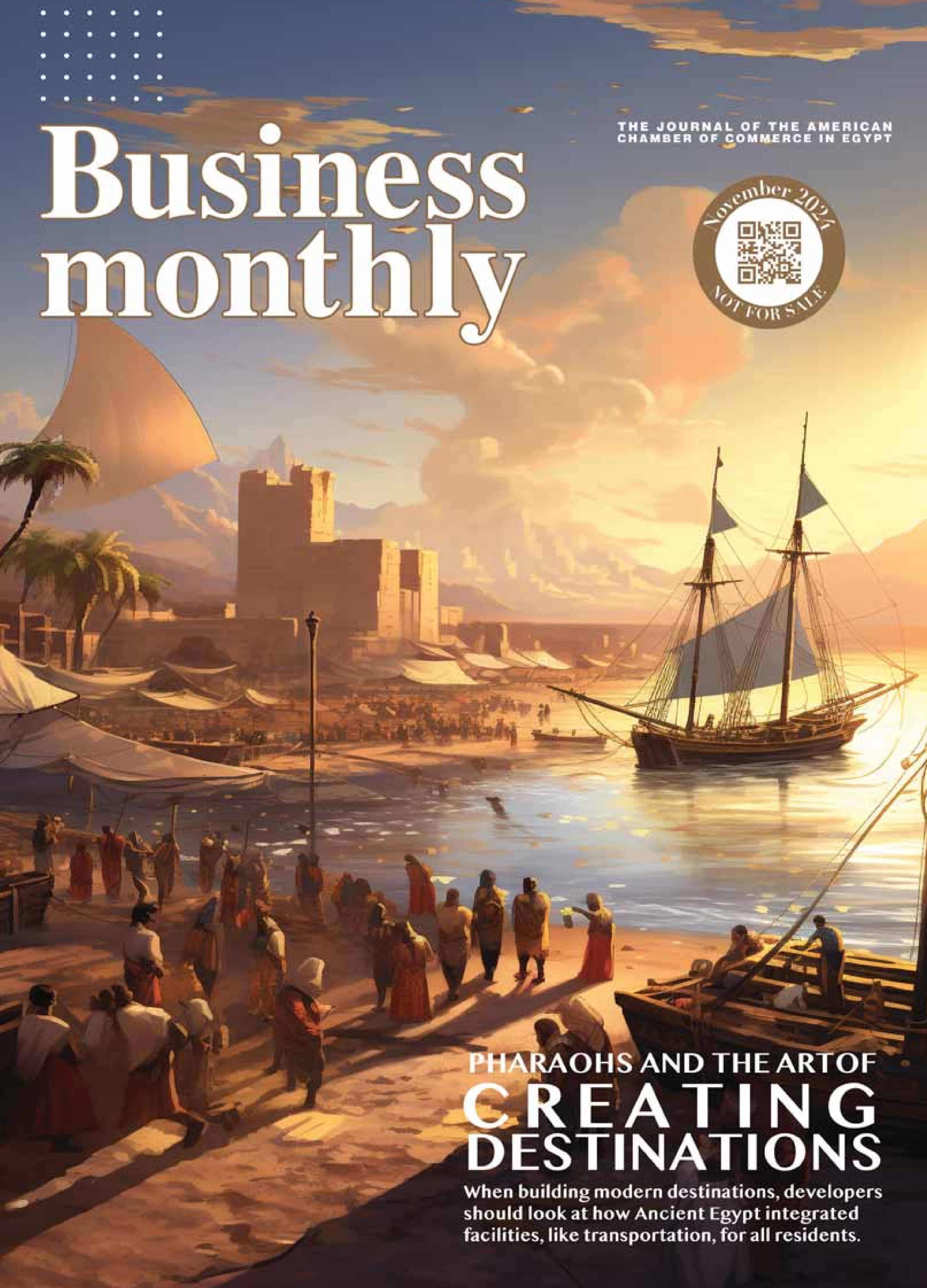

PHARAOHS AND THE ART OF CREATING DESTINATIONS

When building modern destinations, developers should look at how Ancient Egypt integrated facilities, like transportation, for all residents.


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EGYPT'S MACROECONOMIC REFORMS: DRIVING GROWTH AND SHAPING THE FUTURE

Amr El Bahey, *CEO, Mashreq Egypt*

Egypt's economy has undergone a significant macroeconomic reforms journey over the past few years, aimed at stabilizing and unlocking its full potential. These reforms, which have spanned key sectors of the economy, have paved the way for sustainable growth, increased private sector participation, and better integration into the global economy. These initiatives were crucial not only for immediate economic recovery but for long-term development, in line with the country's vision for a more prosperous future.

The Importance of Macroeconomic Reforms

The primary goal of the macroeconomic reforms of the recent few years has been to create a stable, resilient economic environment that is capable of attracting investments, reducing debt, and fostering sustainable growth for the economy and its people. These reforms have focused on addressing fiscal imbalances, liberalizing markets, and ensuring the private sector has the opportunity to flourish. Egypt's commitment to these reforms is evident in its efforts to create an economy that can weather global uncertainties and attract foreign investors.

Financial inclusion plays a critical role in strengthening Egypt's macroeconomy by ensuring that all segments of society, particularly underserved communities, have access to essential financial services. When more individuals and businesses are integrated into the formal financial system, it drives broader economic participation, enhances savings and investment, and improves resilience to financial shocks.

Financial institutions like Mashreq have been pivotal in supporting these reforms, particularly through initiatives that drive financial inclusion and the development of tailored financial solutions that meet the needs of underbanked segments across the country. For instance, Mashreq has entered a strategic partnership with Etisalat by e& Egypt and launched "e&Mashreq NEO", a first of its kind Banking-as-a-Service platform in Egypt, that will provide end-to-end financial services to consumers within their apps, aimed at contributing to the development of the Egyptian economy and supporting the financial inclusion ecosystem.

Key Reforms Driving Economic Change

A cornerstone of Egypt's economic reform was the liberalization of the exchange rate, which allowed the Egyptian pound to reflect its true market value. This was a bold step, but it has made Egypt more competitive in international markets. It also led to the reduction of energy subsidies, a critical component in alleviating the fiscal burden on the government. These reforms were supported by the International Monetary Fund (IMF), whose loan program provided Egypt with the financial and technical assistance to stabilize its economy.

The private sector has become a major player in Egypt's economic development. Reforms have enabled increased participation from local and international businesses, creating jobs and driving innovation. Moreover, the government's alignment with the Sustainable Development Strategy (SDS) as part of Egypt Vision 2030 has provided a roadmap for long-term growth, ensuring that economic development is inclusive, environmentally sustainable, and socially responsible.

Challenges and Solutions

Despite the considerable progress, Egypt's reform journey has not been without its challenges. Inflation has been a persistent issue, affecting the cost of living for everyday citizens. The government has implemented monetary policies aimed at controlling inflation, while also working to stabilize foreign currency reserves amidst global economic fluctuations.

Another significant challenge has been the shortage of foreign currency, which has impacted imports and local industries reliant on foreign components. However, the Central Bank of Egypt has taken proactive measures to address this by attracting foreign investments and encouraging remittances from Egyptians abroad.

To further stimulate economic growth, there is a pressing need for increased foreign investment. The government has taken measures to make the business environment more attractive to investors, including simplifying regulations, improving transparency, and offering incentives for investment in key sectors such as energy, manufacturing, and technology.

The Impact of Reforms and Future Outlook

The impact of these reforms is already visible in many sectors. Egypt has seen increased foreign direct investment, stronger export performance, and more robust job creation, especially in infrastructure and industrial projects. The country is now better positioned to be a regional hub for trade and logistics; the rise of small and medium-sized enterprises (SMEs) is helping diversify the economy.

These reforms will continue to shape Egypt's economic landscape. By maintaining the momentum of reform, Egypt can drive sustainable development, reduce unemployment, and ensure inclusive growth. As the private sector continues to thrive and global investors recognize Egypt's potential, the country's economy is poised for long-term success.

The future outlook for Egypt remains positive, with ongoing investments in financial inclusion efforts, technology, education, and infrastructure helping to create a more resilient economy. While challenges will continue to arise, Egypt's ability to adapt and implement forward-thinking reforms will be key to unlocking its full potential on the global stage.

TAHOUN
LAW FIRM

NAVIGATING EGYPT'S EVOLVING CORPORATE LEGAL LANDSCAPE: INSIGHTS FROM TAHOUN LAW FIRM

DR. NERMINE TAHOUN
MANAGING PARTNER AND FOUNDER OF TAHOUN LAW FIRM

1. Can you provide a brief history of your firm and its evolution over the years?

Tahoun Law Firm started in 2009 as a corporate law firm providing comprehensive corporate legal services to companies and enterprises operating in Egypt. Over the years, we have managed to maintain a reputable name among the big law firms in the region.

We successfully gained the trust of multinational companies and trained a cadre of lawyers who have achieved significant progress in the legal field through our Tahoun Academy.

Our firm has grown from a small team to a large, well-respected entity known for its expertise and dedication to client success. We have expanded our services to include various sectors and built a strong client and partner network.

2. What would you consider your firm's significant achievements or landmark cases?

Our firm has been involved in several significant achievements and landmark cases. We have successfully negotiated concession agreements, public-private partnerships (PPP), and Build-Operate-Transfer (BOT) projects in the power sector, wastewater treatment fields, and waste-to-energy industrial parks.

We have also secured contracts with the Suez Canal Economic Zone (SCZone) and managed to conclude mega acquisitions and mergers.

These projects have not only showcased our legal expertise but also our ability to handle complex and high-stakes transactions, contributing significantly to the development of infrastructure and industry in Egypt.

3. Can you give an overview of Egypt's current corporate legal landscape?

Egypt's corporate legal landscape is in a state of evolution. While our legal system and laws need to be developed further to meet international standards, we have a pool of experienced legal practitioners who have played extensive roles in shaping the legal system in Egypt and other countries.

The current landscape is characterized by a mix of traditional practices and modern reforms, with ongoing efforts to streamline regulations and improve the business environment.

However, there is still a need for more comprehensive legal reforms to enhance transparency, efficiency, and investor confidence.

4. How does your firm assist both foreign and local investors in navigating Egypt's legal system?

We act as a legal partner for both foreign and local investors, advising them on the best legal structure for their business in Egypt. Our services include:

- Drafting, reviewing, negotiating their contracts with private sector and government,
- Successfully concluding their transactions and mega project documents,
- Incorporating their companies and obtaining necessary permits and licenses,
- Providing best responsive legal advices for their business,
- Concluding legal diligence, structuring transactions to ensure win-win deals with private partners or the government (if it is the other party)
- Managing labour documents and employment contracts within their companies,
- Finalizing work permits and residency and;
- Acting responsively to avoid obstacles and resolving any legal issues amicably in the most convenient manner or reaching best results before courts or through arbitration.

We provide legal services taking into consideration business requirements and best legal solution for our clients interest.

5. Could you share an example of a case that showcases your firm's prowess and expertise?

One notable example of our firm's prowess and expertise is our work on Public-Private Partnership (PPP) contracts in the power and wastewater sectors. We further act successfully as deal maker in a number of transactions whether related to mergers, acquisitions and joint venture agreements and concession agreements

We have also successfully negotiated concession agreements in the oil and gas industry and joint development agreements with the Suez Canal Economic Zone (SCZone).

Additionally, we have facilitated amicable settlements for significant disputes with the government or other market players.

These cases highlight our ability to handle complex legal matters, negotiate favorable terms, and achieve successful outcomes for our clients.

6. Which piece of legislation do you believe would attract foreign direct investment to Egypt, and why?

To attract foreign direct investment, Egypt needs to amend its sector-specific laws to align with free capital investment requirements and international standards.

That includes ensuring the free transfer of capital and profits, and guarantee incentives and warranties to such private sector and to avoid competition by the government to the private sector in specific sectors.

By creating a more investor-friendly legal framework, Egypt can enhance its appeal to foreign investors, encouraging them to bring their capital and expertise into the country, thereby boosting economic growth and development.

More important, our judicial system needs to act more responsively to commercial disputes and further, arbitral awards should be executed in a more responsive and transparent manner.

7. Conversely, which piece of legislation do you think might deter foreign direct investment, and why?

Legislation allowing the government to compete with the private sector as a competitor and regulator can deter foreign direct investment. Changes in legal schemes that favor the government over private enterprises can create an uneven playing field, discouraging foreign investors from entering the market.

To foster a more attractive investment climate, it is crucial to ensure that the legal framework supports fair competition and provides transparent, consistent regulations that protect the interests of all parties involved.

8. How do you see Egypt's corporate legislative environment evolving? Is it improving, and could you explain your perspective on this?

The corporate legislative environment in Egypt is evolving, albeit at a slow pace. While there have been some improvements, they do not yet meet the level of competition we face from other countries in the region, such as Saudi Arabia and UAE.

