



EGYPT: INTERIM COUNTRY REPORT

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A REPORT BY BRIDGES

1. Political & Economic Update

The Egypt Economic Development Conference (EEDC) was held in Sharm El-Sheikh on 13th – 15th March 2015. The conference was well attended and delivered two key benefits to the Egyptian administration: international recognition and multi-billion pound worth of signed and pledged FDI and projects.

Political Update

On the international arena, Egypt was able to build on the political success of the EEDC, by lobbying for and securing a two-year rotating seat at the UN Security Council, and by realigning its foreign policy. Egypt is strengthening ties with Europe, especially with Germany (Siemens investing US\$ 9 billion in the energy sector), France (USD multi-billion deals for fighter jets and chopper carriers), Italy and the UK, as well as mending fences with the US (partial resumption of military aid), despite lingering differences.

On a parallel track, Egypt is expanding eastwards, strengthening ties with Russia (industrial investment and possibly nuclear power plant), especially following President Putin's visit to Cairo, and with China (infrastructure and mega projects), which President Sisi visited twice in 2015. Regionally, Egypt remains a close ally of the GCC, and is re-engaging with Africa, especially the Nile basin countries, in a bid to foster mutual cooperation and avert potential conflict over water resources.

Domestically, Egypt continues to grapple with two key challenges: terrorism and political divisions. Despite claiming casualties in North Sinai and mainland Egypt, terrorist activities and incidents seem to be on the wane in 2015, especially following the military operation in North Sinai earlier this year. Political progress has been slow, but parliamentary elections are finally taking place in October and November 2015, paving the way for the establishment of the first parliament since 2012 and marking the conclusion of the transitional road map that was announced following the ouster of former President Morsi.

A new government of technocrats was sworn in last month (19th September 2015), following the resignation of the former government, amid a crackdown on corruption. The new government is led by Sherif Ismail, who served as Minister of Petroleum in the outgoing government.

Economic Update

The government made chequered progress following the EEDC in March 2015. On the positive side, the government confirmed that 60% of EEDC pledged FDI has been consolidated into contracts, and the IMF has praised progress following a visit in September 2015, noting that “Macroeconomic figures ... point to some improvement ... financial soundness indicators point to the continued resilience of the banking sector, and the authorities are making efforts to deepen financial inclusion.”

At the end of September 2015, the EBRD’s Board of Directors voted in favour of turning Egypt into a "Country of Operation", recognising Egypt’s economic transition and increasing scope of EBRD activities and investment in Egypt. Earlier this month the IMF forecast the economy to grow at 4.2% this fiscal year and 4.3% the following year.

Notwithstanding, the economy continues to struggle with high unemployment and high levels of debt. This is compounded by the recent and ongoing reversal in global capital flows that is affecting emerging markets across the world. Egypt also suffers from shrinking foreign exchange reserves, and the government seems divided on how best to deal the growing foreign exchange liquidity crunch. This month the government allowed a third incremental devaluation of the local currency in 2015, and the governor of the Central Bank of Egypt has resigned.

The government used the PPP Investment Summit this month (19th – 20th October 2015) in Cairo to reaffirm its commitment to the economic recovery plan and to partner with the private sector, in order to attract necessary FDI and deliver ambitious development and infrastructure projects across multiple sectors.

2. Sectoral & Projects Update

Construction

The construction sector continues to enjoy strong performance and attract investment. Jones Lang LaSalle's Cairo Real Estate Market Overview showed all sectors of the Cairo real estate market exhibiting positive performance in Q3 2015, with the office sector exhibiting most growth.

The government is forging ahead with plans to develop a new city on the North coast near Alamein, and is partnering with the private sector to develop multi-billion USD real estate projects in and around Cairo. The government scrapped the MoU signed with Al-Abbar's Capital City Partners to develop the New Capital project that was signed during the EEDC in March 2015, due to differences on sources of finance.

The government will likely take a leading role in developing the first phase of the project (circa 44 sq km), and Egyptian contractors are already extending the necessary infrastructure to the project site. China State Construction Engineering Corporation is reported to have signed an MoU to study building and financing the administrative part of the project. The works are likely to commence in January 2016, and the government has signalled its requirement to complete phase 1 works within two years.

Dubai-based property developer Azizi Developments signalled their intentions to enter the Egyptian real estate market to form a real estate investment vehicle early next year, and Qatari Diar is set to announce an EGP 776 million (US\$ 100 million) investment project in Egypt, which is expected to come through the City Gate project, despite political tensions between Cairo and Doha. Qatari Diar is also awaiting approvals to being implementing a project on the Red Sea, as well as a residential and hotel complex in Cairo.

The North Africa Company for Real Estate Investment (NOAF) declared its aim to complete its EGP 4 billion (US\$ 500 million) projects in New Cairo within three years. Notwithstanding, Arabtec's USD 40 billion project to build one million housing units was cut to just a tenth of original size.

Infrastructure

The infrastructure sector is witnessing significant growth, especially in water and waste water, following the World Bank's approval of two loans totalling USD 1.1 billion, in July and October 2015, to finance sewage and wastewater treatment projects, as part of a USD 2.8 billion project to improve the sewage treatment services along the River Nile's Rosetta branch.

An Egyptian contractor is currently extending the necessary infrastructure to the perimeter of the New Administrative Capital project site, while seven international contractors (including Arab Contractors, Orascom and Bin Laden Group) have bought tender documents for the infrastructure works of the USD 10 billion AeroCity project.

Transportation

The Egyptian government has identified the expansion and upgrade of the roads and highways network as a priority. Two motorways, forming part of this National Road Programme, were recently completed at a cost of circa USD 160. More projects worth several billion EGP have been awarded to Egyptian contractors.

