In search of investment
Sherif ISMAIL
Minister of Petroleum and Mineral Resources

Roadmap to stability
Amr MOUSSA
Head of Constitutional Review Committee

Primed for growth
Basil EL BAZ
Chairman and CEO
CARBON HOLDINGS
BUILDING TODAY
SECURING TOMORROW

Orascom Construction (OC) is a leading construction contractor based in Cairo, Egypt and targets large industrial and infrastructure projects principally in North Africa and the Middle East.

We take pride in our shared achievements on every project and welcome the contribution our success makes towards social and economic progress in our region.
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MINISTRY OF PETROLEUM & MINERAL RESOURCES

MORE THAN

100

YEARS OF MINISTRY ACHIEVEMENTS

EGPC: The Egyptian General Petroleum Corporation is working as a holding operation, it owns 12 public sector companies, sharing in 39 joint company along with 87 investment company, 39 of which EGPC shares directly.

EGAS: EGAS was established on August 2001, adopting an effective action plan to organize and diligently handle the activities of the natural gas resources of Egypt and adding value to the Egyptian Economy.

ECHEM: With a clear vision for the next few decades, ECHEM was established in 2002 and assigned the task of developing a sophisticated petrochemical industry seeking to place Egypt prominently on the global map of this industry.

GANOPE: Ganoub El-Wadi Petroleum Holding Company is one of five main entities of the Petroleum Ministry, established on 2003 to intensify the efforts and to achieve comprehensive development in South Valley in all the petroleum activities.

EMRA: The Egyptian Mineral Resources Authority established on 2004 aiming at increasing Egyptian mineral resources reserves to fulfill exports along with Egypt's income of foreign currency as well as increasing the State's Public Treasury of mineral resources.
The Egyptian economy gained strength in 2014, a positive sign that political change and structural reforms are moving the country towards a recovery from the years of economic uncertainty that saw recessions in 2008 and 2011-2013. Among foreign investors, the spectre of political risk is fading, and reviving the oil and gas industry holds added promise.

As Egypt’s expanding population of energy consumers faces shortages due to rising demand and a scaled-back subsidy regime, increasing the capacity of the country’s downstream sector has gained in importance. While imports are stopping the gap in supply for the short term, sustainable, long-term improvements such as refinery upgrades and new petrochemicals projects will be critical to meeting the growing domestic demand.

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The Year’s Focus: Investment and Economy

Downstream & Industry

Innovation in Egypt’s oilfield services sector has become more important as the country’s fields mature and the oil price remains low. Operators are targeting ultra-deep offshore high-pressure and high-temperature plays, along with deep onshore and long-distance horizontal drilling projects to tap the country’s remaining potential. Meanwhile, services providers have excelled through becoming niche suppliers.

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Waste not, want not.

Egypt works to upgrade its electricity network to combat the blackouts that plague the country. Government action will help hydrocarbons industry grow.

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A Pillar Of The Egyptian Economy

- Pioneer in Project & Acquisition Finance and Syndications
- Funded key projects over the past 94 years and contributed to the establishment of 208 companies in various sectors
- Versatile range of products and services catering to a wide base of clients
- Awarded the title of best provider of money market funds for the Middle East for 2008, 2012, 2013 and 2014, the best provider of money market funds for Africa and Middle East for 2009 and 2010
- Provides a full range of Islamic products and services through 34 Islamic branches
- Strong regional and international presence in the UAE, Lebanon, France and Germany
- One of the biggest branch network covering Egypt, with 495 electronically connected branches acting as a single unit
- Efficient telephone banking service through a unified short number available 24/7
- The first bank to issue card for youth aged 16 and the only bank providing cards for youth below the age of 16
- The first bank in Egypt and North Africa to become compliant with PCI data security standards, upon obtaining the global payment card industry data security standard (PCIDSS)
In search of investment

As the entity responsible for co-ordinating and approving the development of Egypt’s oil and gas reserves, the Ministry of Petroleum has taken an active approach to incentivising foreign investment. Minister of Petroleum and Mineral Resources Sherif Ismail speaks with TOGY about these efforts, upgrades to Egypt’s refining capacity and the country’s plan to tackle its natural gas shortage.