To enhance our corporate legal systems, more effort is needed to implement comprehensive reforms that streamline regulations, improve transparency, and foster a more business-friendly environment to maintain Egypt competitiveness to other countries and attrac

9. What are the biggest challenges your firm faces in the current Egyptian corporate legal environment, and how do you overcome them?

The biggest challenges we face include:

- Bureaucracy.
- Frequent unnecessary or negative changes in laws and regulations.
- The use of outdated technology by governmental entities.

These factors create obstacles for the private sector and waste unnecessary time and effort. To overcome these challenges, we focus on staying up-to-date with legal developments, leveraging technology to streamline our processes, and maintaining solid relationships with government officials to facilitate smoother interactions.

We also advocate for legal reforms that enhance efficiency and reduce bureaucratic hurdles.

10. How do you see the role of corporate law firms evolving in Egypt over the next decade, especially in light of global economic shifts?

Over the next decade, corporate law firms are likely to increasingly adopt new technologies and artificial intelligence (AI) to enhance their services.

That is why we have developed an application, "Tsmartapp," to provide legal services through AI and lawyer assistance. In addition, we believe that corporate law firms will play a crucial role in helping the government develop more flexible rules and systems to avoid time-consuming processes and maintain trust within the business community.

By embracing innovation and advocating for legal reforms, corporate law firms can help create a more dynamic and competitive legal environment in Egypt.

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In Depth

Cover Story

Special Coverage






In Depth

Market Watch

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OPPORTUNITIES, OPPORTUNITIES

While this will likely go down in many memories as the start of yet another wave of inflation after fuel prices rose between 13% and 17.5%, this issue presents stories that show Egypt still has promising opportunities.

In our cover story, we highlight investment opportunities and challenges facing real estate developers who want to provide destinations for foreign and local travelers as well as those who want to buy residences.

We also highlight the opportunities and invariable risks associated with growing non-bank (shadow bank) lending as locals grapple with rising prices and already stretched finances. In Egypt, the rise of those lenders could be a problem, as the sector's regulator—the Egyptian Financial Regulatory Authority—announced in October it would freeze new applications to establish non-banks without giving a compelling reason for its decision.

Opportunities for youth with special skills to work abroad are also increasing. It is a case of both demand and supply as youth seek better career opportunities and incomes amid ongoing devaluations of the Egyptian pound. Meanwhile, in European countries and other wealthy nations, there is a rising demand for young workers as populations grow older.

Meanwhile, business leaders looking to transition to a green economy face opportunities and plenty of challenges. A McKinsey report published this year highlights "seven domains" where the transition could happen.

Lastly, Hassan El Khatib, the Minister of Investment and Foreign Trade, highlights his ministry's strategies to make Egypt a more attractive destination for local and foreign investors.

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FOCUS ON THE HOME FRONT

Amid the persistent challenges to our economy, we are still in need of more clarity. First, we have statements from the Prime Minister regarding a war economy. Then there is the exchange rate's limited movement up and down, raising questions about whether the rate is being managed and to what extent. Are we politicizing the exchange rate again?

The International Monetary Fund (IMF) projects a growth rate of 4.4% next year and inflation subsiding to around 15%. If we factored inflation into the dollar exchange rate, we would envision a rate around EGP 55, give or take. Would crossing the EGP 50 mark prove politically challenging or would we expect a smooth, gradual flow based on supply and demand, up or down. It is yet to be seen.

The impact of adhering to the IMF program has far-reaching implications for our credit rating, cost of borrowing, and government bond valuation, to mention just a few issues. There's also the fact the European Union package for Egypt is directly tied to us adhering to the program, to say nothing of how it affects the international appetite for investing in a developing country like Egypt that is engulfed in a contentious region.

On top of these challenges, we have a potentially new one with U.S. President-elect Donald Trump's sweeping victory, winning the electoral college by a landslide as well as the popular vote. The Republicans also have won a Senate majority and are inching toward possible control of the House of Representatives. This is a powerful mandate by a new America, one that we must learn more about. We got a taste of it during the first Trump presidency, and the next one could have broad geopolitical and economic implications for the whole world and certainly for our region.

Egypt has been enjoying a special relationship with the current administration in light of our role as a mediator in the Israel-Gaza conflict. While this relationship has to a great extent been institutionalized within the entire administration, it was not necessarily personalized, in contrast to the previous Trump administration, where both presidents enjoyed a special rapport. It remains to be seen how the power shift in DC will impact the Middle East and specifically Egypt, which would ultimately redefine our role and significance in the region. Will there be ceasefires imposed in Gaza and Lebanon, and on whose terms?

It is the same case with our other geopolitical and economic files: Iran, the Houthis, and the Grand Ethiopian Renaissance Dam — all outcomes are uncertain with Trump as president. Is Trump going to keep his promise of imposing flat tariffs on all imports? How will Europe respond to his reaction to the Russia-Ukraine conflict? These are just some of the challenges that will impact Egypt directly and indirectly.

This makes it crucial for us to focus on our economy. We need to better manage our resources, stop the unnecessary spending, labeled as national projects, and empower the private sector by sticking to an aggressive reform agenda and a level playing field. Last but not least, we need to target inflation and resist the temptation to meddle with the exchange rates.

Because at the end of the day, we cannot control the volatile environment beyond our borders; we can only control our own costs.

TAREK TAWFIK
President, AmCham Egypt

American Chamber of Commerce in Egypt

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DEALS WITH SAUDI ARABIA WORTH $15 BILLION

Egypt has signed agreements with Saudi Arabia to invest $15 billion in various sectors, including renewable energy, industry, real estate development, tourism, and technology, Bandar Al-Amiri, head of the Saudi-Egyptian Business Council, told the media.

The deals were announced during the October visit of Saudi Crown Prince and Prime Minister Mohammed bin Salman to Egypt. They encompass the establishment of the Egyptian-Saudi Supreme Coordination Council and other mechanisms to safeguard and encourage investments between the two nations.

According to the Federation for Saudi Chambers of Commerce and Industry, investments between Egypt and Saudi Arabia reached SAR 48 billion ($12.8 billion), with Egyptian imports valued at SAR 20 billion and Saudi exports at SAR 28 billion.

Egypt ranks as Saudi Arabia's seventh-largest trading partner. Saudi Investment Minister Khaled Al-Falih has noted that trade between the two nations surpassed $124 billion in 2022 and 2023.

INITIATIVE TARGETS WATER SUSTAINABILITY, GREEN TRANSITION

On the sidelines of the seventh edition of Cairo Water Week, Rania Al-Mashat, Minister of Planning, Economic Development, and International Cooperation, signed the EU Green Facility initiative with Christian Berger, head of the EU delegation to Egypt, according to a ministry statement.

The initiative provides grants worth EUR 7 million ($7.5 million) to support efforts to combat climate change. It aims to accelerate the green transition in Egypt as part of the Team Europe initiative, aligning with development efforts and the country's platform for the NWFE program that connects water, food, and energy projects.

According to the statement, ministries that will benefit include Water Resources and Irrigation, Agriculture and Land Reclamation, and Housing, Utilities, and Urban Communities.

Al-Mashat said the EU Green Facility complements contributions of international financing institutions that support the country's water sector and food security. That includes providing technical support and funding for desalination plants and establishing wastewater treatment facilities to conserve water for agricultural use.

EGYPT, UK SIGN FOOD SECURITY PACT

According to the Ministry of Planning, Economic Development, and International Cooperation, Egypt and the United Kingdom signed a memorandum of understanding (MoU) on food security.

The MoU aims to ensure sustainable food security by exchanging technical expertise and bilateral cooperation. The agreement will begin with implementing a pilot program for technical expertise to enhance wheat production and sustainable agriculture in Egypt and identifying areas of cooperation based on shared priorities.

Alaa Farouk, Minister of Agriculture and Land Reclamation, said the main areas of collaboration include enhancing soil fertility, boosting agricultural productivity, and promoting the efficient use of fertilizer.

Both sides emphasized that food security is a shared priority and critical concern for all countries, particularly amid climate change, development challenges, and geopolitical tensions.

SCZONE DEVELOPS DIGITAL PLATFORM

The European Bank for Reconstruction and Development (EBRD) partnered with Transfora, a business process automation company and subsidiary of the Kuwaiti firm Agility, to fund and develop a digital operations platform for the Suez Canal Economic Zone (SCZone).

As per the agreement, Agility will provide Transfora with a 360-degree enterprise management platform to help SCZone manage investor inquiries and required documentation.

According to Agility, the planned platform will act as a comprehensive service hub for businesses and investors in the SCZone. It will provide reporting and analytics capabilities and grant access to over 60 electronic services.

Agility will facilitate connections between SCZone authorities, customs officials, regulators, investors, carriers, logistics service providers, shippers, and companies involved in the zone's manufacturing, assembly, and processing operations.

GREEN HYDROGEN PROJECT GETS $32.3 MILLION BOOST

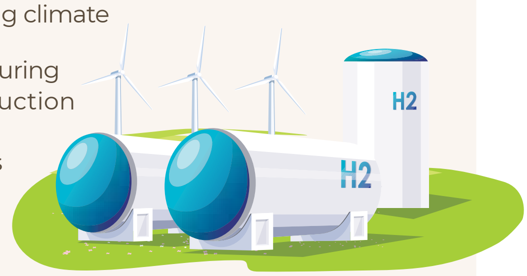
On the sidelines of the Hamburg Sustainability Conference, Norwegian Scatec and the German PtX fund have agreed to a grant of EUR 30 million ($32.3 million) to support Egypt's green hydrogen project, according to a Ministry of Planning and Economic Development statement.

The project will be funded by the PtX Green Hydrogen Facility, established by the German Federal Ministry for Economic Cooperation and Development. A total of EUR 270 million has been allocated for Egypt and six other countries. The funds aim to support industrial projects throughout various stages of the green hydrogen value chain.

The new project will enhance Egypt's strategy to expand green hydrogen production and shift toward renewable energy sources to achieve economic development. The grant should accelerate green transformation in the Suez Canal Economic Zone, promoting climate neutrality in energy and resource-intensive industries.

The ministry noted the project is expected to create 1,330 jobs during its construction, operation, and maintenance stages. Its production capacity should be 70,000 tons of green ammonia annually.

As per the statement, Egypt's energy sector "offers numerous opportunities for the development of green hydrogen, as national resources enable the production of large quantities of electricity from renewable sources at highly competitive prices."



CONSUMER SPENDING UNDER FIRE?

One reason companies invest in Egypt is its high consumption spending, fueled by its large, fast-growing, predominantly young population. That strategy could soon become unsustainable.

by **Tamer Hafez**

Egypt has long been a hotbed for consumer goods consumption. "Egypt [is] among the world's biggest consumer markets, [with] an average household consumption-to-GDP ratio of 82% since 2015," said research from AmCham Egypt.

Data from the World Bank shows that ratio surpasses advanced economies like the United States, Canada and the United Kingdom. It is also above emerging economies like Jordan, Kenya, Tunisia and Brazil.

Statistics indicate residents are not spending beyond their means. The number of issued credit cards was about 5.6 million as of June, reported data aggregator Statistica. That is less than 9% of all issued payment cards, including debit and prepaid cards, which withdraw from existing funds.

Also, loans to households by commercial banks are noticeably low. The Federation of Egyptian Banks reported the loan-to-deposit ratio was almost 60% as of March. Investment glossary Investopedia says, "Typically, the ideal loan-to-deposit ratio is 80% to 90%."

That untapped potential for more spending is enticing consumer goods FDI. Youm7 aggregated 25 international consumer product companies that have either opened factories or are under construction in 2024.

The primary risk comes from inflation rates that reached 26.2% in August, according to the CBE, a far cry from the official target of 5% to 9%. That is worrying because the eventual "reduction in disposable income is expected to negatively affect the consumer and retail sectors, as higher costs of living may constrain household spending," said a June Fitch Solutions report.

Consumption as usual?

Between 2020 and 2023, Statistica, a data aggregator, said Egyptians spent the most on food and non-alcoholic beverages, followed by healthcare, clothing and footwear, hospitality and restaurants, communication services and equipment, and transportation.

Annual spending in local currency on those items and others increased almost 32% to EGP 1.9 trillion ($39.1 billion) between 2020 and 2023, according to data aggregator Trading Economics. The exception was in the second quarter of 2022 when spending dropped 11% in response to the Central Bank raising interest rates by 100 basis points and depreciating the pound by 16%. Another decline (12.2%) happened in the second quarter of 2023. The OECD Outlook said it was due to "high inflation and balance of payments difficulties."

That mostly upward spending trajectory comes amid inflation rates rising from 5.4% in 2020 to 33.7% in 2023, causing a 7.32% drop in purchasing power, according to Africa Geoportal, a regional think tank, and CEIC Data.

That didn't hurt gross savings rates, which remained flat at 7.8% in December, according to the Central Bank, which CEIC said aligns with averages since December 1969, when records began.

