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## BUSINESS ENVIRONMENT

### THE CONSUMER

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#### Consumer Profile

The population of Egypt was around 105.2 million people in January 2022 and is growing at a rate of 1.9% (Data Reportal). 43% of the population lives in cities, and the urbanisation rate is 1.9% annually (CIA World Factbook).

Most of the country is desert, so about 95% of the population is concentrated in a narrow strip of fertile land along the Nile River, which represents only about 5% of Egypt's land area. Egypt's rapid population growth stresses limited natural resources, jobs, housing, sanitation, education, and health care.

The median age is 24.8 years; 30.2% of the population is under 13 years, 20.1% of the population is between 13 and 24 years, 28.6% of the population is between 25 and 44 years, 15.6% of the population is between 45 and 64 years old, and 5.5% of the population is 65 years old or over. There are 50.5% of men and 49.5% of women (Data Reportal, 2022). The average household size is 4 people in 2021; 6% of households only count one person, 30% of households count 2 or 3 people, and 43% of households count 4 or 5 people and 2% of households count 6 or more people (UN, latest data available). Women have significantly lower participation in the labour force than men (15% vs 67%) and lower literacy (66% literacy for women vs 76% of males). 71% of the population aged 15 or over can read and write (World Bank, latest data available).

Education is compulsory for 9 academic years between the ages of 4 and 14. Moreover, all levels of education are free within any government run schools. According to the World Bank, there are great differences in educational attainment of the rich and the poor, also known as the "wealth gap". Egypt has a very extensive higher education system. About 30% of all Egyptians in the relevant age group go to university. However, only half of them graduate. Many schools have poor infrastructure with around 1 in 5 school buildings unfit for use, lacking functional water and sanitation facilities.

#### Purchasing Power

The Gross Domestic Product per capita (PPP) in Egypt was estimated at USD 12,607 in 2020 (World Bank). The minimum wage is EGP 2,700 per month in the public sector and EGP 2,400 in the private sector (Egyptian government). Egypt's Gini index is 31.5 (World Bank). The 2021 Global Gender Gap Index, which measures disparities between men and women across countries, ranks Egypt at 129th out of 156 countries worldwide. According to estimates by the World Bank, final

consumption expenditure accounted for 93.8% of GDP in 2020 (latest data available).

### **Consumer Behaviour**

Egyptian consumer behaviour has changed considerably as the country is mired in a long-term economic recession coupled with currency devaluation. Egyptian consumers have cut down on apparel purchases, reduced out-of-home entertainment and tried to save on gas and electricity. Price, which had traditionally been an important factor in purchase decisions, now takes precedence over other criteria. As such, luxury items and branded products at supermarkets are sold less and less. 71% of Egyptians now say they look for promotions while 35% of them shop less often and 17% have reduced the quantities of their grocery shopping (Nielsen Survey, 2017). Consumers also tend to consume more local product, as they are less expensive than imported products. The Covid-19 pandemic caused further changes. Egyptians have become more digital, and have increased spending on groceries, takeaway food and home entertainment. They have also become more health conscious and concerned about the environment (PwC, 2022).

Consumers face numerous financial challenges, including devalued currency, high inflation and rising food prices, which have significantly affected consumer confidence and, in turn, household spending. However, while most are adapting to a more restricted shopping regimen, affluent households continue to spend. Online shopping has been hampered by low internet penetration rates, but this is projected to change soon. Young Egyptians are driving increased demand in a wide range of consumer segments.

Despite Egypt having the largest population of internet users in the MENA region, electronic commerce lags behind compared to many other Arab countries. However, online shopping soared since the pandemic. More than 50% of consumers purchased a product online in 2020 (Go-Globe). While Egypt's e-commerce market is still in its infancy, many Egyptian businesses have yet to establish an online identity for consumers to interact with them. Further developing the Egyptian e-commerce market relies on the continued online emergence of new products and services, which will provide Egyptian consumers with the goods that they need closer to home. E-Commerce in Egypt is expected to increase by 30% by the end of 2022, according to a report released by BOOST.

Service apps have been growing over the past years in Egypt-especially amongst the younger generation. For example, Egypt is the largest market in the Middle East for Uber. Moreover, Egypt has become one of the region's largest online supermarket markets for supplying and delivering groceries and other household goods.

