

EGX: powering economic reform

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One of the oldest bourses in the Middle East, the Egyptian Exchange (EGX) has shown itself able to change with the times, providing a motor that has helped power Egypt's economic reforms over the last five years.

Egypt, an emerging market country, with a growth rate close to 5 per cent even at a time of global economic downturn, has the second best stock market performance in the emerging world, according to MSCI, the benchmark for global funds. Furthermore, government estimates suggest that Egypt is likely to attract US\$7.5 billion (bn) in foreign direct investment (FDI) in the fiscal year 2009-10 and could reach US\$10 bn in 2010-11.

The EGX, with a market capitalisation of US\$90 bn, has 213 companies trading a daily volume of 150 bn shares. In terms of market capitalisation, Egypt is Africa's second-largest market after South Africa. Many stocks are very liquid and can be traded easily and with low transaction cost. Foreign participation is still quite low, as it is in most other African markets.

Like other emerging markets around the world, it was hit by the financial crisis in 2008, losing 56 per cent of its value, but has since rebounded. The bourse's benchmark index (EGX 30) gained 35 per cent in 2009 thanks to an influx of new foreign investment into the EGX of more than US\$850 million (mn) despite the global crisis and its impact on the flows of foreign direct investment (FDI) to world markets.

Maged Shawky, the Chairman of the EGX, attributes the bourse's rebound to high domestic liquidity. "Last year was difficult for financial markets across the world. The Egyptian market started 2009 on a negative note and ended it with the Dubai debt crisis. However, the market rallied from March to October, driven by high domestic liquidity, and was able to conclude 2009 with a year-on-year growth rate of 35 per cent, which demonstrates the market's resilience as a shock-absorber. Moreover, the EGX outperformed all Arab markets in 2009," he says.

Mr Shawky points out that on trading aggregates, the EGX maintained high trading records during 2009. The total value traded of the market amounted to US\$81.3bn, more than 25 per cent down on 2008, on the back of the retreat in the prices in 2008. From another perspective, the volume traded soared to 37 bn securities in 2009, surging by 43 per cent compared to 2008.

Over the last two years, the EGX has taken measures to attract investors. In 2008, the NILEX, the EGX's

market for growing small and medium-sized companies, was set up. The Egyptian Financial Services Authority (EFSA) was launched in July 2009, consolidating the Capital Market Authority with the authorities in charge of the non-banking financial services. The CASE 30, the country's main stock exchange, was overhauled in 2009 and re-branded the EGX 30. As a first step towards developing a bond market, Egypt's Finance Ministry gave its approval in September 2009 for brokerage companies to purchase government debt. Some 20 companies are expected to list on the NILEX, the exchange for SMEs, by the end of 2010. New listings have been instrumental in energising the EGX in recent years, with several key public offerings (IPOs) playing an important role.

Between 2005 and 2008 the number of new listings reached 87 companies, with a total capital of US\$6 bn. Following the onset of the global financial crisis, there was a slowdown in new listings; only six new companies were listed in 2009, representing a total capital of US\$528 mn. Chastened by the impact of the global financial crisis on Egypt's markets, Mr Shawky says the EGX is taking measures to prevent another severe correction like that of 2008. "The recent global financial crisis has prompted us to tackle the problems posed by sharp falls in share prices. We introduced 20 per cent price limits on orders placed on the trading system for shares traded without price limits. Those stocks are now subject to one trading halt of 30 minutes if their closing prices exceed 10 per cent. If the price reaches 20 per cent, trading continues but cannot exceed this limit," he explains.

The EGX's development strategy in the short to medium term will be to continue promoting the Egyptian market, says Mr Shawky. "We are working on attracting solid foreign and domestic companies to be listed on the exchange's main board and listing selected prominent and fast-growing small and medium-sized companies on the NILEX," he says.

Other ongoing plans include the launching of the FIX Connectivity Project between the London Stock Exchange Group and the EGX, which is expected to increase the depth and liquidity of the EGX and ease access for foreign clients on the EGX trading platform.

Additionally, the EGX is working on increasing the product mix available to investors by listing and trading exchange-traded funds. Moreover, the EGX is now studying the possibility of establishing a derivatives market, together with a foreign partner. **F**