The dollar factor

Those relatively solid spending figures turn negative when considering the exchange rate, which went from EGP 15.8 in 2020 to nearly EGP 31 in 2023. In dollars, consumer spending declined 30.1% in those four years – going from $91.1 billion at the 2020 exchange rate to nearly $61.3 billion using the 2023 exchange rate.

That decline will likely continue. "The reappointment of Prime Minister Mostafa Madbouly suggests continuity of policies aligned with the IMF's program," said Fitch Solutions. "[That] indicates that these economic reforms and their effects on consumers and retailers are set to persist as the government maintains its current economic course."

Ultimately, "the reduction in disposable income [from rising prices across the board] will negatively affect the consumer and retail sectors, as higher costs of living constrain household spending," Fitch Solutions added.

Good business?

On the face of it, Egypt's non-oil private sector isn't doing well. Between June 2021 and July 2024, the country's Purchasing Manager Index (PMI) score was under 50, indicating monthly purchases for production were shrinking. In August, the index recorded 50.1 points.

Yet, local and foreign consumer goods companies are turning high profits. A 2023 report from HSBC Global Research shows the "consumer sector … achieving higher profits during the fourth quarter of 2023. Margins remained resilient on the back of the sharp devaluation since October 2022," when the dollar went from EGP 19.6 to EGP 24.

That is a reprieve as "profit margins of Egyptian consumer goods companies … declined in the second and third quarters of 2023" owing to ongoing devaluations and persistently high inflation.

"Gross margins were supported by low-cost , while revenue growth was mainly driven by pricing," the

HSBC report explained. It calculated price-to-earnings for local consumer businesses reached 890% in July. That compares with 700% before the pound's October devaluation, but was below the five-year average of 1,000%.

For the rest of the year, Fitch Solutions "forecasts a moderate uptick in consumer spending, with real household spending … projected to grow by 4.3% year-on-year." That compares with the rating agency's earlier forecast of 1.2% growth.

Those encouraging figures stimulated consumer goods FDI over the past 18 months. Sectors attracting those investments include mobile phones and electronic devices, household white goods, clothes and garments, packaged foods, beverages, and supplements. Others are manufacturing parts for local industries and spare parts, especially the automotive sector, including cables, windshields, chemicals, and electronic and glass parts.

Retail shops selling local and imported consumer goods should also perform well. In May, Tayf Egypt, a local investment management company, said in a note that despite rising prices from inflation and devaluation, "Egypt is one of the fastest-growing retail markets in the world, [fueling investments in] hypermarkets and supermarkets."

Higher prices are also not hurting startups, as "most … manage to thrive their way in the Egyptian market," Tayf Egypt's note said. Additionally, "the food sector in Egypt continues its rapid development," particularly in malls serving satellite neighborhoods.

Those positive spending figures result from "the rise of secondary cities, increased internet and mobile usage, and investments in the development of smart cities," Tayf Egypt said. The other reason is "shopping has become a lifestyle, not just for running errands." That is fueled by "well-designed" supermarkets and shops that subconsciously entice visitors to buy more, Tayf said.

Subsidy dangers

In June, Fitch Solutions flagged the risk of removing subsidies on basics like electricity and fuel, saying it would "weigh on household budgets."

This year alone, local electricity prices increased twice. The first was between 16% and 20% in January, and the second was between 14% and 50% in August for households and commercial facilities.

Passenger car fuel prices have also increased twice this year by up to 20%. In August, the government said it plans to eliminate the umbrella subsidies system by 2028, replacing it with a targeted cash-based one.

Subsidy cuts are at the behest of the IMF, which approved extending Egypt an additional $5 billion in March, on top of the $3 billion approved in December 2022. "Restoring energy prices to their cost recovery levels, including retail fuel prices by December 2025, is essential to supporting the smooth provision of energy to the population and reducing imbalances in the sector," the IMF said in its third review of Egypt's loan program, published in July.

Fitch Solutions also noted the 300% increase in bread prices in May, "accounting for about 0.3% to 0.4% of the consumer price index, [raising] month-on-month inflation by about one percentage point."

For the rest of 2024 and 2025, the credit rating agency said those subsidy removal plans "mean the increase in the prices of fuel and electricity … will be more aggressive than we previously thought."

After the August hike in electricity prices, Fitch forecasted inflation in 2024 and 2025 will be 32% and 20%. That will "significantly impact consumer purchasing power and potentially lead to social unrest, which makes interest rate cuts [which stimulate demand] less likely," Fitch stressed.

Changing habits

Rising prices are unlikely to abate soon, as the government is still introducing structural reforms. Ahram Online reported foreign currency supply is barely enough, so high-demand periods like Ramadan and national holidays usually create a temporary currency black market. "This rise in the U.S. dollar [is] anticipated, particularly after … holidays, which leads to a backlog of currency exchange requests at banks," Ahram Online reported.

Uncertainty over prices has invariably altered most consumer purchasing patterns. More consumers "resort at times to hoarding staples – rice, sugar, flour and cooking oil – in a bid to save money amid prices that are surging on a near weekly and sometimes daily basis," reported state-owned Ahram Online.

Meanwhile, experts talking to local media say high prices are making locals refrain from regularly buying unnecessary products or not purchasing them at all.

Another significant change in consumption spending is the ongoing boycott of international brands. This phenomenon means international consumer goods producers could fail, even if the market is promising. The opposite is true for local brands.

In June, Spiro Spathiss, a local carbonated soft drinks producer, reported a 350% increase in local sales from Oct. 19 to Jan. 15, forcing them to double production capacity. "We're running operations around the clock to keep up with market demand," Youssef Talaat, the company's commercial manager and partner, told the media at the time.

The same is happening with international coffee brands. Local brands saw sales grow 30% as local consumers boycotted foreign competitors. The tilt to local coffee brands will likely increase as the Ministry of Agriculture announced in June that "preliminary trials for coffee cultivation were successful." Currently, Egypt imports 100% of its coffee beans.

Unsustainable?

The key to Egypt's consumerism was never about residents having excess money to buy more products, as 27.3% of the population was under the poverty level in 2023. Instead, it has been about the large population size and pace of growth.

Accordingly, news that Egypt's population growth went from highs of 2.3% in 2014 to 1.4% in 2023, according to official data, could mean trouble. "Low population growth … has implications for the economy – and for consumption patterns," noted Sara Warden, a researcher for CZ, an analysis platform, in November.

Globally, another critical factor stimulating consumer spending in general is "a growing middle class," Warden said. The growth of that segment of society would ultimately lead to more urbanization, giving "a lot of headroom for per capita consumption growth."

For Egypt, relying on middle-income households to fuel consumption is not viable. An April note from AUC's Alternative Policy Solutions found that when using Fitch Solutions' definition of the middle class — those making between EGP 79,200 and EGP 112,000 annually — "between 2021 and 2023, the share of families who fit into that category declined from 39% to 12%," the report said.

That downward trend needs to be reversed. As a research note from the Working Group on Strategic Foresight and Futures Research explained: "The mechanisms through which middle class influences economic growth are: stable demand (stable demand has a positive effect on investment and investment boosts economic growth) [and] trust (the stronger the middle class, the more trust and stability there is in society and economy)."

BANKING IN THE SHADOWS

Money lenders that are unregulated by central banks (shadow banks) positively and negatively impact any economy. Reducing interest rates would only amplify those pros and cons.

by **Rania Hassan**

Funding options for consumers and companies have increased significantly with the rise of innovative tools and new business models. Their common standout feature is that those next-generation lenders are unregulated by central banks, enabling them to finance a broader consumer base than traditional commercial banks.

"The growth of the [non-bank financial institutions] sector accelerated after the global financial crisis, accounting now for nearly 50% of global financial assets," the IMF said in April 2023.

Those private credit providers have a noticeable impact on any economy. A paper from the European Central Bank (ECB) in 2021 noted, that while "bank loans clearly remain the dominant debt instrument, ... it is crucial to understand the impact of the rise and heterogeneity of non-bank finance."

Among the various types of non-bank financial services companies, shadow banks are the equivalent of central bank regulated commercial banks. Investment glossary Investopedia defines them as "financial intermediaries that participate in creating credit, but are not subject to regulatory oversight." Examples of those shadow banks include "hedge funds, private equity funds, mortgage lenders and even large investment banks."

In Egypt, the phrase "shadow banks" is uncommon. Instead, they are referred to as non-bank financial institutions, according to research from Cairo University titled "Growth of the Shadow Banking System and Effectiveness of Monetary Policy in Egypt."

Despite the macroeconomic benefits stemming from shadow banks' ability to offer faster access to funds to more individuals versus commercial banks, they are risky. "Shadow banking symbolizes one of the many failings of the financial system," said Laura Kodres, division chief of the Global Financial Stability Division at the IMF. She identified it as the root cause of the 2008 global financial crisis.

In the coming years, economies will likely be even more affected by the pros and cons of increasingly thriving shadow banking systems. Since 2021, rising interest rates worldwide have subdued shadow banks' growth as almost all nations mirrored the U.S. Federal Reserve's (Fed) contractionary monetary policy. In September, the Fed reversed that policy, dropping interest rates to encourage consumption. That means shadow banks could offer less expensive credit, attracting more potential borrowers.

Part of the system

Nicolas Charnay, managing director and sector lead for European financial institutions at Standard & Poor Global (S&P), stressed that non-banks are essential to the global financial system. "Growth in global financial assets held outside the banking system in non-bank financial institutions has been a key feature of the past decade," he wrote in June in International Banker, a specialized publication.

In developed nations, such as the United States, European countries and Canada, shadow banks account for about 10% of total loans, according to Charnay. In low and middle income nations, they play a more prominent role, funding a sizable portion of societies that aren't banked or that commercial banks deem too risky. "Shadow banks are relatively important sources of funding in Brazil, Mexico, China, India, and Korea," Charnay said.

On the ground, non-banks "improve the efficiency and depth of ... financial systems," noted a March S&P research note. That invariably creates more innovation opportunities in the financial sector and beyond.

Those non-banks could also push commercial banks to improve and diversify their services and tools; as S&P noted, "private credit providers... add to the competition banks face."

Local shadow banking

The Cairo University paper described the financial system in Egypt as a "Twin-Peak Model." The CBE only regulates all commercial banks. Meanwhile, "most of [the country's] shadow banking system [is] regulated by the Egyptian Financial Regulatory Authority (FRA)," including consumer finance companies and fintechs.

However, some local shadow banks are not regulated by either CBE or FRA, including "private and public pension funds, the Social Fund for Development and Nasser Social Bank, which [isn't] regulated by Egyptian Central Bank, like [the] other 40 traditional banks," the Cairo University note said.

The document also noted the complete administrative and regulatory separation between the CBE and FRA. "There is no coordination between the monetary policy and regulatory authorities of shadow banking."

According to FRA stats, overall credit offered by regulated firms jumped 66% in the first half of 2024 compared to the same period last year. Consumer finance increased by about 23.3%, while real estate financing tripled.

Conversely, local businesses scaled back their dependence on shadow banks in the first half of the year. According to the FRA, SME funding dropped nearly 29% versus the first half of 2023. Meanwhile, leasing, where companies secure long-term contracts to rent equipment, machinery or commercial vehicles, also declined by nearly 11% in the same time frame.

Risky financiers?

The S&P paper noted, "At their best, shadow banks can [finance consumers] without adding significant incremental risk." That usually doesn't happen, as Charnay of S&P noted those lenders "bring meaningful risks."

Non-banks' potential dangers usually stem from business-related decisions rather than a fault in the business model. "Some shadow banks have elevated leverage, structural liquidity mismatches and heavy credit exposure to specific economic segments, such as real estate financing," S&P noted.

Such sector-specific focus means risks vary significantly among shadow banks, depending on which sector and niche they focus on and their business models, Charnay noted. That makes developing regulations and policies to protect and promote the sector tricky.

Another risk is that because central banks don't regulate them, non-bank borrowers' profiles will likely be far more risky, hence more prone to defaults than commercial banks. Non-banks "have increasingly positioned themselves as alternatives to other funding sources," Charnay said. "Facing limited prudential regulations, [non-banks] compete on terms, structure and execution, offering one-stop solutions to many borrowers."

Shadow banks must also deal with risks similar to those faced by commercial counterparts. For one, non-banks "are involved in credit intermediation in similar ways [to] banks, [and hence] are exposed to bank-like risks," the S&P paper said. Kodres also noted shadow and commercial banks face the same types of risks when using "short-term funds in the money markets ... to buy assets with longer-term maturities [aka maturity transformation]."

However, shadow banks will be in more trouble than their central bank regulated counterparts if their lending goes awry. "[Because non-banks] are not subject to traditional bank regulations, they cannot – as banks can – borrow in an emergency from the ... central bank and do not have traditional depositors whose funds are covered by insurance," said Kodres of the IMF.