### **Consumer Recourse to Credit**

Egypt has one of the lowest credit card holder ratios in the MENA region at around 9% of the population (10 million cardholders). Since 2016, banks have also been forced by the Central Bank of Egypt to limit the monthly instalments of consumers' portfolios of loans to a maximum of 35% (40% if mortgage loans are included) of monthly net income. Nonetheless, the rate of credit card issuance is growing annually by 40%. The Central Bank of Egypt plans to increase the number of electronic points of sale around the country from 2019's level of around 72,500 to one million by 2021 in an effort to further increase credit card usage. Furthermore, consumer lending is slowly regaining health, mortgage rates are expected to increase exponentially as more and more Egyptians consider real estate a safe investment.

With a banked population of only 32.8% (people over 15 years old, World Bank), Egypt aims to tap into the lower- and middle-income groups with micro-credit schemes as well as driving digital FinTech to improve access to finance. Egypt joined the Financial Inclusion Global Initiative to accelerate financial inclusion, which aims at the digital transformation of the country.

The low percentage of banked population in Egypt shows the established lack of confidence amongst consumers towards banking products. Prohibition of interest in Islam, elevated bank charges and other uncertainties with regard to the investments made by the banks are amongst key factors that lead Egyptians to borrow money from non-banking channels, including friends and family, which often provides them the ease of borrowing money without interest.

### **Growing Sectors**

Food and electronics sector (mobile phones, computers, audio and video products) are growing.

### **Consumers Associations**

Consumer Protection Agency

Central Egyptian Society for Consumer Protection

## **IMPORTING & DISTRIBUTING**

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### **Import Procedures**

Egypt joined the International Convention on the Simplification and Harmonisation of Customs Procedures (Kyoto Convention) in 2007. Thus, it aligned the country's customs procedures with those of the World Customs Organisation. The convention is an instrument for the harmonisation of customs techniques. It also aims at ensuring that customs system is not a barrier to international trade and growth.

Egyptian law requires that all commercial agents and importers have Egyptian nationality. If it is a company, the chairman and all members of the board must be Egyptian, and it must be 100% Egyptian-owned. However, distributor-type companies with any foreign ownership can market goods under certain conditions

that limit flexibility of the foreign entity.

There are significant document restrictions; the original sales invoice, in duplicate, the original certificate of origin, in duplicate, are required. These two documents must be certified and authenticated by the Egyptian consulate in the country of origin. For the certificate of origin, it is necessary to specify that the information given is exact and accurate. Further, the package list, the bill of lading with the name and address of the sender and the number of bills of lading sent are required. Since 1999, The Central Bank of Egypt requires all letters of credit to be paid 100% in cash by the importer. A complete description of the product content is also required for products that need to go through a content analysis.

### **Specific Import Procedures**

Since December 2015, Egyptian authorities have carried reforms aiming at curbing "non-essential" imports.

Egyptian importers may be required to register their foreign suppliers with the Government. In particular, the Ministry of Trade and Industry approved a list of 50 commodities that require import registration at the General Organisation for Exports and Imports Control (GOEIC). The required documents for registration include a copy of the licence of the production factory, its certificate of legal status, the trademark of the product, and the trademark produced according to a licence from the owners. The list of products to register includes garments, furnishings, home appliances, carpets, textiles, shoes, steel, blankets, bikes, motorbikes, watches, mineral/natural waters and soda.

In addition, overseas suppliers must allow Egyptian technical teams to inspect their imported products to ensure that environmental and labour standards are met. They may be also required to provide a certificate of quality control from a recognised body of the International Laboratory Accreditation Cooperation (ILAC).

Finally, the Central Bank of Egypt has moved to restrict opening letters of credit for the import of fully manufactured cars (though it will continue to provide hard currency for the import of car parts for assembly in Egypt).

### **Distribution channels**

Egypt remains the largest consumer market and most diversified economy in the Arab world, with a retail food market still dominated by small, privately held stores. In fact, traditional grocery stores are still leading the country's retail food sector - representing 96.6% of total outlets and around 74% of total sales - though supermarket chains, convenience stores, and online retailing platforms are growing in number and popularity. Modern retail channels, such as supermarkets, hypermarkets and convenience stores, have a combined 4,120 outlets, compared to traditional grocery retailers who have more than 117,500 (USDA).

The Egyptian retail foods sector is estimated to generate around USD 17.5 billion (USDA). Sales in modern supermarket and hypermarket chains are expected to continue to grow, according to US retail analysts. Online retail platforms' popularity is increasing thanks to the rise in internet penetration rates.