The African Development Bank granted Egypt a USD 90 million loan to develop Sharm El-Sheikh Airport, while China Harbour has won a USD 250 million tender to develop a multipurpose facility at the Port of Alexandria.

In the rail sector, EBRD is considering an 18 years sovereign loan to finance the purchase of 13 air-conditioned train sets (8 wagons per train) to be operated on Cairo Metros Line II; and outsourced maintenance contract for Line II's entire fleet. Canada's export credit agency is reported to partially finance Bombardier's USD 1.5 billion monorail in west Cairo.

The Egyptian Railway Authority is reportedly studying a EUR 910 million offer, from a partnership of Siemens and an Egyptian contractor, to upgrade the lineside signalling on the Alexandria-Cairo-Aswan line, as well as the import of some 100 locomotives, among other improvements. The Railway Authority also received a USD 120 million offer from Chinese company to build two freight lines.

Energy

The government has signalled its intent to bridge the energy gap and build capacity for its ambitious development plans, during the EEDC in March 2015. Siemens is making a USD 9 billion investment in Egypt to boost Egypt's power generation by 16.4 Giga Watt. Deutsche Bank, HSBC were reported to be arranging USD 3.7 billion Egypt power loan for Siemens projects. The Egyptian Electricity Holding Company (EEHC) signed a EUR 395 million maintenance agreement with Siemens, and the Ministry of Electricity is expected to sign a EUR 1.5 billion 12-year maintenance contract with Siemens.

The government is keen to diversify the country's energy mix and determined to include nuclear energy. The Egyptian government is reported to be in advanced negotiations with Russia's Rosatom, before finalising an agreement to build nuclear power plants in Daba'a, on the western Mediterranean coast. A deal to build four nuclear reactors under an EPC contract could be signed by the end of 2015.

Renewable energy continues to make progress, and Egypt has recently risen 2 places in EY Renewable Energy Country Attractiveness Index, as it continues to bolster its renewable energy pipeline. 44 companies bought the tender documents to construct a 200 MW solar power plant in Aswan, under Build-Own-Operate agreement, and Sterling & Wilson qualified to build two solar power plants in Egypt under a feed-in tariff. Waste-to-energy feed in tariff scheme is expected to be announced by February 2016.

Oil & Gas

The most significant development in the Oil & Gas sector was Eni's supergiant gas discovery at its Zohr Prospect, in the deep waters of Egypt, in August. The discovery is reported to hold 30 trillion cubic feet of lean gas and is the largest gas discovery ever made in Egypt and in the Mediterranean. The discovery could secure Egypt's natural gas needs for decades.

Last month (27th September 2015) the Egyptian Natural Gas Holding Company (EGAS) agreed the Zohr field development timetable with Eni, under which Eni is to connect 700 million cubic feet of gas per day to the national grid by January 2017, and increase production capacity to 2.4 billion cubic feet per day by early 2018, and potentially 5.1 billion cubic feet per day by early 2019. Earlier this month, four consortiums including IEOC, BP, Total, and Edison have been awarded oil and gas concessions in the Mediterranean. In July, Italy's Technip signed two contracts to upgrade refineries in Upper Egypt and in Alexandria, worth a combined USD 2.9 billion.

Suez Canal

The Suez Canal development project is the most notable mega project in Egypt, and benefits from the success in digging up a parallel waterway in the Suez Canal in record time. The master plan for the project has been launched during the EEDC in March 2015, and has since been fleshed out.

During the PPP Investment Summit earlier this month, the Suez Canal Authority advised that the project will comprise 6 ports in East Port Said, West Port Said, Al Arish, Sokhna, Adabiya and Tor, as well three industrial zones in East Port Said, Qantara and Sokhna.

East Port Said is the current priority zone, with an area of approx. 150 sq km, and the objective of turning East Port Said Port into an international container and trans-shipment hub. Several projects in this area could be announced within the coming months. The Qantara industrial zone will focus on agribusiness, food industries and textiles; while the Sokhna industrial zone will house heavy industries, including oil and gas.

PPP

The government is keen on procuring more projects via PPP route; however, the current foreign exchange problem is casting a shadow. During the PPP Investment Summit earlier this month in Cairo, the PPP Central Unit announced the following PPP projects:

Wastewater treatment plant in Abu Rawash

Investment Value: EGP 4.5 billion (circa £400 million)

Status: Tender awarded to Orascom and Aqualia consortium

Contact Centre / Technology Park in Maadi, Cairo

Investment Value: EGP 1.6 billion (circa £140 million)

Status: Six consortia have qualified for the tender

Overhauling and automating offices of the Commercial Registry

Investment Value: EGP 350 million (circa £30 million)

Status: Deadline to submit tender offers expires on 29th November 2015

Overhauling and automating offices of the Real Estate Registry

Investment Value: EGP 450 million (circa £40 million)

Status: Deadline to submit tender offers expires on 15th December 2015



Desalination plant in Tur City

Investment Value: EGP 250 million (circa £20 million)

Status: Tender expected to be issued in November 2015

Desalination plant in Safaga

Investment Value: EGP 450 million (circa £40 million)

Status: Tender expected to be issued in November 2015

River bus transport in Greater Cairo

Investment Value: EGP 750 million (circa £65 million)

Status: Authorisations and licenses preparations ahead of tender issue, expected in December 2015

Develop Safaga / Abu Tartur mineral port into an industrial port

Investment Value: EGP 1.8 billion (circa £150 million)

Status: Feasibility study currently underway, ahead of tender issue, expected in January 2016

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