Spillover effect

If too many shadow banks fail, it could affect both central and commercial banks, spilling over to the rest of the economy. "At first glance, direct financial linkages between traditional banks and shadow banks appear limited," noted the S&P paper. "But we believe there is more to this than meets the eye."

The first type of link is direct, as "some shadow banks are controlled by commercial banks," Kordes said. That setup could entice both the commercial bank and their shadow bank operation to take more risk than usual, safe in the knowledge that, ultimately, the central bank governing the traditional bank would protect them in case of massive defaults.

Kordes also noted that while commercial banks could be financially unrelated to non-bank institutions, the latter could still impact the former. "Because shadow banks [have] to withdraw from other markets — including those in which banks sold commercial paper and other short-term debt — these sources of funding to banks [are] also impaired."

The other link is evident when "under stress [non-banks] create a problem for global banks simply by spreading or exacerbating financial risk," S&P Global said.

Meanwhile, as an alternative financing option unregulated by the CBE, shadow banks "affect inflation and monetary policy effectiveness in Egypt," the Cairo University paper said. That could be positive if the CBE pursues an expansionary monetary policy, as shadow banks encourage spending. However, non-banks would undermine a tightening monetary policy that combats inflation by reducing spending.

The S&P report said the interplay between central, commercial and shadow banks poses risks. "Regulators now have a better understanding of the direct and indirect risks that the non-bank sector poses to the financial system ... [but] they have limited tools to mitigate ... risks."

Booming future?

According to S&P's note, high interest rates generally curb the operations of shadow banks, forcing them to charge high rates. In Egypt, interest rates went from 8.25% by the end of 2021 to 27.25% at press time.

Those high rates subdued local non-bank credit growth, as "people calculate the real cost of the loan," said Walid Hassouna, CEO of ValU, a consumer finance non-bank, during a September conference. "They understand how much they are paying in admin fees, interest and everything else, and they actually compare the price of the product they are buying in cash or if they buy it through [non-bank financial services companies]."

However, with the Fed announcing a 50 basis point reduction in interest rates to April 2023 levels, non-banks should boost their operations if their central banks follow suit. That growth pace will likely accelerate in the coming two years as "officials' expectations point to another full percentage point in cuts by the end of 2025 and a half point in 2026," CNBC reported in September.

That likely means low and middle-income nations would be eager to follow in the Fed's footsteps by decreasing borrowing costs for companies and governments (treasuries) after years of high interest. Hassouna added that in Egypt, "customers became more conservative in their purchases after the Ras El Hekma agreement, knowing that even though products were available, interest rates were bound to decrease sooner or later."

Nevertheless, S&P said, "conditions remain tight, particularly for speculative-grade issuers." At press time, S&P rated Egypt "B-/B [for] long- and short-term foreign and local currency sovereign credit ratings." That rating means the country is "speculative grade: More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments."

Another pressure point that could curb non-bank activity in Egypt is that "interest rates [are] still high, [meaning] restricted funding access," S&P said. Additionally, "risks will be most pronounced for issuers that rely heavily on short-term funding or whose long-term funding will mature" by March 2025.

Local perspective on shadow banking

A one-on-one with Amr Aboulazm, Chairman of Tamweely Micro Finance

Replies were edited for length and clarity

1) How integral are non-bank financial services companies to Egypt's economic system?

The Egyptian financial system is represented by the banking sector and NBFIs. Over recent years, NBFI companies have played a prominent role in poverty reduction, creating jobs, ensuring an increase in income, and achieving financial inclusion that leads to greater social impact.

Microfinance and SME-oriented enterprises have become key elements in pursuit of growth and employment. About 4 million clients are catered to by these institutions-half are women in the age group of 21-35 years, where the need for job creation and income generation is imperative.

In fact, with the growing demand for cash and finance, the role of microfinance and consumer finance has also become highly important. Due to their agility, speed, and reach, particularly in remote areas such as Upper Egypt and the Delta, NBFIs are specifically positioned to respond.

2) Do non-banks raise the riskiness of financial systems?

I'm taking a different stance on this perception. All financial institutions work within the ambit of risk management parameters, and NBFI function under strict regulatory requirements and best international practices that compel them to work towards low systemic risk.

The NBFI product itself has inherent risk mitigation factor by disbursing across geographies, sectors, and even gender. Locally, NBFI onboarding and client selection criteria are considered quite stringent, bringing down the cost of acquiring clients. In the future, Through digital KYC processes and e-contracts, this will further reduce credit costs and minimize overall risk.

3) Do you think commercial bank operations are hurting because securing non-bank funding is more accessible?

Not all. Banks continue to grow, expanding their markets, making profits, and servicing clientele different from NBFIs. Banks and NBFIs are enjoying a complementary relationship, 75% of NBFI portfolio finance comes from banks.

The Egypt vision 2030 including financial and social inclusion-is considered a key issue by the government. this cannot be achieved without the cooperation of both banks and NBFI entities.

RETELLING EGYPT'S DESTINATION STORY

At this year's annual AmCham Real Estate conference in October, industry experts and government officials agreed that Egypt's real estate industry depends on building new communities.

That will require a lot of work, starting with the Central Bank and government adopting policies to limit construction costs and the expense of securing bank loans. Significant branding and marketing investments also will be needed to ensure developments stand out for the right reasons.

Conference speakers highlighted the need for new financing models and the importance of real estate funds to keep up with rising demand for sustainable properties.

Lastly, speakers addressed the inescapable reality that developers are unlikely to create new destinations if the government doesn't build air, rail, and road infrastructure to connect Egypt's major cities and ports.

By **Tamer Hafez**

DESTINATION: EGYPT

Egypt wants to create new destinations to attract foreign developers and property buyers. While the country has undeniable advantages, the market faces noticeable hurdles.

As most would attest, Egypt is a prime destination for holiday tourism, with nearly 2,500 kilometers of shoreline on the Red and Mediterranean seas and more than 3,000 years of recorded history. According to WP Travel, a tour operator, Egypt ranked between 14th and 21st on the list of most visited nations between 2020 and 2023.

The country's diverse economy also makes it a destination for meetings, incentives, conferences, and exhibitions (MICE) in the Middle East and Africa. Mahmoud Kaoud, associate director of hotels and tourism at Colliers International, an investment firm, told local media in August that MICE tourism increased the North Coast's high season by two months. It now starts in July and ends in October.

The government is betting those attractions could double the number of visitors to 30 million between 2023 and 2028. That would mean unprecedented opportunities for real estate developers targeting residents, businesses, retail, and visitors. At the October AmCham Real Estate Conference, Ayman Sami, country head of Jones Lang LaSalle, a specialized think tank, praised the government's progress toward realizing that ambitious goal.

To capitalize, experts at the conference stressed the need to "create new destinations" in Egypt. That could prove "hard," Abdallah Sallam, president and CEO of Madinet Masr, a local developer, told conference attendees. "We are doing a good job when we zoom in to the corporate level. But we need [more] private sector and government collaboration ... such as the Ras El Hikma triangle project [a $35 billion mixed-use real estate development project on the North Coast] ."

Square one

As an international destination, Egypt starts from a low point. "We are nowhere close to [having the] infrastructure, policy, city readiness, and even culture," Sallam said. "We can see a lot of unfavorable feedback from foreign tourists on social media."

Sami noted Jones Lang LaSalle classifies Cairo as a "Dawning Destination, [characterized by] emerging tourism infrastructure, perhaps having placed less emphasis historically on their travel and tourism sector." No other city in Egypt meets JLL's classification criteria.

That classification is based on infrastructure; year-round congestion fluctuations; leisure and business attractions; environmental readiness; urban readiness, such as digital platforms and labor availability; safety; and effectiveness of government policies.

Government strategy

In 2014, the government launched its 2052 National Sustainable Development Strategy "to improve the quality of life and ensure no one is left behind," said

Abdel Khalik Ibrahim, senior assistant to the minister of housing and urban development, at the conference.

The government allocated “$20 billion to overcome informal housing and improve the quality of the built environment and other social nonprofit projects,” Ibrahim said.

The strategy also focuses on building “new cities that meet international standards to [mainly] attract international property investors and buyers,” Ibrahim said. New developments would “connect to economic regions to create development corridors. Each zone would have its own economic function and unique attraction features.” A case in point is the Ras El Hikma development, with a target of 70% non-Egyptians, Ibrahim noted.

The project should get a head start from recent significant investments in services and infrastructure along the North Coast, which transformed it from “a destination that focused only on the local market to one that received over 105 nationalities ... last summer,” Ibrahim noted.

The national strategy also aims to ensure that local private-sector developers can cater to foreigners by offering them “higher levels of quality and design,” Ibrahim said. He and other conference speakers agreed the benchmark would be the developments in Ras El Hikma.

Elevated risks

Despite Ras El Hikma’s headline-grabbing benefits — bringing an initial $35 billion into Egypt along with the prospect of becoming a year-round destination in this highly seasonal region—the project is a risk for local developers.

The UAE-backed project will likely make it more difficult for Egyptian developers to attract local and foreign buyers to existing and new projects along the North Coast. SODIC General Manager Ayman Amer was adamant that “Ras El Hikma will [ultimately] take a big part of the pie. If we can’t do something outstanding, if we can’t compete with what they offer, everyone will go there.”

“GCC investors [in Ras El Hikma] will bring new standards and quality design language that will create historical changes as [they] aim to attract their own citizens for the summer,” said Naguib Sawiras, executive chairman of Orascom Investment Holding.

Another challenge is the “horrendous high interest rates,” Sawiras said, which stand at 27.5%. That, plus the pound’s devaluation by more than 200% since 2020, has raised property prices considerably. “Buyers must not be shocked about the high prices, as they are a function of interest rates and devaluation,” he added.

Such noticeable price jumps come despite developers tightening profit margins to try to keep units affordable. “We made zero money from our Zed project in Sheikh Zayed,” said Sawiras. “All our projected net profits, which we calculated when we started, were eaten up by the high interest rate and devaluation.”

Other problems relate to the state. “The government lags the private sector in automation, delaying approvals and delivery of other services,” said Sawiris. They should “take weeks, not months or years. Also, the government needs to open up plots for Egyptian developers and treat us like they do foreign developers.”

Local laws are also problematic for developers. That was evident when the government declared the Ras El Hikma project's land a free economic zone in April. “The [UAE investors] want to use Emirati laws, not Egyptian ones, because their laws get things done,” Ahmed Badrawy, CEO of Marakez, a commercial property developer, said at the conference. “The government needs to get out of our way, especially when it's foreign investors ... It should be a light, helping hand.”

Further deepening those challenges is the fact that the government and Central Bank have done little to curb construction costs and kept interest rates high, Sawiras noted.

He said large developers would be safe if they “finish and deliver projects quickly. They should also not start new projects until the older ones are sold out.” However, he warned that smaller developers may have “no option but to continue building [and selling] as they need installment payments from new projects to finance under-construction ones.”

Better cities

To improve Egypt’s status as a global destination, cities need to move up the JLL classification, said Sallam of Madinet Masr. The think tank’s report shows Cairo’s next step is to be an “Emerging Performer, [where] cities show rising tourism potential with new infrastructure, offering strategic development opportunities." Those metropolises include Abu Dhabi, Cape Town and Istanbul.

The endgame is to reach steps three and four, Sallam said. The report defines the former as “Balanced Dynamics [where] these cities have solid tourism foundations and growth potential ... balancing scale and concentration ... such as Prague, Macau, and Beijing,” the JLL report said.

Step four classifies metropolises as “Mature Performers: These cities have robust travel dynamics and infrastructure [balancing] growth with potential pressures [on the city’s infrastructure] and diversification [of attractions],” the report explained. Examples are Dubai, Los Angeles, and Sydney.

The key to achieving that necessary progress is “not to reinvent the wheel,” Sallam said. “Sometimes we need to look back at successful examples and try replicating them.” He added, “We must not focus or prioritize one [piilar] over the others. Everything must happen at the same time.”

MONEY FOR SUSTAINABLE DESTINATIONS

Developers face increasing financing pressures when building destinations, especially if they are sustainable.

Since the current administration came to power nine years ago, its primary focus has been building more cities, led by the New Administrative Capital. The government's plan is for those metropolises to be environmentally sustainable from day one.

According to Egypt Vision 2030, half of buildings using renewable energy should be in new cities by 2025 and 75% by 2030.

Those goals should attract significant foreign investment, as "real estate FDI needs a path to reduce their carbon footprints," SODIC General Manager Ayman Amer told AmCham's October Real Estate Conference attendees.

However, real estate developers and buyers continue to struggle with longstanding difficulties in accessing local financing. "The developer has [become] a banker who lends money over five, seven and even 10 years," Sawiras, executive chairman of Orascom Investment Holding, said during the conference. "That is not our role."

Ultimately, local developers have limited domestic financing options. Akef Maghraby, Suez Canal Bank CEO, noted during the conference that in the absence of commercial bank lending, real estate funds could be a viable option, especially if the development is eco-friendly.