Traditional grocers and wet markets maintain a loyal, neighbourhood customer base as they are easily accessible and sometimes offer credit to local consumers. The segment is clearly constrained by space (retail and parking) and is unable to compete with larger retailers who can take advantage of economies of scale. Modern supermarket and hypermarket chains confronted the consumers' increased price sensitivity by running promotions, creating loyalty programs, and offering bulk discounts; or often replacing imported products with locally-produced ones. Some chains - like BIM from Turkey and the local Kazyon - started setting up chains of small neighborhood stores, now counting with around 300 and 424 outlets, respectively (USDA).

## **Distribution market players**

The market is still dominated by a large number of small family-run stores. The development of mass distribution is a rather recent trend and it only caters to a small fraction of the population who have access to sufficient income. Many private mini-markets with a larger store space often exceeding 100 m<sup>2</sup> (Sunny Supermarket, ABC, Alfa Market, Metro) have opened. In addition, several supermarkets have burgeoned in the country and the Carrefour group, with five supermarkets, dominates the field. A more recent trend is the advent of discount supermarkets. For example, the Awlad Ragab group or the Khir Zaman chain. In terms of market share, the supermarkets and hypermarkets represent 26% of sales compared to 74% for the small family-run stores (US Department of Agriculture).

## **OPERATING A BUSINESS**

Type of companies

### **Limited Liability Company or LLC**

**Number of partners:** From 2 to 50 shareholders.

**Capital (max/min):** Minimum EGP 1 000 divided in equal shares, fully paid up front when formed.

**Shareholders and liability:** Their responsibility is limited to their contribution.

### **Joint Stock Company (public limited company)**

**Number of partners:** Minimum 3 shareholders.

**Capital (max/min):** EGP 250,000 of which 10% must be fully paid when formed. EGP 20 million when offering shares for public subscription, fully paid up.

**Shareholders and liability:** Their responsibility is limited to the contribution amount.

### **Limited Partnership**

**Number of partners:** One general partner, unlimited number of limited partners.

**Capital (max/min):** Minimum EGP 250,000.

**Shareholders and liability:** General partners' liability is unlimited. Limited

partners' liability is limited to their contribution.

### **Sole Proprietorship**

**Number of partners:** One natural person.

**Capital (max/min):** No minimum capital required.

**Shareholders and liability:** Responsibility limited to the capital allocated therefor.

Setting Up a Company	Egypt	Middle East & North Africa
Procedures (number)	5.0	6.3
Time (days)	12.5	19.5

*Source: Doing Business - Latest available data.*

### **Cost of Labour**

#### **Minimum Wage**

The minimum wage in Egypt as of 2022 is EGP 2,700 per month in the public sector and EGP 2,400 in the private sector (Egyptian government).

#### **Average Wage**

The average Egyptian salary is EGP 915 per week in 2020 (Capmas, latest available data).

### **Social Contributions**

**Social Security Contributions Paid By Employers:** The social insurance contribution of the employer is 18.75% of the total social insurance salary (although the country is developing a new system which will be implemented within a 15-year period and over six phases).

**Social Security Contributions Paid By Employees:** The employee contribution is 11% of the total social insurance salary.

### **Intellectual Property**

#### **National Organisations**

Patents are protected by the Patents' Office, the sole national office responsible for registering and issuing patents. Designs and trademarks are protected respectively by the Office of Designs and Models and Office of Trademarks which are departments of the Trade Register, an administrative service which comes under the Ministry of Trade and Industry.

It is possible to obtain licenses for using patents and trademarks, but the agreements to use patents which involve payments outside the country must be authorized by the [General Authority for Investment](#) (GAFI). As for copyrights, they are handled by authors' societies.

## Regional Organisations

WIPO's regional bureau for Arab countries.

## International Membership

Member of the WIPO (World Intellectual Property Organization)

Signatory to the Paris Convention For the Protection of Intellectual Property

Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

## TAX RATES

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### Consumption Taxes

#### Nature of the Tax

Value-added tax (VAT)

#### Tax Rate

The standard VAT rate is 14%.

#### Reduced Tax Rate

Machinery and equipment used for the purpose of producing a commodity or rendering a service are subject to a 5% VAT.

Exports of goods or services, as well as goods or services provided by companies located in the free zones, are zero-rated.

#### Other Consumption Taxes

Excise duty is levied on alcoholic drinks and coffee. An additional duty is levied on brandy, cognac, gin and whisky.

