

## **EGYPT NEWS REPORT**



### **Egypt: Providing Syria with Gas**

A new pipeline to export gas to Syria has recently begun operations. Initially connecting Middle Eastern customers, the longer term aim is to reach European markets.

After completion of the final section of the pipeline on Syrian territory, Egyptian gas began to arrive at the Deir Ali electric power station, south of Damascus, on July 9. The new line will provide the country with 88.3m cubic feet (2.5m cubic metres) of gas per day, eventually increasing to 212m cubic feet (6m cubic metres) per day over the next nine years, Sufian Allaw, Syria's petroleum and mineral resources minister told international media.

The deal to build the 1200km pipeline, estimated at a final cost of \$2.1bn, was signed back in 2001, aiming to take Egyptian gas to Jordan, Lebanon and Syria. But political instability has delayed the project.

In 2003, the first phase to connect Egypt with the Jordanian Red Sea port of Aqaba was finished. The second phase extension was completed in 2005, connecting the pipeline to the Jordanian town of Rihab, north of the capital Amman. According to local media, Egypt has been exporting close to 99bn cubic feet (2.8bn cubic metres) of gas a year to Jordan under a 15-year deal. Another section, to connect the pipeline with Lebanon, is due to be finalized by the end of 2008. Further extensions are planned for Turkey, where the line will be connected to the Nabucco Pipeline for the delivery of gas to Europe. The 3300km pipeline links the Caspian Sea to Austria via Turkey and the Balkan states. Construction is scheduled to begin in 2009 and should be completed by 2013. When ready, it will carry 31bn cubic metres of gas per year to the EU from the Middle East and Central Asia.

Damascus is relying on Egypt's export capacity to compensate for declining oil production and insufficient gas availability. Syria's oil production reached 582,000 barrels per day (bpd) in 1996, declining to approximately 393,000 bpd in 2007. Furthermore, 40% of electricity generating stations in the country are gas fuelled. The country's daily consumption is estimated at 477m cubic feet (13.5m cubic metres). Its daily production of natural gas was estimated at 494m cubic feet (14m cubic metres) in 2007, according to international press. The Egyptian gas will also help Syria free up some energy capacity for export to neighbouring countries. It is set to provide neighbouring Israel with 60bn cubic feet (1.7bn cubic metres) per year for the next 15 years, an issue that has predictably sparked debate in Egyptian society. As a result, the Egyptian government has announced a freeze on all new export gas deals until 2010, claiming the need to prioritize local demand before determining future export deals. Estimates for Egypt's proven gas reserves have recently been revised upwards by 10%. Gas exports from Egypt have attracted \$14bn in exploration investment in the sector. Yet, to keep finding new sources, the industry needs to attract more investment. Nevertheless, it is not certain whether the government's temporary ban on new gas export deals will deter foreign investors from committing more funds to exploration.

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### **Egypt: Mortgage Expansion**

Economic growth, escalating property prices and clearer regulation are driving the mortgage finance market upward. According to the ministry of investment figures, total mortgage loans in Egypt were valued at LE2.13bn (\$402m) last March. The figure is expected to reach LE4bn (\$750m) by mid 2009. In parallel, the number of mortgage finance companies in the Egyptian market has risen from two last year to seven this year. Furthermore, 16 banks now offer mortgage finance schemes.

A look at statistics indicates that the sector has huge potential. In a country of around 80m people, the rate of home ownership is estimated at just 32%, much lower than other countries in the region such as Jordan (75%) and Tunisia (67%). Demand for mortgage loans is also on the increase due to the rising cost of houses, according to analysts.

"The mortgage industry is the most interesting niche of the banking sector," Gamal Moharam, chief executive officer at Piraeus Bank, told OBG. "Demand is huge, because the population is growing and people want to get their own houses," he added. In a market with rising property prices, mortgage schemes are allowing people to buy their houses before they are priced out of the market and extend payment lifetimes.

The surge in mortgage financing schemes had been long-anticipated by the market, after the government eased property registration rules in 2004. Registration fees were reduced and eventually capped at LE2000 (\$377). Furthermore, registration time was reduced from 18 months to three. This move was seen as essential to increase momentum in the industry, as only a registered property can be used as collateral for a loan.

Recent foreclosure cases have given the industry a further boost. Mortgage market observers had been sceptical of how courts would react in case a lender was unable to honour payments. Contrary to expectations, over the past six months, a handful of successful foreclosure cases has proven the viability of the law. Investment Minister Mahmoud Mohieldin told OBG, "Those who are interested in the sector are not only interested in seeing the entry rules apply, but they also want to make sure the exit rules work. After having the legal framework, it is also important to ensure the application of the law."

The government has calculated that as of March, of the LE2.13bn (\$400m) tied up in mortgage schemes, LE1.49bn (\$280m)

was extended by banks, while around LE640m (\$120m) was provided by mortgage companies. However, mortgage finance companies are set to take a bigger share of the mortgage pie, as they do not face the same limitations as banks. "The Central Bank put a cap of 5% of total invested portfolio in mortgage lending," Sahar El Sallab, vice chairman & managing director at Commercial International Bank, told OBG. "[The cap] limited the amount of exposure that banks in Egypt can have in the mortgage sector," she added.

Commercial International Bank, Egypt's biggest bank by market value, recently received a LE1.3bn (\$245m) loan from US-based Overseas Private Investment Corporation (OPIC), to focus on the mortgage industry in Egypt. The bank stated that it plans to lend LE1bn (\$188m) to other lenders in the market, whilst directing the remainder of the funds to middle-income earners, local media reported.

OPIC was created in 1971 to help US companies investing overseas and promote growth in emerging markets. Quoted by the local media, the US embassy in Cairo stated that 80% of the proceeds of the loan will go towards low-income home buyers to finance houses valued at less than LE111,000 (\$21,000).

"We are seeing new developments of smaller, one bedroom apartments. And there is a real opportunity for banks here," said Moharam. Ironically, the rise in mortgage availability, allowing more Egyptians to own their homes, might have an impact on prices they will ultimately pay for them. "Mortgage schemes will bring more and more people into the real estate sector, people that used to be out of the system," Samir Farag, vice president of real estate firm Coldwell Banker, told OBG. "This will most likely translate into stable prices at the very least."

**Source.: Oxford Business Group 05/08/2008**