Funding landscape

Despite Egypt's growing population and economy, which require rapid growth of cities to accommodate demand, many local commercial banks are reluctant to finance real estate development. "The banks are lagging in providing higher financing limits in response to increased [demand for] financing for new cities and destinations," said Maghraby.

The resulting gap is growing, as "the cost of building new cities [is already] high, and it has been increasing recently" due to high interest rates and devaluation of the pound, Maghraby said. "That translates to rising prices for buyers."

Nevertheless, he stressed that despite the sector's "denomination in [local currency], which means developers' costs will automatically rise with each devaluation, [yet] the local real estate development sector is one of the most attractive for banks if the formula is right."

However, this "formula" changes with every project, Maghraby said. "It comes down to the [project's] investors, developers, location, contractor, target market and cash flows."

Maghraby noted some local banks can't lend to private developers due to internal restrictions. "The challenge is that their debts are too high and growing," he said. That comes mainly from the rising cost of dollar-denominated transactions due to consecutive local currency devaluations. "However, balance sheets of many of those banks are catching up because of the [increasing] interest rate revenue [from buying T-bills]," Maghraby said. "Eventually, they would be able to cater to developers."

He said commercial banks only provide a project's local currency component, while "multilateral financing institutions [will] provide the dollar component."

The cost of green

To maximize the impact of sustainable (green) technologies in new destinations, developers should embed "smart technologies and solutions" in infrastructure, Ayman El Kousy, CEO and managing director of MIDAR, a business-to-business infrastructure developer, said at the conference.

Sustainable infrastructure includes transportation networks, renewable energy stations, fast internet, and utilities. Such facilities "bring quality of life to residents," El Kousy said, making a project more sellable and commanding a premium over traditional developments.

Currently, local laws don't mandate that real estate be sustainable. However, some local developers have no option. "Aldar-ADQ [SODIC's owners since December 2021] has specific environmental mandates," said Amer of SODIC. "Therefore, local operations have to comply with our parent company's benchmarks and standards."

The main downside to eco-friendly destinations is they are expensive. "The cost of a project built to be sustainable could [be up to] 15% more than traditional developments," Amer said, though developers could alter minor details for "up to 40% energy savings."

Additional costs arise from securing environmental compliance certificates. "Fees get higher as your gross annual revenue increases," according to a note from the Business Development Bank of Canada.

Sarah El Battouty, CEO and founder of ECOnsult, a local environmental design and auditing company, said that for some developers, "the rating costs could be inhibitive if replicated across all their projects. It could be feasible for one building or project."

To minimize certification costs, developers must decide "which rating systems and certifications are

suitable for them," said El Battouty. "There is no one size fits all." She stressed the importance of hiring top-tier advisers in such situations.

Getting that right is vital for commercial facility developers. Kousy explained that while 100% locally owned residential developers could skip the certification, commercial property developers can't. For one, at least one major vendor is bound to have an environmental mandate dictating its decisions.

A significant obstacle to certification arises if it requires other sectors to be sustainable. "You can't put [companies] in front of the sustainability train without their supply chains," Battouty said. For real estate developers, that can be difficult, as their feeders are some of the most polluting industries worldwide, including steel and cement.

Ultimately, developers will only build eco-friendly destinations if they can sell them. "Our business is built on supply and demand," said Amer. "If we find demand, we will cater to it."

El Battouty believes demand for eco-friendly buildings will accelerate. "Locals are eager to reduce their utility bills and running costs," she said. "Once they realize the savings they will enjoy from living in green buildings and trust the developer's promises, they will likely buy these eco-friendly developments."

Hard money

Securing sufficient and suitable local funding to build a sustainable destination is uncommon. "We use traditional financing channels regardless of whether they are suitable for our sustainable projects or not," said Amer of SODIC. "We deal with [one local bank] in particular because it reduces our interest rate if we are developing a project that meets its sustainability criteria."

Maghraby of Suez Canal Bank said that lack of financing is because "a lot of financiers look at sustainability as a cost, not a way to create new opportunities."

Another obstacle is that proven sustainable developments may be unsuitable for some green financiers. "Both have to comply with the [latter's] sustainability standards," Maghraby said.

Another problem facing local developers and financiers is "the big debate about whether natural gas is an [environmentally sustainable] fuel," he said.

A sector-specific hurdle is that "there is no single formula to assess projects applying for green financing," Maghraby said. It depends on the developer's track record, the project's location, the specifics of each project, and its management.

If a developer can overcome those hurdles, "there is a lot of money globally going into sustainable developments," Maghraby said.

Funds alternative

Real estate funds are one option for financing local sustainable projects, Maghraby said. In October 2023, Egypt introduced a new law and executive regulations allowing the creation of real estate funds.

According to Tarek Abdel Rahman, Compas Capital's managing partner, the fund had some legislative issues to start with, but "the current regulations are attractive now, solving problems related to including property from the secondary market in funds, their tradability on exchanges and taxes."

Updates to real estate funds' regulations need to keep up with international standards to ensure projects are a feasible long-term investment option for foreign investors. "One problem is laws are changing and evolving a lot globally," said Maghraby. "Real estate development stakeholders must, therefore, always be aware of the latest global developments to create a globally appealing project."

NAME TO REMEMBER

Building a brand is essential to the sustainable growth of destinations. Yet, as Greek islands are discovering, getting it wrong could prove disastrous.

One of Egypt's most important blessings is that it is a year-round destination with warm winters in the south, sunny breezy summers in the north, and no extreme weather events so far.

That has attracted diverse types of foreign and local travelers, each with their own idea of a perfect holiday. "The Red Sea will always be a global destination because of its marine life. The primary target will be eco-tourists," Abdel Khalik Ibrahim, senior assistant to the minister of housing and utilities, said during AmCham's October Real Estate conference. "The Med is about mass tourism. Ras El Hikma [a $35 billion development project] will combine tourism and manufacturing."

Accordingly, successful branding is essential to ensure a destination's long-lasting appeal. "Well-differentiated brands could retain up to 75% of their customers, compared to the industry average of 48%," Emulent, a U.S.-based marketing firm, said in a May research note.

Local destination developers acknowledge those benefits, adopting diverse branding exercises to stand out from the competition. However, Dimitris Koutoulas, a destination management expert, warned conference attendees about persistently adopting inappropriate branding strategies.

Local branders

Established in 1996, SODIC seeks and develops remote plots that it predicts will be prime locations that attract top-end residential, commercial, and mixed-use developments in a few years.

The company's first project was SODIC West, located on Greater Cairo's outskirts. "The project [located in a remote location at the time] was not performing to its potential until 2006," said Ayman Amer, SODIC general manager. "After that, it boomed due to the rise in manufacturing" in the 6th October industrial zone. That created demand for top-tier residential developments, utilities, services, and entertainment facilities.

In 2016, SODIC used the same strategy in New Heliopolis on Greater Cairo's eastern outskirts. "It was a very remote plot at the time," Amer said. "In eight years, we had built 1,500 units. Now, other developers are coming in to build around us."

Amer pointed out that SODIC "focuses on building destinations, not just buildings." The company's Westown complex has two schools, a hospital, entertainment and shopping complexes, and residential zones targeting various budgets.

El Gouna, on Hurghada's outskirts, grew organically to become a prime Red Sea tourist and residential destination. According to Mohamed Amer, CEO of El Gouna Orascom Development Holding (ODH), the development's initial purpose was to build summer homes for Samih Sawiras, the company's founder, and his family.

That vision changed when the Tourism Development Authority required ODH to build a hotel as part of the government's strategy to attract tourists anywhere a private-sector developer builds vacation homes.

"The hotel's presence was the first step in changing the vision for El Gouna," Amer said. "We invested around $4 billion to attract permanent residents -- building facilities, services, and conveniences they need to [lead] a comfortable life."

Currently, El Gouna is home to 25,000 permanent residents, 30% of them non-Egyptians. There are 3,000 hotel rooms, 85% of which are reserved by foreigners year-round. "We never had a short-term profit plan for the project," Amer said. "It took decades to reach where we are now, and we are still looking to grow it further."

Travco, a fully integrated destination management company, was a first-mover with its North Coast hotel-residential project. "We took a remote, pristine piece of land along the North Coast to build our hotels, sure that future developments along this shoreline will eventually reach us," Omar Abdel Ghaffar, managing director at Travco Properties, said at the conference.

Not wanting to wait for the government to build and upgrade the necessary infrastructure, Travco invested in a nearby military airport to accommodate charter flights, including re-tarmacking the runway and upgrading conveyor belts, among other things. It also built water desalination plants to feed the project.

Travco's approach on the North Coast stands out, prioritizing hotel facilities in a region branded as the preferred summer home destination for locals. "Everyone else was building a hotel to comply with the law," Abdel Ghaffar said. "We later added the residential part, entertainment, retail and other commercial facilities."

Rebranding existing developments is another option. Somabay Group (SBG) revisited its brand and market position 11 years ago when it started upgrading existing facilities and infrastructure — some over 20 years old. "It was a beautiful place to begin with but had few visitors," said Ibrahim El Missiri, Somabay's group CEO. "Our underlying concept was how to change this place [with its stand-alone hotels] into a fully integrated destination."

The successful transformation of Somabay's brand also made the surrounding areas desirable. "We are starting a project next to Somabay. It could be considered an extension of it," said Abdel Ghaffar. "Our integrated model should allow us to become an independent, self-sufficient development." Travco used this strategy earlier in the Red Sea. "We have another development in Makadi Bay," said Abdel Ghaffar.

Lessons from Greece

With the government aiming to double the number of visitors between 2023 and 2028 to nearly 30 million annually, destination developers likely will be eager to attract as much business as possible.

While that can be good for the bottom line in the short term, it could be detrimental to the destination later on. The Greek islands stand as a testament to the correct and wrong ways to brand destinations and the long-term effects of those strategies.

According to Koutoulas, some Greek islands saw their "brands evolve organically since the 1960s and 1970s." Another group accelerated their brand-building exercises mainly by incentivizing tour operators to market them.

"We are seeing the stark results today," he said. The islands that accelerated their branding are overcrowded during peak seasons and almost deserted off-season. That resulted in overworked infrastructure during peak times and significant investments to fix it during the low seasons. "Meanwhile, tour operators are continually forcing hotels and tourist facilities to keep their prices low," Koutoulas said.

Some even hurt their appeal by building facilities catering to too many types of visitors. Koutoulas recalled how one family-friendly island also built bars and party facilities to cater to young travelers seeking a nightlife destination. "The lack of compatibility between the two types of travelers destroyed the island's image and brand."

Meanwhile, Greek islands that built their brands organically shunned tour operators, relying instead on individual bookings, even if it meant lower occupancy rates.

Koutoulas said this approach allowed them to manage their brands as they saw fit. It also resulted in higher accommodation and entertainment rates during high seasons, cementing themselves as niche and aspirational destinations. They also focus on niche target markets, such as wedding tourism during the low season.

Each of those islands has a distinctive visual identity rooted in its culture, Koutouas said. They also choose events, festivals and entertainment activities that further boost their image and brand.

Consistency is a critical factor in successfully branding destinations. Another is not to be miserly with branding budgets. Koutoulas stressed that no matter how expensive the branding is, decision-makers should accommodate it as it is "a tiny investment compared to the [money] involved in developing the property."

PLANES, TRAINS, AUTOMOBILES

Building destinations requires government investment in logistics and transportation, and an open door for the private sector.

In Egypt, developers have few locations to build convenient destinations for residents and visitors. According to media reports, government data, and official statements, inhabited land was well under 14% of the country's total area in fiscal year 2022/2023.

Unsuitable locations are not always in remote areas. "Our developments in New Zayed [just 4 kilometers from Sheikh Zayed's city center] were only possible because of the road network the government built there," said Ayman Amer, SODIC's managing director, at AmCham's October Real Estate Conference.

To entice private-sector destination developers, the government has been busy upgrading and expanding Egypt's road, rail, and air networks. The state also modified laws, allowing the private sector to help build and manage the country's air, sea, and land transportation.

Those expansions should increase Egypt's GDP growth and create jobs. "Robust infrastructure [will] massively enhance connectivity," Minister of Civil Aviation Sameh El-Hefny told conference attendees. "It will enable the government to realize its goal of attracting 30 million visitors by 2028."

Flying to Egypt

Air travel is indispensable for Egypt. "Almost 99% of travelers coming to Egypt use planes," El-Hefny said. "Domestic [air travel] is also very important [to] connect north to south." Currently, it contributes "nearly 5% of the country's GDP, which is within the global margins."

Growing that mode of transport further is "hampered by the noticeable discrepancy between [aviation] infrastructure in the north and south of the country," El-Hefny said. That will jeopardize the government's ambitious plan to double the number of visitors annually between 2023 and 2028. "Without aviation, we will not meet that goal," he said.