What is the ministry’s plan for paying arrears to upstream companies?

The Ministry of Petroleum is eager to pay back the rest of its arrears to international oil companies to encourage foreign partners to continue investing in exploration and development activities, which contributes to increasing domestic production. We have taken concrete measures, including successfully paying back $1.5 billion in December 2013, $1.4 billion in October 2014 and $2.1 billion in December 2014.

We are in negotiations with international oil companies operating in Egypt to schedule the rest of the debt and bring it to a minimum level to restore foreign investors’ confidence in the Egyptian economy. This will also accelerate development of discovered fields and boost exploration and development investments, thereby increasing production.

How can the Egyptian oil and gas industry attract more investment?

The ministry is eager for more bids and tenders, as these are the cornerstone of discoveries. After a three-year stoppage, new agreements have been signed with international exploration and production companies.

Between October 2013 and January 2015, 53 agreements were signed, with minimum investments of roughly $2.9 billion and a total of $432 million in signing bonuses for the drilling of 228 wells. In early 2015, procedures are underway to ink three new agreements, with investments totalling $9.2 billion. At the end of 2014, a new international bidding round was announced, including 10 blocks for Ganoub El Wadi Petroleum Holding Company in the southern Gulf of Suez and Nile Delta regions.

In light of the high cost and risk of recent discoveries in Mediterranean deep water, new models for production-sharing agreements were created to achieve appropriate revenues and encourage foreign investors to invest and accelerate the process of putting the discoveries on the production map. This will be a win-win situation for the exploration and production companies and the local market’s gas needs.

What measures need to be taken to expand refining capacity in Egypt?

The Ministry of Petroleum is implementing a package of ambitious projects to develop infrastructure, which includes refineries and pipelines for petroleum products.

We are updating existing refineries, improving their safety systems and raising their capacity. We are also setting up new units for the production of petrol, gas oil, LPG and asphalt to meet the needs of the domestic market. We have started the implementation of these projects in Alexandria, Suez, Assiut and Mostorod, with total investments of roughly $5.7 billion.

For example, the Middle East Oil Refinery Company (MIDOR) refinery in Alexandria is being expanded to increase its capacity by 60 percent, with investments of about $1.3 billion. Other projects are being planned to add new units to the refineries, at a cost of roughly $3.7 billion for the next phase of development.

What efforts are being made to bridge the gap between supply and demand for gas?

The government is working hard to bridge the gap between natural gas production and domestic consumption, which represents a major challenge, through a multi-faceted programme.

The first step is offering oil and gas exploration blocks for international bidding and signing new agreements with major oil companies.

The main emphasis of this programme is the acceleration of natural gas production projects in the Mediterranean, the Western Desert and the onshore Nile Delta. The Ministry of Petroleum is acting in co-operation with foreign partners to speed up the process of putting

The Ministry of Petroleum is implementing a package of ambitious projects to develop infrastructure.

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Sherif ISMAIL
Minister of Petroleum and Mineral Resources

About the Ministry of Petroleum

The Ministry of Petroleum is responsible for the management and supervision of all exploration, production, marketing and distribution of oil, gas and other natural hydrocarbons in Egypt. There are six primary entities through which it accomplishes this: the Egyptian General Petroleum Corporation, the Egyptian Natural Gas Holding Company, the Egyptian Petrochemicals Holding Company, the Ganoub El Wadi Petroleum Holding Company and the Egyptian General Authority for Mineral Resources.
The North Alexandria project was halted in November 2011 and has had a very negative impact on the Egyptian oil and gas industry.

Has any progress been made rebooting the North Alexandria deepwater gas project? The North Alexandria project was halted in November 2011 and has had a very negative impact on the Egyptian oil and gas industry, as it was scheduled to have gone into production by mid-2014, producing up to 900 mcf (25.5 mcm) per day. In 2011, the local inhabitants objected due to misplaced environmental concerns and forced BP to stop the project.

