PRIME INVESTMENT RESEARCH

NEW PRO-INVESTMENT DECISIONS... A FLAME IN THE DARK TUNNEL

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The Supreme Investment Council headed by President Abdel Fattah El Sisi adopted yesterday a basket of 17 measures designed to promote investment and job creation. Many of these have long been called for by business, while others were rumored to be part of the new Investment Law.

The decisions include:

1) Tendering land with utilities for industry in Upper Egypt for free as outlined by the IDA.
2) Producers of agricultural crops that Egypt imports or exports will get tax exemptions.
3) Five-years tax exemptions for manufacturers of “strategic” goods that Egypt imports or exports.
4) Five-years tax exemptions for agriculture and industrial investments in Upper Egypt.
5) The capital gains tax on stock market transactions will not come into effect for another three years.
6) 35% discounts on settlements reached with the committee to repossess illegally occupied land for a period of two months ending at the end of December 2016.
7) Setting a minor symbolic tax for SMEs to encourage them to file tax returns and be eligible for the CBE’s funding initiative.
8) The Industrial Development Authority (IDA) will issue temporary permits for unlicensed factories for one year, effectively giving them 12 months to obtain full permits.
9) The Egyptian Rural Development Company (which manages the 1.5mn feddan project), the New Administrative Capital Company, the New Al Alamein development company and the companies managing the Siemens combined cycle power plants have been added to the roster state-owned companies that could go to IPO in the coming three years, tendering 20%-24% of it.
10) 25% discount on land in the New Capital, East Port Said and other new Urban Developments for three months.
11) The price per square meter is 500 pounds in new cities in Upper Egypt (New Minya, new Sohag, new Assiut and new Beni Suef), that the land with its facilities begins delivery after one year.
12) Obliging all ministries and departments to implement the decisions taken by the Ministerial Committee to solve investment disputes within 15 days.
13) Forming a “National Payments Council” that will work to restrict the handling of FX outside the banking sector.
14) Approval by the General Authority for Investment and Free Zones to establish a company in order to promote investment both internally and externally.
15) The formation of a permanent committee at the Ministry of Investment to discuss complaints from investors and raise a periodic report on them to the Supreme Council for Investment
16) Ensuring all ministries back government-brokered solutions on investment disputes
17) Granting public-private partnership units in the government more leeway to operate.

A positive and Credible Signal…

Though no date was given for the implementation of the policies, yet being decided by the country’s president gives a clear and credible signal that serious steps are taken to put the Egyptian economy on the right track and encouraging the business making environment; on the other hand, discussing such decisions with businessmen is also considered a positive symptom of democracy and obeying the investment community demands and requests.

A Step to Complete the Comprehensive Reforms Package in Accordance with Receiving the IMF loan...

Introducing such decisions in such time before the expected depreciation of the EGP comes in line with our recommendation that floatation/ devaluation of the EGP is considered as a necessary but not a sufficient step to receive the first tranche of the IMF loan and fix the distortions in pricing the local currency, yet it must be met with an All-or-Non reforms package on the fiscal, monetary and growth schemes; otherwise, depreciating the EGP will incur more costs than its benefits.

Yet, Several Expectations were not met…

Such as:

- Setting a draft for the long waited New Investment Law.
- Enforcing the "one stop shop" for investors to be located at the General Authority for Investment and Free Zones (GAFI) from which investors was not mentioned.
- New laws concerning BOP and PPP schemes are required to organize these projects as they have different nature.
- Setting a definite framework for applying the new VAT.
- For FDIs, easing capital controls and setting a definite repatriation system were not mentioned.

The Decrease in Tax Revenues in the Short Run due to Tax Exemptions Decisions is to be Offset by Increasing Tax Base in the Medium Run and Long Run... The Decision is Positive in our View..

The previously mentioned tax exemptions decisions are to squeeze the budget tax revenues by the time the budget itself is already suffering from a chronic widening of its deficit. However, worth noting that corporate tax revenues (comprising around 31% from total tax revenues) are deteriorating lately and are not matching their budgeted levels due to the difficulties faced by the business sector and the decrease in the employment levels; **i.e. corporate profits taxes for FY16 are estimated not to exceed EGP 62bn compared to its budgeted level of EGP 108bn and compared to EGP 91.6bn received in FY15 . We see around EGP 19bn are to be forgone from the budgeted corporate taxes in FY17 on the back of the recent tax exemption decisions, we see it at EGP 76.6bn compared to the budgeted EGP 95.8bn, adding to the forgone EGP 2.5bn budgeted as capital gains tax. We see budget deficit for FY17 at 12.6% compared to the government budgeted figure of 9.4% and compared to 12.1% in FY16.**

PRIVATE INVESTMENT IS THE MAIN PLAYER RESCUING THE SHIP BEFORE IT SINKS...

Growth in the short and medium run is supposed to be a private investment-led one in accordance with escalating government's budget deficit and ballooning gross public debt that reached almost 95% of GDP **hindering the government's future ability to further expand its mega national projects**. **On the other hand, household consumption real growth rate is expected to relax** on the back of the recent application of the ascetic procedures in the current fiscal year in terms of applying the new civil services law, lifting up energy and oil subsidies, in addition to the application of the VAT, we see its growth rate in FY17 to relax to 3.6% compared to its estimated level of 7% in FY16. **Net exports from the other side,** are still suffering from the global slowdown, pledging international prices of oil (composing around 33% of the Egyptian exports, while representing only 16% of its imports), still deteriorating security conditions in the main markets receiving Egyptian exports.

In sum, private investments, either in the form of local or foreign investments, are considered the main vehicle triggering growth in the short and medium run, and accordingly, the taken decisions are considered positive , encouraging the investment environment, especially when knowing that the percentage of investments (private and public) as percentage of GDP is continuously falling reaching around 14% in FY15 with expectations for such percentage to barely exceed 13% in FY16, down from an average of 20% pre 2011 revolution. We expect private investments to grow by around 9% in FY17 on the back of the decisions taken, compared to its estimated level of 5% in FY16.

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