El-Hefny's plan will focus on balancing profit, quality of service and convenience. "In the aviation sector, we have very thin profit margins," he said. The sector "is also very sensitive and fragile, affected by ... natural disasters, wars, economic decline and even football matches." Accordingly, increasing safety and security are essential, said the aviation minister.

The plan will "increase direct flights to [local and international] destinations." El-Hefny said. "That would require higher quality services and more airports and airlines."

"By integrating charter services ... into our broader connectivity plans, we will be able to open new corridors of trade, tourism, and investment," El-Hefny said. "That will also help attract investments to Egypt's meetings, incentives, conferences and exhibitions tourism destinations, such as New Alamein."

The plan includes boosting the capacity of local airports. Projects include a new terminal at Cairo International Airport. El-Hefny cited the building of airports in the New Administrative Capital, Bardawill, Sphinx International Airport and Bernice.

El-Hefny also plans to upgrade Borg el Arab airport, "connecting it with other modes of transport, such as rail," he said. Once completed, the Ras El Hikma airport will serve the city and the North Coast. "Our aim is for airports' capacity to go from 36 million passengers a year to nearly 51 million by 2030."

To manage the extra traffic "more efficiently, securely and satisfactorily," El-Hefny stressed both existing and new airports will be automated. "Digital infrastructure is essential for the [local] aviation sector to compete abroad," he said. Services will include "automated check-in, biometric authentication and self-service kiosks."

He noted the private sector can participate in those projects, saying, "Their involvement could be management and operation, renting or concession contracts."

In the long term, El-Hefny wants to spur investments in "smart airport cities" in and around new and existing airports.

Moving on land

With 95% of passengers and cargo using land to move around inside Egypt, roads and rail networks are vital. In 2014, the government announced adding 7,000 kilometers of roads to the 23,500-kilometer national network. "We are done with adding 6,300 kilometers," Hossam El Din Mostafa, head of the Roads and Bridges Authority,

told conference attendees. “We have also upgraded 8,300 kilometers of a planned 10,000 kilometers of old roads.” Many of them are now “smart roads,” he said.

“Now everything is connected via convenient roads with acceptable flow that is safe and allows shorter transit times,” Mostafa said. Most new roads connect tourist destinations, factories, farms, ports, and logistics centers, he noted. Planned roads include those built around the Ras El Hikma triangle, the Dabaa region, Ismailia and South Marsa Matrouh. “The new [and updated] roads will entice people to move away from the banks of the Nile,” he said.

Mostafa stressed the importance of the 2,000-kilometer high-speed cargo and passenger rail line connecting Ain Sokhna with the New Administrative Capital, Six October City, Borg El Arab, Alexandria and Marsa Matrouh. “Another one [will head] south from Six October City to Abu Simbel in the far south. At Qena governorate, this line will branch out to Safaga and Hurghada.”

He noted that while new stations would be built for the latest trains, old stations would be upgraded to receive conventional diesel and high-speed locomotives.

Ihab Mehawed, managing director of Orascom Construction, told attendees the new rail network and roads “will be like a new Suez Canal, but on land. … A game-changer.”

That expanded network should incentivize destination developers to build communities along those routes and spur new investment opportunities in existing cities. Additionally, it “will improve the quality of life,” said Mehawed. A case in point is Cairo's underground metro. “It is already moving 4 million people daily,” he said. “When the sixth line is complete, it would likely ferry 8 to 9 million.”

Private sector focus

For Mohamed Dahshoury, CEO of Hassan Allam Construction, the private sector will be essential to realizing the government’s “transport-oriented development” strategy. “It will allow the private sector to leverage [its] expertise,” said Dahshoury. “We have more projects and opportunities to bring international expertise to Egypt.”

Wael Hamdy, senior vice president at El Sewedy Electric, said the company currently manages electricity, gas and water networks in New Alamein. “That has enabled us to introduce innovative and artificial intelligence-powered solutions.”

They also “nearly finished building the smart road connecting Shoubra [neighborhood in Cairo] and Benha [capital of Qalyubia Governorate],“ said Hamdy. “It will greatly reduce accidents. It will also improve flow with the electronic toll stations we are building.”

Dahshoury said roads and rail networks surrounding ports would create non-transport investment opportunities. “The roads around ports will catalyze investments in factories and other businesses that would not be possible without direct connections to the port and the rest of Egypt,” Dahshoury said.

Bright future

Looking ahead, Egypt should attract significant FDI in transportation due to several factors. First is "our demographic distribution --- 65% under 35 years old is very good,” Tarek El Gammal, chairman of Redcon Properties, told conference attendees. “That means our population is growing … Africa will [have] 33% of the global workforce by 2050.” That means factories should always be able to find labor.

Another opportunity for the private sector is that “we don’t build [enough] commercial transport,” El Gammal said. Reversing that would alleviate much pressure on African governments' finances.

Rail investments likely will take precedence over other modes of transport, as Africa is the world's poorest continent. “It is the cheapest land freight option,” El Gammal said.

The caveat is that any transportation network would have to meet international standards for both passengers and cargo if the continent hopes to attract FDI that benefits from the extra connectivity. ■

GIVING A HAND TO ADVANCED ECONOMIES

Persistent labor shortages in advanced economies offer Egyptians a prime opportunity to bridge these workforce gaps.

by **Fatma Fouad**

Demand for foreign workers in advanced economies presents a significant opportunity for Egyptians seeking employment abroad. "Many countries are seeking to attract Egyptian workers, especially skilled workers," Heba Ahmed, director of the operations department at the Ministry of Labor, told the media in June,

Statistics from the Ministry of Immigration reveal a massive increase in the number of Egyptians abroad, skyrocketing from 2.7 million in 2013 to 14 million in 2023, with more than 50% of them working in the GCC.

More Egyptian workers going to advanced economies could significantly boost remittances. Malek Adly, head of the Egyptian Centre for Economic and Social Rights (ECESR), told Equal Times, a publication, in February, "Egypt has become heavily dependent on remittances from Egyptians abroad and is seeking to increase their numbers to increase remittances."

Remittances are currently Egypt's largest source of foreign currency, five times more than revenue from the Suez Canal, according to a 2022 working paper by the Economic Research Forum.

Central Bank of Egypt (CBE) data indicates remittances grew by 73.8% year-on-year in May to reach $2.7 billion and 66% to $2.6 billion in June.

Shrinking labor supply

The lack of labor supply in advanced economies has been a pressing issue disrupting supply chains and hindering economic growth. In June, Ekkehard Ernst and Lisa Feistin, in Intereconomics, Review of European Economic Policy journal, wrote that "supply bottlenecks due to labor shortages are likely to slow global growth and trade while also inducing higher global inflation."

According to a June report by McKinsey Global Institute, the estimated GDP in 2023 could have been 0.5% to 1.5% higher across these economies if employers had filled the available job vacancies.

A May report by the European Labor Authority (ELA) echoed the same concern, showing that labor shortages are associated with increased production costs and constrained order reservation. In addition, labor shortages can result in increased workloads and longer working hours for those employed.

Aging workforces and increased labor demand further exacerbate the issue. The McKinsey report showed that labor markets in advanced economies, with a particular focus on France, Germany, Italy, Japan, the United Kingdom, Australia, Canada, and the United States, today are among the tightest in two decades. The report highlighted that the number of job vacancies per unemployed person in designated economies increased by more than four times on average between 2010 and 2023 and by almost seven times in the United States.

The report added this is "not merely a pandemic-induced blip, but rather a long-term trend that may continue as workforces age." According to the OECD Library, The working-age population is defined as those aged 15 to 64.

Dorina Georgieva, an economist at the World Bank Group, wrote in April, "Among high-income economies, the aging population has become increasingly evident." She added that in 2022, almost 20% of the population in Europe and North America was 65 and older.

Georgieva noted this will increase the cost of labor as fewer people will be available to work. According to Global Labor Market Outlook (GLMO) in July, "The shrinking working-age share of the population may cut an average of 0.4 percentage points from global growth each year over the next decade."

S&P Global noted in February that by 2050, countries will lose 92 million working-age individuals while gaining over 100 million elderly people, according to research from the Center for Global Development. Without migration, the 38 OECD countries, which together account for over 40% of global GDP, will need an additional 15 million workers annually beyond what domestic growth can supply.

The GLMO showed that participation in the youth labor force is also declining in many economies. This could be due to more young people seeking higher education or, that youth may be overqualified or underskilled for the jobs available or simply not interested in traditional manufacturing and trades occupations.

This underscores the necessity of enhancing workforce participation and attracting more immigrants. As the GLMO states, "Immigration and greater labor force participation among the domestic population are critical to solving labor shortages in many economies."

The Outlook emphasized that immigrants tend to be of working age and are more likely to possess the necessary skills for industries facing significant labor shortages. This is particularly evident in "low-skill jobs requiring in-person work, such as basic manufacturing, construction, trades, leisure and hospitality, and healthcare."

Sectors most affected

Labor-hungry sectors in advanced economies include construction and healthcare. "Workers in these occupations mostly use physical and manual skills, which in many cases are challenging to automate," the report said.

The ELA report showed that employment in the construction sector tends to experience sharper twists and turns than the economy as a whole. Reflecting this trend, Turner & Townsend, a multinational services company, noted in June that 79% of international real estate markets report skills shortages, while fresh investment drives up activity after a period of economic difficulty.

These shortages could lead to reduced economic returns. An August article by McKinsey & Company highlighted that labor shortages and productivity challenges in the construction sector could result in a shortfall of up to $40 trillion in construction output.

The global healthcare sector also is experiencing a remarkable transformation. According to Deloitte's 2024 Global Healthcare Sector Outlook, it "faces a severe shortage of workers, with projections indicating a shortfall of 10 million by 2030."

The Outlook underscored that the demand for healthcare workers is projected to increase by 29% over the next decade.

While filling jobs in sectors requiring physical and manual skills is challenging, the McKinsey report indicates that the most significant shortage remains in technological skills.

The report showed occupations relying on these skills, like software developers and other IT-related jobs, have been the hardest to fill since 2015, although the advent of generative AI may restore some balance. According to a May article by Pearson's Faethm, a Software company in Australia, "The tech skills gap threatens business growth and could stifle innovation and cut into company competitiveness."

The article noted that by 2030, the world could see a shortfall of 4.3 million tech workers, resulting in $449.7 billion in unrealized output.

Upskilling Labor

Egypt has become more keen on developing its labor base. According to Labor Minister Mohamed Gobran in August, "Our goal is to develop the necessary skills for current jobs and to anticipate future job requirements. He added that the ministry is intensifying efforts to provide skilled labor with internationally recognized certifications.

In May, Minister of Emigration and Expatriate Affairs Soha Gendi announced the Egyptian and Italian governments are collaborating to establish a center for employment and legal migration. She said the center's mission will be to train and qualify Egyptians for work abroad while also familiarizing them with the laws and culture of their destination country.

In addition, Gobran stressed the ministry's efforts to develop the country's vocational training system in cooperation with private-sector development partners in September.

In a meeting with Abdulrahman Al Awar, Minister of Human Resources and Emiratisation of the United Arab Emirates, he underscored his ministry's commitment to providing skilled labor to the UAE market and working closely with local employers.

Gobran highlighted the importance of the ministry's "pre-departure orientation unit," which educates Egyptians seeking employment abroad about their rights and responsibilities, as well as the labor laws and systems in their destination countries.

Another notable initiative was the establishment of the Mehany 2030 project by the Ministry of Labor in January. The project aims to train a million individuals to meet local and global labor demands. It also seeks to implement long-term training programs, ranging from three months to a year.

Recommendations for tight labor markets

According to Kweilin Ellingrud, McKinsey Global Institute director and senior partner, in August, “To address this issue, policymakers must prioritize policies that encourage labor force participation and skills development.”

Businesses can broaden hiring pools by seeking to attract immigrants. The Global Labor Market Outlook showed that increasing the number of foreign workers and providing pathways to permanent residence is necessary to bridge the labor supply gap.

However, immigration remains insufficient for addressing labor shortages, taking into consideration the political controversies. Also, many economies cannot admit enough foreign workers to make up for missing workers, the Outlook noted.

Increasing the number of women in the workforce also could help address shortages and improve productivity. According to the IMF Library in June, “In advanced and emerging markets, increasing female labor force participation to levels in the best-performing peers could, in most cases, more than offset GDP losses resulting from a shrinking labor force in the next few decades.”

To encourage women’s participation in economies and bridge the gender gap, the McKinsey report suggests implementing flexible work arrangements and access to care support. Such incentives “could increase the contribution of women to labor supply growth and reduce tightness in the labor market,” the report noted.

Deploying and adopting technologies is also an effective approach for businesses to power productivity growth. The McKinsey report underscored that technologies such as artificial intelligence could significantly boost productivity, enabling advanced economies to continue growing despite the decline in labor supply. ■

The story of two worlds

The period from September 15 to October 15 was another one where the market split between large caps and small caps. The EGX 70 EWI continued outperforming EGX 30 by a large margin for the second period in a row. The former rose 6.7%, while the latter only increased by 0.3%. That meant that year-to-date, the EGX 70 EWI is up 38%, while the EGX 30 is up only 23%.