A preliminary agreement has been reached with BP to complete the project, including a proposed $10-billion investment. It will go on line in 2017-2018 and reach a production rate of roughly 1.25 bcf (35.4 mcm) per day.

What other measures are being taken to meet domestic demand for natural gas? Importing natural gas is the third step towards confronting the gap between production and consumption. The Ministry of Petroleum is stepping forward to import liquefied natural gas to meet part of the requirements of power stations in 2015. A contract was signed for six LNG shipments from Algeria to Egypt, amounting to a total of 750,000 cubic metres (26.5 mcf) per day from April 2015 to September 2015. The final contract for the first floating storage and regasification unit was signed in November 2014, between the Egyptian Natural Gas Holding Company and the Norwegian company Höegh for a period of five years. The unit is scheduled to start operations in March 2015.

The bids on the Egyptian Natural Gas Holding Company’s tender for LNG shipments, which closed at the end of October 2014, have been evaluated. Russia’s Gazprom has agreed in principle to supply shipments of LNG.

**IN FIGURES**

| North Alexandria deepwater project to be completed | 2017-2018 |
| Proposed investment for project | $10 billion |

**PRODUCTION**

African oil production, 2003-2013 (thousands of barrels per day)

Source: BP Statistical Review 2014
BP has announced plans to invest more than $12 billion in Egypt in an effort to double its supply of natural gas to the local market. Nearly $10 billion of the funds will be spent on a major gas project being developed in the West Nile Delta. The North Alexandria gas project, in which BP holds a 62-percent stake and RWE Dea holds the remaining 38 percent, is aimed at producing roughly 28.3 mcm (1 bcf) of gas per day by 2018. The project’s gas streams are planned to be connected to the Al Borlos Treatment Plant, which can process 56.6 mcm (2 bcf) per day.

**UPSTREAM INVESTMENT OF THE YEAR**

**GAS SUPPLY DEAL OF THE YEAR**

In an effort to keep up with domestic gas consumption, the Egyptian Natural Gas Holding Company has signed a five-year deal with Norway’s Höegh LNG for a floating storage and regasification unit to act as a temporary LNG import terminal. This will allow Egypt to import about 14.2 mcm (500 mcf) of natural gas per day, most of which will be used as feedstock for national power plants. The vessel is scheduled to go on line in March 2015 and the first LNG shipments will come from Algeria’s Sonatrach. Egypt is in negotiations with Russia’s Gazprom for further shipments.

**INFRASTRUCTURAL DEVELOPMENT OF THE YEAR**

The Suez Canal expansion, being executed by a consortium involving the Egyptian Armed Forces Engineering Authority and Beirut-based consultancy Dar Al Handasah, has the potential to be one of the most important infrastructural projects for the global energy industry. Initial capital of $8.5 billion has been raised for the addition of a canal and tunnels to facilitate road access. The Suez Canal Authority estimates the canal’s revenues will increase from $5 billion to $13.5 billion, while vessel traffic will double from 49 to 98 ships per day.

**MAN OF THE YEAR**

Sherif ISMAIL

As the Minister of Petroleum and Mineral Resources, Sherif Ismail oversees the development and co-ordination of Egypt’s oil and gas industry. This involves stimulating foreign interest in exploration and production, which he has done through the signing of 53 concessions from October 2013 to January 2015. It also includes setting an agenda for the modernisation and expansion of the downstream sector by upgrading existing refineries and building a more sophisticated value chain for petroleum products. Other efforts enacted with his oversight include ongoing negotiations of gas prices for new upstream activity targeting deep gas, and the partial settlement of debts to international operators.

**UNCONVENTIONAL DEVELOPMENT OF THE YEAR**

Apache Egypt and Shell Egypt are jointly investing to develop unconventional gas reserves in the Appolonia Basin. The Egyptian General Petroleum Corporation and Shell have agreed to allow Khalda Petroleum, a joint venture between Apache and the Egyptian General Petroleum Corporation, to operate the pilot project and full field development. Reservoir modelling has suggested that horizontal drilling and multi-stage fracture stimulation will yield economic production rates. The pilot project, set to begin in mid-2015, includes a commitment of $30-40 million for three wells.