A table tax applies to tobacco and tobacco products; petroleum products; vegetable oils; animal oils and tallow, partially or wholly hydrogenated; crackers and flour products; processed potatoes; fertilizers, agricultural pesticides; gypsum; contracting work and construction (supply and installation); soap industrial detergents for home use; air-conditioned means of transportation, such as buses and trains between the governorates; professional and consultancy services; media and program production.

Items subject to the table tax in addition to VAT include soda water; non-alcoholic and alcoholic drinks; beer (alcoholic and non-alcoholic); aromatic preparations (skin or hair care); TVs larger than 32 inches, refrigerators larger than 16 feet; air conditioning units and their independent devices; golf carts and similar vehicles; passenger cars; communications services through cellular phone networks.

## Corporate Taxes

### Company Tax

22.5%

### Tax Rate For Foreign Companies

Foreign corporations and partnerships are classified as residents of Egypt if: the company is established according to Egyptian law; either the government or a public authority owns more than half of the capital of the company; or the effective place of management is in Egypt. The effective place of management is deemed to be in Egypt if two of the following conditions are met: daily managerial decisions take place in Egypt; the major shareholders (owners of more than 50% of the shares or voting rights) reside in the country; at least half of the board members or managers reside in the country; the board of directors' meetings are held in Egypt.

### Capital Gains Taxation

Gains from the sale of shares listed on the Egyptian stock exchange are taxed at 10% while gains from unlisted shares are included in ordinary income and taxed at the 22.5% standard rate.

Capital gains realised from shares invested abroad are subject to a 22.5% capital gains tax, with a credit for the foreign tax paid.

### Main Allowable Deductions and Tax Credits

In order to be deductible, expenses must be business-related, necessary for performing the company's activity and documented.

Deductible costs include bad debt, start-up expenses, depreciation and amortization and a percentage of real estate value. Donations to the Egyptian government are fully deductible, while those to local charitable organizations are only deductible up to 10% of taxable income. The same limit applies to payments to the head office made by a branch.

Subject to conditions, interest expenses are deductible for tax purposes after offsetting any tax-exempt interest income.

The foreign tax paid by a resident company on its profits earned abroad is deductible from the tax payable in Egypt, whereas losses cannot be deducted.

Generally, losses can be carried forward for a maximum of five years, while carrybacks are not allowed (except for contracting companies, limited to the extent of the duration of the contract).

### Other Corporate Taxes

A tax on real-estate assets is levied at 10% of rental value. A deduction on the taxable base is allowed to cover related maintenance costs at 30% for residential property and 32% for non-residential property. Residential property is tax exempt if the annual rental value is less than EGP 24,000 and a non-residential property is exempt if the annual rental value is less than EGP 1,200.



Concerning social insurance contributions, a new comprehensive health insurance system has been introduced. The total applicable contribution rate is 29.75%, with the employer's share of it being 18.75%. The 2023 minimum and maximum monthly salary caps are EGP 1,700 and EGP 10,900, respectively (increased by 15% on 1 January of each year until 2027).

There are two distinct types of stamp tax, which are imposed on legal documents, deeds, banking transactions, company formation, insurance premiums, and other transactions, as follows: the nominal stamp tax is imposed on documents, regardless of their value. The tax rate for items such as contracts is EGP 1 for each paper; whereas a percentage or proportional stamp tax is levied based on the value of transactions (from 0.05% to 0.3% of the total proceeds realised). An annual proportional stamp tax at the rate of 0.4%, shared by the bank and the client, is imposed on a bank's loans.

Stamp tax applies to the total value of trading in securities (except for public treasury bills and bonds), without any deduction allowed for expenses. The tax is imposed on both the buyer and the seller, at rates of 0.125% for non-resident sellers and non-resident buyers and 0.05% for resident sellers and resident buyers (the rate can go up to 0.3% in the case of a sale or acquisition of at least 33% of the shares or voting rights (in terms of number or value) of a resident company, or assets or liabilities of a resident company by another resident company, in exchange for shares in the acquiring company).

## **Other Domestic Resources**

[MOF - Egyptian Tax Authority](#), (in Arabic)

## **Double Taxation Treaties**

### **Countries With Whom a Double Taxation Treaty Have Been Signed**

[International tax conventions signed by Egypt](#)

## **Withholding Taxes**

- Dividends: 5% (when distributed by companies listed on the Egyptian stock exchange)/10%,
- Interest: 0 (residents)/ 20 (interests paid on Treasury bills and bonds)/20% (non-residents),
- Royalties: 3% (residents)/20% (non-residents)

The rates may be reduced under an applicable tax treaty.