Many top performers came from the small-caps world, such as Sabaa International Pharmaceuticals (SIPC, up 70%), Memphis Pharmaceuticals (MPCI, up 69%), Cairo Educational Services (CAED, up 52%), and MB Engineering (MBEG, up 48%). SIPC and MPCI may have been bid higher on the recent pharmaceutical price hikes. MPCI also recently announced a capital increase to reduce financing expenses. Meanwhile, CAED had no material events to drive its price higher. MBEG may have attracted stock investors after it moved from the NileX to EGX.

Elsewhere, some large caps were under the limelight. Elsewedy Electric (SWDY, up 68%) stock almost doubled from its recent tender offer for no apparent reason except that the company will participate in the Ras El-Hekma project, which was expected six months ago. Another example was Egypt Gas (EGAS, up 62%), which rose despite denying knowledge of an acquisition by a strategic investor.

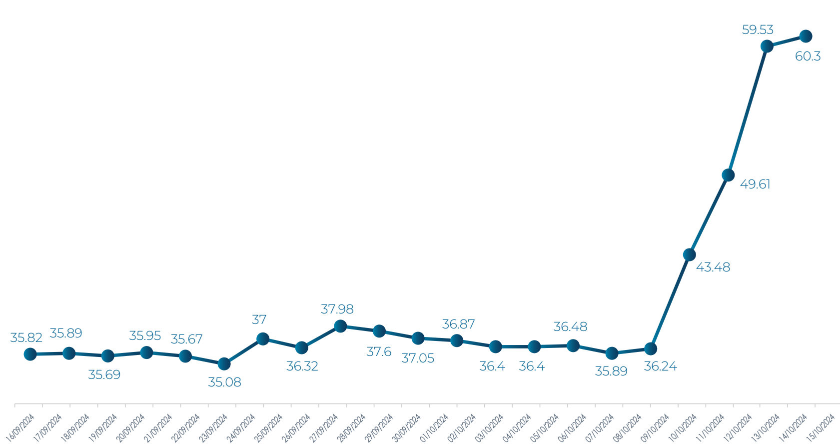
Speaking of mergers and acquisitions, the market may have bid some potential target companies higher, mainly in the food and beverages sector. (DOMT, up 23%) received an acquisition offer at a steep premium. Obour Land Food Industries (OLFI, up 43%) rose on similar market talk.

Another acquisition involved Rameda (RMDA, up 42%), which made its largest acquisition of a company treating type 2 diabetes. RMDA benefited from recent pharmaceutical price hikes. GlaxoSmithKline (BIOC, up 34%) and Nile Pharmaceuticals (NIPH, up 23%) were other beneficiaries. The latter recently announced a capital increase. Also, drug distributor Ibnsina Pharma (ISPH, up 51%) was bid higher after price hikes and potential easing by CBE policies in the near future.

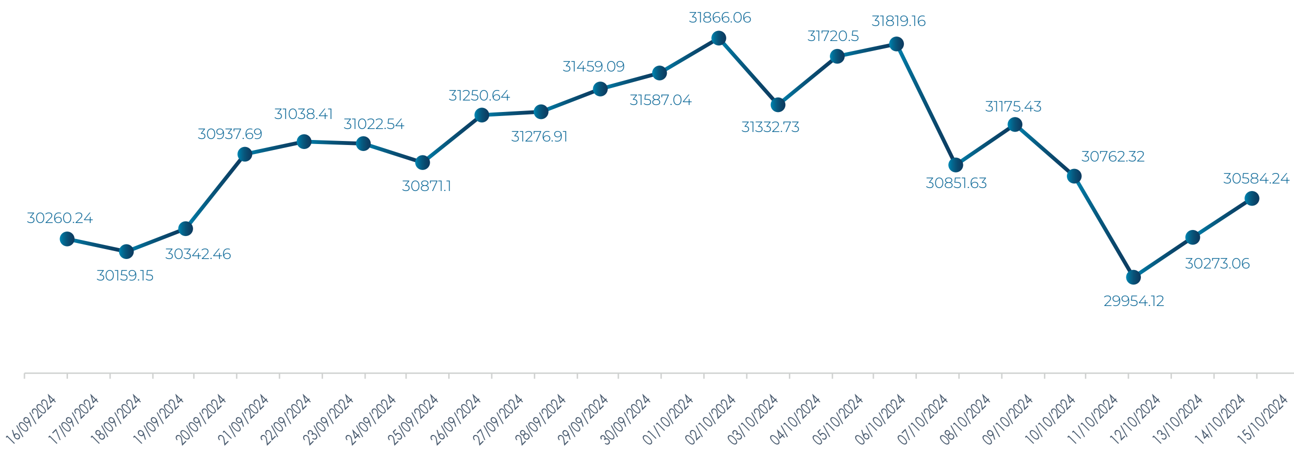
Still, after the end of this period, the CBE kept interest rates unchanged in its October 17 meeting, as expected. That leaves two more meetings by the end of November and December. However, the CBE may push its easing decision to early 2025, with inflation accelerating in August and September.

Memphis Pharmaceuticals (MPCI)

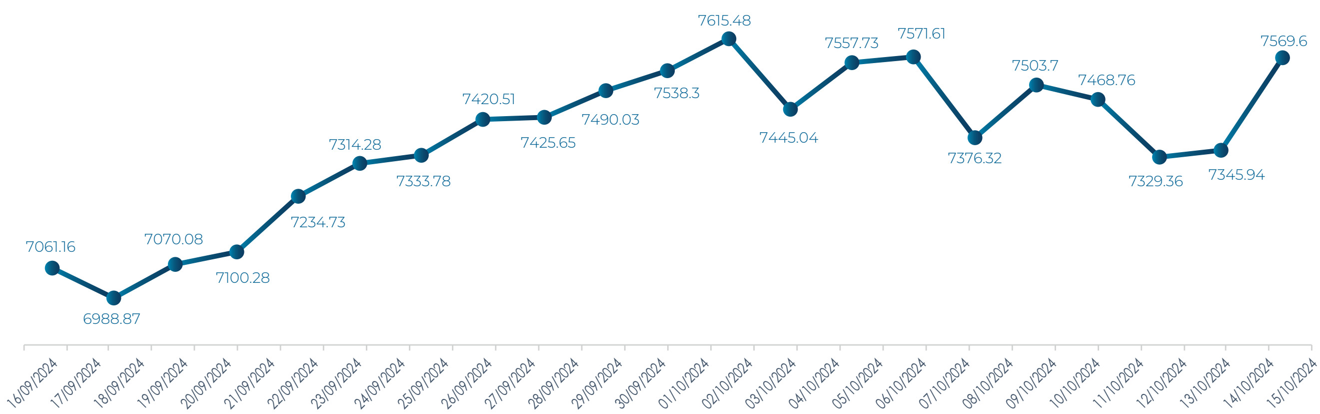
Memphis Pharmaceuticals (MPCI) – 60% owned by HoldiPharma, the state-owned drug holding company – announced an EGP 171.25 million capital increase. Part of the proceeds from this 3-for-1 rights issue settled MPCI's outstanding EGP 102.75 million debt to HoldiPharma. The move should generate around EGP 30 million in financing cost savings for MPCI, translating into 12% higher net earnings. Since Aug. 5, MPCI's stock has risen around 70%. Similarly, the stock rose by 69% from EGP 35.64 to EGP 60.30.



EGX 30



EGX 70



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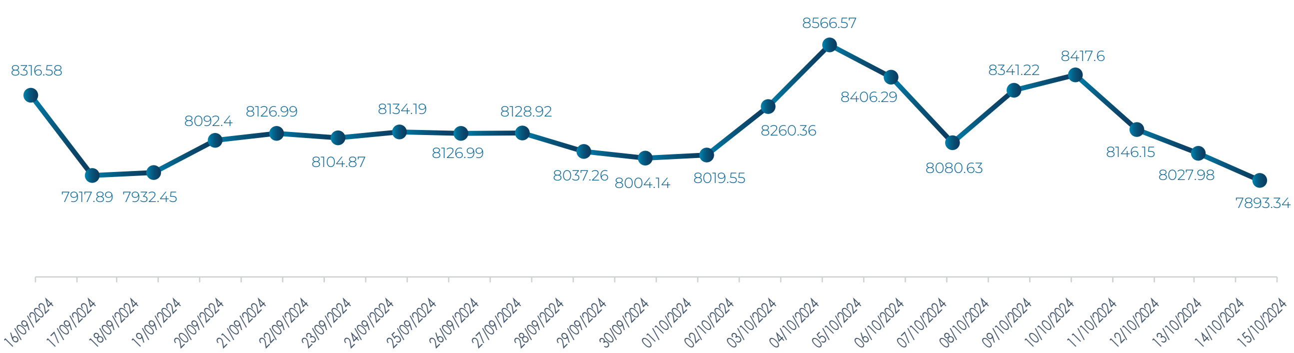

Tamayuz index is an all-new weighted index, launched on June 23rd. It comprises companies with high free cash flows from operations. EGX stresses that this is not an endorsement of those stocks.

TIME TO INVEST

Hassan El Khatib,
Minister of Investment and Foreign Trade

Newly appointed Minister of Investment and Foreign Trade Hassan El Khatib has one clear mandate: drive the private sector to invest, invest, invest.

by **Rania Hassan**

For the past 13 years, Egypt has survived economic challenges every two to three years. It started with the 2011 and 2013 revolutions. In 2015, there was the first currency black market followed by the first significant devaluation by the end of 2016 when the pound lost half its value. COVID-19 in 2020, the Russia-Ukraine war in 2022, and the Gaza in 2023 all pushed Egypt's economy to the brink.

"The government had to step in and stimulate the economy after seeing investments nearly stall between 2011 and 2013," Hassan El Khatib, the newly-appointed Minister of Investment and Foreign Trade, told AmCham members on Oct. 22.

He said the current administration has invested about $550 billion in the economy to date. "Our focus was building new and upgrading existing infrastructure, which was severely lacking for many years – even before the [2011] revolution," El Khatib said. "It was important for the government to take the lead." That caused the private sector's contribution to the economy to "drop from 75% to 25%," he said.

However, that will change. El Khatib stressed the ministry is addressing this imbalance, aiming to return the private sector to leading the economy. "It is part of our transition plan," El Khatib said. "The narrative needs to change, and it is."

The investment minister sees government policies as the biggest problem facing the private sector. "The private sector is doing well, given the current circumstances," El Khatib said. "The issue is with the policies."

Monetary policy obstacle

The Central Bank's (CBE) contractionary monetary policy led to all-time high interest rates (27.25% overnight interbank rate), meaning the cost of securing loans has never been higher. "The policy we always start with is the monetary policy," El Khatib said. "It is key."

He noted that "for the past three decades, CBE policies focused on keeping the exchange rate fixed, not lowering inflation. [We all] suffered because Egypt's pound was [almost] always overvalued." El Khatib noted. "Egypt's small export base [suffered the most] because of that policy."

In 2024, the CBE is rectifying that. "I assure you, monetary policy is now targeting inflation," El Khatib said. "There is no more currency fixing. We are already seeing it in carry trade [where investors borrow low-interest money to invest in high-interest assets], which is moving in and out of Egypt without affecting our reserves."

He added it is promising to see the exchange fluctuate every day. "Flexibility is what industry needs."

Fixing fiscal policy

Another issue that El Khatib said is hampering the local private sector is the local tax system. "We have reasonably competitive [headline] rates. However, over the years, we [slowly introduced] additional taxes, fees, burdens, and levies. That made the picture more complicated and [therefore] not easy to address."

Accordingly, the investment ministry is working with the Ministry of Finance on "an effective tax rate," El Khatib said. "One number to tell investors is what they will be paying for the next 20 years … We want our policies to be transparent, clear, and predictable."

In mid-October, the investment minister presented two tax-related modifications to the Cabinet. The first relates to how the universal tax is calculated. This 2.5% tax is taken from the top-line revenue of all companies in Egypt. However, it is not deducted from the "taxable" net profit.

"From a principal point of view, taxing revenue [in that way] is not right," El Khatib said. "You are penalizing companies with … slim profit margins."

The proposed change is to make that revenue tax deductible. Later, the universal tax would be calculated based on net profit, like all other taxes, instead of revenue. Proceeds would go to the universal healthcare fund. "We are still working out the rate and should announce it soon," El Khatib said.

Another problematic tax all companies in Egypt must pay is "1% [of their net profits] to support employee training and rehabilitation," El Khatib said. "Companies … are not seeing any benefit from this tax." He convinced the Cabinet to drop that levy to 0.25%, and they are "working on exempting companies that offer their employees training."