**Awards**

**THE YEAR IN REVIEW**

**THE YEAR’S AWARDS – EGYPT 2015**

**THE OIL & GAS YEAR**

**EGYPT 2015**

**EGYPT AT A GLANCE**

**POLITICS**
- **Official name:** Arab Republic of Egypt
- **Political system:** Parliamentary democracy
- **Head of state:** Abdel Fattah El Sisi
- **Prime minister:** Ibrahim Mahlab
- **Population:** 86.9 million
- **Official language:** Arabic
- **Ethnic groups:** Egyptian (99.6 percent), other (0.4 percent)

**GEOGRAPHY**
- **Area:** 1,001,450 square kilometres
- **Capital city:** Cairo

**ECONOMY**
- **Currency:** Egyptian pound, LE ($1:LE7.15)
- **GDP (official exchange rate):** $272 billion (2013)
- **Real GDP growth rate:** 2.2 percent (2014)
- **Share of oil and gas in real GDP:** 47.2 percent
- **Unemployment rate:** 12.9 percent (early 2015)
- **Mineral resources:** Natural gas, oil, gold and iron ore, phosphates
- **Gas reserves:** 1.8 tcm (63.6 tcf) (end 2013)
- **Oil reserves:** 3.9 billion barrels
- **Oil and condensate production:** 700,000 barrels of oil equivalent per day

**Sources:** EIA, CIA World Factbook 2014, BP 2014 Statistical Review

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The Egypt 2015 Investors Index

Egypt is witnessing an economic revival marked by increasing GDP growth and the Egypt 2015 Investors Index rating of 85.2 demonstrates strong investor confidence.

More than 90 percent of respondents rate business conditions in Egypt’s oil and gas industry as positive, and nearly 86 percent believe that conditions will continue to remain positive in the next 12 months.

RIDE THE WAVE: Optimism is running high in the market, with 86.3 percent of those surveyed suggesting that it was a good time to invest in Egypt. This appears to be a reflection of ongoing international bidding rounds and changing investment laws. The 12-month investment horizon demonstrates that this optimism extends into the future, with 84.9 percent of respondents agreeing that the country would remain a good investment destination over the next 12 months from the date of the survey.

This optimism is tempered by the fact that only 68.5 percent of respondents said they expect their company revenues to increase in Egypt over the next 12 months.

THE RIGHT BALANCE: There are still plenty of hurdles to operating in Egypt, with 87.7 percent of respondents saying that doing business in the country is difficult.

Processes for insuring compliance with the relevant laws and securing government authorisation could be behind this, although a majority – 74 percent – said they saw the government as pro-business but restrictive. This compares to 17.8 percent who see the government as simply pro-business.

Establishing a strong business entity in the Egyptian oil and gas industry is no easy proposition, with 79.4 percent of respondents agreeing that it is a difficult task.

RELIABILITY: Investors are increasingly confident that political stability is returning to Egypt after four years of social upheaval. With the election of President Abdel Fattah El Sisi in 2014 and upcoming parliamentary elections, 71.2 percent of the respondents said the political and economic climate of the country could be described as stable.

ABOUT THE INDEX: The TOGY Investors Index is designed to measure confidence among oil and gas investors as expressed in their level of spending in any given market. The index is valued based on the responses of major oil and gas executives in this market.

The survey consists of five attitudinal questions in which participants are asked to give positive or negative responses.

A reading above 50 on the index represents a positive perception among oil and gas investors, while a reading below 50 indicates an overall pessimistic outlook.

The Egypt 2015 Investors Index is based on the responses of 64 oil and gas executives and nine academics and policy makers who work in fields relevant to the energy industry.

How would you describe the policies of this government vis-à-vis the oil and gas industry?

<table>
<thead>
<tr>
<th>Policy</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Pro-business</td>
<td>17.8%</td>
</tr>
<tr>
<td>Pro-business, but restrictive</td>
<td>74%</td>
</tr>
<tr>
<td>Anti-business, but accommodating</td>
<td>8.2%</td>
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<tr>
<td>Anti-business</td>
<td>0%</td>
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How would you rate the ease of doing business in this country?