El Khatib praised the Ministry of Finance's tax reform. "It is really transformative, closing the backlog that is over 10 years old, eliminating penalties, which sometimes were twice or three times the owed tax."

El Katib also commended the Ministry of Finance's updated tax provisions for SMEs, describing them as "transformative " and "turning a new page" in the relationship between the government and taxpayers.

Challenges: trade

Another obstacle facing the private sector in Egypt is the country's lack of competitiveness in international trade. "We rank 171 out of 189 countries in ease of international trade," El Khatib said. "That is very shameful."

Also troubling for El Khatib is that exports are only 10% of Egypt's GDP. "That makes us one of the lowest-ranked nations worldwide," he said. "This low rank is primarily because of our policies."

The first challenge is to reduce the cost of importing goods. "It takes an average of 14 days to clear imported goods from customs. Each day costs [local businesses] $150 million," El Khatib said. "That is a lot of time and money." The investment minister noted that in Saudi Arabia clearing imported goods takes two hours, and in Marseille (France), it takes three minutes.

The ministry's first target is to cut "one week from those 14 days" by the end of 2025, El Khatib said. "Our [ultimate] target is to cut it … to two days."

El Khatib stressed he is tackling one problem at a time. "The EU is our biggest trading partner. We have taken from them a list of the challenges they face when trading with Egypt and are working through each point individually."

The minister aims to almost triple export revenue from $35 billion to $100 billion by 2030. "We need open and efficient borders to achieve that," he said.

That would also require imports to increase first, as "83% of our imports go to local industry." El Khatib is not worried about those potential jumps. "Our imports stand at 20% of our GDP, which is very reasonable."

Ultimately, El Khatib's focus revolves around increasing exports rather than export substitution, which he sees as an opportunity for the local market. He stressed that all reforms will "respect trade agreements, trade in general, and World Trade Organization rules and guidelines."

New bureaucracy

El Khatib said his ministry is working with the General Authority for Investment and Free Zones to "analyze the roles of the 67 government agencies" that companies in Egypt must deal with to pay fees or secure services. "We are working on a solution: one ministry, one tax rate, one agency that receives payment. That agency can then pay dues to the rest of the government," El Khatib explained. "Having a company open to 67 agencies is not acceptable."

El Khatib is also tackling the availability of industry-ready plots. "The plots will be available via the Industry Development Authority. Investors will pay only the cost of the infrastructure."

The investment minister also stressed the government's commitment to privatization and the role of the sovereign wealth fund in creating lucrative local investment opportunities that meet foreign investors' expectations and standards.

Selling assets will not be the first option, he said. "We need to [first] look at what it would take to manage them correctly [with the private sector's help] and build a narrative around that."

That strategy should help the ministry "rebalance" the private sector's contribution to Egypt's GDP.

Opportunities

Beyond the challenges, El Khatib said, "the opportunities are immense." He has met with hundreds of business people inside Egypt and abroad, as well as foreign government representatives, to discuss investing in Egypt. "There is huge interest in Egypt," he said.

El Khatib noted that geopolitical tensions worldwide create opportunities in Egypt. "Onshoring is real, and supply chain shifts are also real … the result of the West versus China narrative."

He also highlighted how countries that once were more attractive than Egypt are losing their edge, especially regarding labor costs. "We have noticeably high availability of local engineering expertise at a fraction of the cost" in other Arab countries, El Khatib said.

Investing in eco-friendly (green) solutions is a massive opportunity. "Our biggest opportunities are in green investments, which we haven't exploited yet," El Khatib said. "We can generate north of 100 gigawatts of electricity from renewables. One proposed project – floating solar panels behind the Aswan Dam — could generate 50 gigawatts, alone."

He stressed that all those opportunities will be "only" for the private sector. "The government's challenge [and role] will be to upgrade the [national] power grid."

El Khatib also discussed the growing opportunity to sell "green hydrogen and ammonia [to] the European market … While those opportunities are expensive today, there is a great need for green hydrogen in the U.S. and Europe. The key to those projects will be concessional finance."

The key to El Khatib's plans predictably revolves around the private sector accelerating investment. "If you don't invest quickly, the challenges will increase," El Khatib told business leaders at the AmCham event. "You have to take a leap of faith and trust the government's commitment to improving the business environment." ■

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Legal Affairs

9 October

Competition protection and merger policy

On Oct. 9, the AmCham Egypt Legal Affairs Committee held a briefing on "Attracting Investments and Opening Markets: Egypt's Competition Protection Strategy and Merger Control Policy," featuring Mahmoud Momtaz, Chairman of the Egyptian Competition Authority (ECA).

He stressed ECA has already achieved 90% of its strategic objectives, which aligns with Egypt's Vision 2030 targets.

Momtaz said ECA focuses on four pillars: quality of life by protecting consumer rights, a strong economy by encouraging competition, protection of knowledge and innovation, and becoming a regional leader.

To achieve those pillars, the ECA is improving the effectiveness of competition laws and their enforcement, combating regulations and decisions that hinder market competition, promoting a culture of competition, and enhancing institutional efficiency.

Ultimately, Momtaz wants competitive neutrality, to ensure market players compete on a level playing field. He said achieving that requires institutional and regulatory frameworks, and disseminating a competitive neutrality culture.

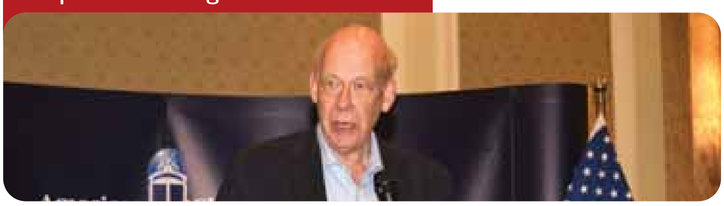
ECA is also developing the Merger and Acquisition Policy to supervise and regulate deals that may undermine market competition. The policy also aims to prevent company consolidations from leading to monopolistic practices or market dominance abuses that stifle competition.

The new amendments require companies to inform the ECA within 30 days of any merger plans. The ECA evaluates the competitive implications if the transaction exceeds a pre-determined market share percentage or turnover threshold.

Momtaz said the pre-merger notification system should foster a competitive climate and lower barriers to entry. This preemptive approach allows regulators to assess potential anti-competitive effects before the merger occurs, ensuring market competition is not compromised.

Additionally, ECA collaborates with foreign counterparts, including the COMESA Competition Commission and the European Commission. Momtaz said those partnerships ensure that Egypt's competition laws align with regional standards, making cross-border investment flows smoother and creating a level playing field in Egypt.

Special briefing and discussion



15 October

Navigating generational dynamics

On Oct. 15, AmCham Egypt hosted the third session in a series of Thought Leadership sessions titled "The Future of Leadership: Navigating Generational Dynamics." The guest speaker was Karl Moore, a Professor of Management at McGill University's Desautels Faculty of Management.

Moore discussed the uniqueness of the current era, highlighting how, for the first time, three to four generations are working side by side in organizations. Traditionally, hierarchical structures dominated, with older employees leading younger ones. However, this has shifted, and today, younger managers are expected to lead older colleagues.

Moore emphasized the importance of reverse mentoring, suggesting that senior leaders must actively learn from younger employees to stay relevant while still guiding them in areas where experience matters.

Much of the discussion centered around Gen Z, with insights from Moore's interviews with numerous CEOs. He observed that Gen Z brings distinct values to the workplace, such as a preference for collaboration over hierarchy and a heightened focus on mental health and work-life balance. He underscored the importance of creating purpose-driven environments, as young professionals are no longer motivated solely by material success. He touched on cultural nuances, mentioning how societal expectations of material success feel increasingly outdated.

Moore also highlighted the shift from fact-driven management styles to those incorporating emotions and empathy. He shared how mental health has become a critical concern for CEOs and institutions, a trend accelerated by the pandemic. He also stressed the importance of feedback and recognition.

Moore introduced the concept of postmodern thought, describing it as a world where traditional narratives and rigid hierarchies give way to micro-narratives and diverse perspectives. In this environment, the opinions and experiences of younger employees hold equal weight, requiring leaders to become better listeners.

Membership Type:
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FINTECH

Bokra Holding
Ayman Elsawy,
Co-Founder and CEO
Address: Mivida Business Park, Building B4, Office Bo. 1B, Fifth Settlement, New Cairo
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Membership Type:
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FINANCIAL SECTOR

Tawasoa Factoring
Hussein Sedky,
Chief Operating Officer
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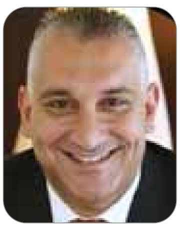

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General Manager
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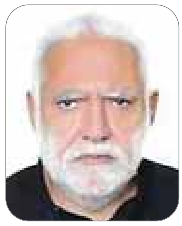

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INVESTMENT

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Chairman
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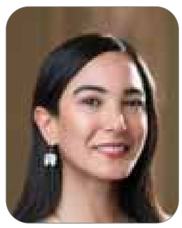

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General Manager, All Care Security

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Sector: Financial Sector

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Sector: Financial Sector

Mohamed Mahmoud El Etreby
Chief Executive Officer, National Bank of Egypt
Category: General
Sector: Financial Sector

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Vice President, Hikma Egypt and Sudan
Category: Associate Resident
Sector: Pharmaceuticals

Michael Bekheit
Country Commercial Head, Medtronic
Category: General
Sector: Pharmaceuticals

Amr Seif
Country Manager Egypt - Cluster Lead ELI, Pfizer Biopharmaceutical Egypt LLC
Category: General
Sector: Pharmaceuticals

Change in Member Company

Fahd Al-Tarzi
Managing Director , Head of Regional Markets, CI Capital Holding Co.

CONDOLENCES

On behalf of AmCham Egypt's Members, Board of Governors and staff, we extend our deepest condolences to the Hilmy family and their friends.

Dr. Nabil Hilmy,

Chairman and Senior Partner, Hilmy Law Firm, joined the Chamber in 1997 and was active in representing the Legal Affairs Sector. He served as Chair of the Legal Affairs Committee from 2001 to 2003.

He will be dearly missed. May he rest in peace.

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B.TECH

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For more offers, please visit AmCham Cyberlink on www.amcham.org.eg

A Glance At The Press

Why are you in a hurry?
Just wait, maybe my price will go up again!

Al-Masry Al-Youm, Oct. 28

Media Lite collates a selection of some the most entertaining offbeat and lighthearted news items published in the local press. All opinions and allegations belong solely to the original source publications and no attempt has been made to ascertain their veracity.

German Museum hands over artifacts

The Egyptian government has recovered three ancient pieces from Germany as part of its continuous efforts to recover stolen or smuggled artifacts.

The restored artifacts feature a gold-plated mummy skull and hand, displayed at the Museum of Art in Hamburg for over 30 years. The pieces date back more than 4,000 years. In addition, an ankh symbol dating back to 600 BCE was seized at Frankfurt Airport after being smuggled from the United Kingdom.

Mohamed Ismail Khaled, secretary-general of the Supreme Council of Antiquities, said the recovery process began when the Hamburg Museum offered to return the mummy's skull and hand. Concurrently, Frankfurt Airport authorities seized the amulet during a customs inspection.

Egypt Today, Oct. 14

Blind Women's Orchestra performs in Oman

TAl Nour Wal Amal Orchestra, an Egyptian ensemble of blind and visually impaired women, performed Oct. 17 at the Royal Opera House of Musical Arts in Muscat, the capital of Oman, celebrating Omani Women's Day.

The Royal Opera House is a leading cultural institution in Oman, hosting top performers and ensembles from the Arab world and international stage.

Conductor Tamer Fahmy les Al Nour Wal Amal in a performance of works by Josef Strauss, Dmitri Shostakovich, Wolfgang Amadeus Mozart, Camille Saint-Saëns, and Jacques Offenbach.

The program also included Mohamed Abdel-Wahab's "Doaa El Sharq."

It was Al Nour Wal Amal's first performance in Oman. The concert was initially scheduled for Oct. 19, 2023, but was canceled due to the Israeli war on Gaza.

Ahram Online, Oct.13

'Hanina' shown at U.S. film festival

The Egyptian narrative short film "Hanina" (Homesick) was screened at the 13th edition of the Portland Film Festival, held Oct. 16-20 in Oregon.

Yasmin Moll directed the eight-minute film. It showcases the story of a young Nubian girl who embarks on a journey through time to reconnect with her submerged homeland.

Accompanied by a Nile egret, she delves into the underwater world of the lake created by the Aswan High Dam. She visits Nubia's mountains, palm trees, water wheels, and homes. She bids farewell to her community as they board boats to their resettlement villages. Returning to her own time, she carries the lasting strength of knowing that Nubia will always be a part of her.

The Portland festival screened more than 70 films across all categories. The four-day festival's programming included workshops and educational panels focusing on people, ideas, technology, skills, and artistry.

Ahram Online, Oct.17


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