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<th>Ease of Business</th>
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<tr>
<td>Very easy</td>
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<tr>
<td>Easy</td>
<td>0%</td>
</tr>
<tr>
<td>Difficult</td>
<td>87.7%</td>
</tr>
<tr>
<td>Extremely difficult</td>
<td>12.3%</td>
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How would you rate the ease of starting an oil and gas business in this market?

<table>
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<tr>
<th>Ease of Business</th>
<th>Percentage</th>
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<td>Very easy</td>
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<tr>
<td>Easy</td>
<td>1.4%</td>
</tr>
<tr>
<td>Difficult</td>
<td>79.4%</td>
</tr>
<tr>
<td>Extremely difficult</td>
<td>19.2%</td>
</tr>
</tbody>
</table>

Source: The survey was conducted by The Oil and Gas Year in Egypt between July 2014 and February 2015.
13 Edison, Petroceltic and Dana Gas sign exploration deals worth $265 million for a total of eight new wells in northern Sinai, the offshore Mediterranean and the Nile Delta.

12 US Secretary of State John Kerry announces that the resumption of aid, both economic and military, to Egypt is likely. The return of the aid programme is later approved.

6 Carbon Holdings, Maire Tecnimont and Archirodon sign a $1.7-billion contract for the construction of the Tahrir Petrochemical Complex.

13 Drake & Scull International signs a $4.2-billion contract to join the international consortium of companies developing the Tahrir Petrochemical Complex.

11 Saudi Arabia announces it will provide $1.3-billion worth of petroleum products in May and June, in the form of fuel oil, diesel and LPG shipments, to Egypt.

24 The World Bank approves a $500-million project to expand household gas connections in Egypt.

21 The Arabian Cement Company launches the first initial public offering in Egypt since the removal of Mubarak, raising confidence among local and international investors.

26 Militants bomb a gas pipeline in north Sinai, marking the 21st attack since the ousting of former President Hosni Mubarak in 2011.

27 Minister of Petroleum and Mineral Resources Sherif Ismail says BP’s $10-billion North Alexandria gas project, which had stalled for three years, has restarted and that production will begin in 2017.

31 The European Bank for Reconstruction and Development gives a $190-million loan to Egypt to finance upgrades for the Shabab and Damietta power plants.
BP announces a plan to invest more than $12 billion in Egypt over the next five years and double its supply of gas to the local market over the next decade.

The price of Brent crude oil drops under $50, threatening investment incentives but decreasing Egypt's subsidy costs, and thus its budget deficit.

The Ministry of Petroleum announces that it finalised an agreement to dock a floating natural gas import terminal at the Ein Sokhna port.

EGAS announces it will open bids for research and exploration of shale gas in four areas in the Western Desert.

The Ministry of Petroleum announces the payment of $2.1 billion of its debt to energy companies, bringing its total overdue payments down to $3.1 billion.

The Egyptian General Petroleum Corporation secures $1.5-billion syndicated loan from domestic and international banks to pay part of its arrears to foreign oil and gas companies.

The Ministry of Petroleum announces six new agreements for oil and gas exploration in the Western Desert and the Gulf of Suez, worth $400 million.

The Egyptian General Petroleum Corporation has signed agreements for oil and gas exploration in the Western Desert and the Gulf of Suez, worth $400 million.

The Ganoub El Wadi Petroleum Holding Company launches an international bidding round for 10 exploration blocks in the south Gulf of Suez and west and east Nile regions.

The Government launches plans to complete second and third phases of its petroleum products smart card system as part of efforts to restructure subsidies.

The government decides to stop distribution of gas to several fertiliser and cement plants to provide more gas for electricity generation.

The government begins providing Egypt with approximately $9-billion worth of petroleum products it will loan the country over the next year.

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15 The route ahead

17 EGPC moves into the future
Tarek EL MOLLA
CEO
EGYPTIAN GENERAL PETROLEUM CORPORATION

21 Roadmap to stability
Amr MOUSSA
Head of Constitutional Review Committee
The route ahead

Political instability and economic recessions in the years leading to 2015 have resulted in reforms to improve the investment conditions underlying Egypt’s oil and gas industry. The government must establish a new norm as it recovers from a series of revolutions and confronts gas shortages, falling oil prices and an unpredictable economic climate.

A major hurdle in Egypt is the refusal of foreign companies to invest until the state has paid back its outstanding debt for oil products provided by operators during times of civil unrest. 

Egypt’s foreign exchange reserves stood at $15.4 billion as of early February 2015, while foreign debt is projected at 18.5 percent of GDP for the fiscal year 2014/15 (July-June). Since unrest in Egypt broke out in 2011, the former has fallen year-on-year, while foreign debt has grown considerably. The country has become increasingly dependent on importing oil products, totalling as much as $1.3 billion per month, to make up for a domestic shortfall. Meanwhile, the national gas shortage is having a damaging effect on the manufacturing industry and causing frequent blackouts. Natural gas production in Egypt averaged around 137 mcm (4.84 bcf) per day in 2014, but continues to face declines at a rate of about 2.83 mcm (100 mcf) every month. To regain control of its energy supply, the state is seeking to execute reforms to bolster investment in exploration and production. Still, there are formidable obstacles to overcome.

FOREIGN OBLIGATIONS: The first major hurdle is the refusal of several foreign oil and gas companies to invest in Egypt until the government has paid back its outstanding debt for oil products provided by upstream operators during the three years of civil unrest. Those now operating in Egypt have allowed for delays on their gas production projects. The total amount of domestic arrears owed amounted to $3.1 billion by December 2014, after Cairo managed to make a payment of $2.1 billion. In November 2014, a senior official in the Ministry of Petroleum said that the government hopes to pay off the rest of this debt by mid-2015. The payment in December follows two previous instalments of $1.5 billion in December 2013 and $1.4 billion in October 2014. The state-owned Egyptian General Petroleum Corporation had also secured a loan of around $1.4 billion in September 2014 from a consortium of four local banks to make a payment to foreign companies.

The ongoing gas shortage in Egypt has seen the payment in December follow two previous instalments of $1.5 billion in December 2013 and $1.4 billion in October 2014. The state-owned Egyptian General Petroleum Corporation had also secured a loan of around $1.4 billion in September 2014 from a consortium of four local banks to make a payment to foreign companies.

The government also implemented a stimulus plan that year worth around $4.28 billion, which included $868 million for the delivery of natural gas to 800,000 residential areas, as well as to equip industrial zones, subsidise infant formula and cover student tuition fees. The Ministry of Finance claimed the stimulus package would not be detrimental to its 10-percent budget deficit target. Other budget reforms, such as those for subsidy reductions, and

SUBSIDIES AMID SHORTAGE: The second hurdle to garnering more investments is subsidised domestic gas prices. There is momentum for change, however, as the state-owned Egyptian Natural Gas Holding Company has said on numerous occasions that it is in the process of negotiating fairer gas prices in existing domestic developments. The baseline price of $2.65 per million British thermal unit (Btu) is not high enough to recuperate costs associated with exploration and production activities at higher reservoir temperatures and pressures.

This is particularly the case for deep offshore and unconventional onshore developments, where the most novel opportunities for increasing domestic production lie. While working conditions and their corresponding break-even prices vary, adequate compensation would necessitate gas prices in the range of $4-6 per million Btu, depending on the play.

The ongoing gas shortage in Egypt has seen the signing of a contract with Norwegian company Höegh for the supply of a floating, storage and regasification unit. Accordingly, Egypt could end up importing LNG at $9-12 per million Btu.

There are signs of marked progress. Energy subsidies were cut by almost one-third on July 5, 2014, only a few weeks after President Abdel Fattah El Sisi was sworn into office, leading to a rise in wholesale energy prices. In 2013, Egypt’s budget deficit was largely owed to such subsidies. They accounted for about one-third of the national budget, which stood at 12 percent of GDP.

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