

Who Bears the Cost of Egypt's Generosity?



In mid-June 2025, the Egyptian parliament approved Protocol No. 2 appended to the Double Taxation Avoidance Agreement signed between Egypt and the UAE in November 2019 in Abu Dhabi. The agreement, ratified by President Abdel Fattah el-Sisi through Republican Decree No. 558 of 2020, was published in the official gazette.

This new protocol formally designates “Abu Dhabi Developmental Holding Company”—one of the world’s largest sovereign wealth funds—as an official entity eligible for sweeping tax exemptions on its investments in Egypt.

The company will only pay taxes in its home country, while Egypt’s Sovereign Fund will be granted reciprocal privileges in the UAE, although it remains obligated to pay taxes on its domestic operations.

The move sparked widespread criticism, especially as it comes during Egypt’s most severe economic crisis in years, with ballooning budget deficits and mounting pressure from international financial institutions to increase revenue by expanding the tax base and reducing exceptional exemptions that cost the treasury billions annually.

Meanwhile, ordinary Egyptians and small businesses are facing successive

increases in fees and taxes.

Unequal Gains

Egyptian authorities portray the new protocol as a balanced agreement rooted in mutual interests. The Parliamentary Planning and Budget Committee praised it as a vital step toward fostering bilateral economic cooperation and encouraging reciprocal investments at a time when Egypt struggles to attract foreign capital.

However, this policy is based on a flawed premise: that generous tax incentives are the optimal way to attract foreign investment. In reality, foreign investors often prioritize legal and administrative reforms, anti-corruption measures, infrastructure efficiency, workforce capabilities, and strong domestic demand over mere tax breaks.

Behind the government's fervent support lie clear contradictions. A closer reading of the agreement reveals significant imbalances in economic priorities and a stark disparity in the benefits it offers. Available data suggests the exemptions overwhelmingly favor the Emirati side.

The UAE is known for its lenient tax regime. It does not impose substantial tax burdens on companies and applies limited tax measures, only recently introducing modest corporate tax rates well below global standards.

In this context, the supposed benefits offered to Egypt's Sovereign Fund in the UAE appear economically negligible. The deal, in substance, resembles a lopsided arrangement where Egypt gives up significant tax revenue from a foreign entity aggressively expanding its foothold in vital sectors of its economy.

More than just a tax issue, this imbalance underscores a wider disparity in investment volumes. Emirati capital is deeply entrenched in Egypt's economy, with stakes in strategic sectors, while Egypt's investments in the UAE remain minimal and confined to niche activities. As a result, the reciprocal privileges granted to Egypt are largely symbolic.



Take for instance the Abu Dhabi holding company—established in 2018 under the leadership of Sheikh Tahnoun bin Zayed, the Deputy Ruler of Abu Dhabi. In a short span, it has become one of the region's most powerful investment entities, managing tens of billions in assets and holding investments across Egypt's energy, food security, and pharmaceutical sectors.

Notably, the firm recently acquired stakes ranging from 25% to 35% in three Egyptian petroleum companies—Ethydco, the National Drilling Company, and ELAB—for a combined \$800 million.

Additionally, Abu Dhabi Ports, a subsidiary, secured a 50-year renewable usufruct agreement to develop the “Kizad East Port Said” zone, granting Egypt's Suez Canal Economic Zone Authority a mere 15% of project revenues.

The new protocol grants the Emirati company tax exemptions on its profits and investment returns within Egypt, affecting key sectors crucial to Egypt's public finances. This renders its investments exceptionally profitable across the board.

Meanwhile, there's little transparency or data on the size and scope of Egypt's sovereign investments in the UAE, casting doubt on the claim of mutual benefit.

These exemptions grant Emirati capital a sweeping advantage: benefiting not only from the depreciated Egyptian pound and undervalued public assets, but also from exemptions on income taxes, capital gains, dividends, and interest

earnings.

Such taxes constitute a major portion of any investment's returns and could have generated billions for the Egyptian treasury—resources urgently needed to fund social services and offset the foreign currency crunch straining the local economy.

This skew in economic policy undermines the principle of reciprocity and turns the tax exemptions into one-sided gains for the UAE, at a time when Egypt's public finances are under extreme pressure.

Exclusive Exemptions

As Egypt rushes to grant generous tax relief to Gulf investment entities—especially Abu Dhabi Holding—it faces intensifying pressure from the International Monetary Fund (IMF) to rein in such privileges. The IMF emphasizes the need for fair competition between public and private sectors and improving tax collection as key components of fiscal sustainability.

In its October 2023 review of Egypt's economic performance, the IMF warned that unchecked tax exemptions deprive the budget of vital revenue, particularly in a context of rising inflation and soaring debt burdens.

The IMF cautioned that over-reliance on tax-exempt investments could worsen fiscal imbalances and widen the gap between state revenues and expenditures, jeopardizing the country's capacity to meet social and development obligations.

In line with IMF requirements, Egypt's government approved a draft law in February 2024 to scrap tax exemptions for public entities involved in commercial activities. However, it notably excluded military-affiliated projects, which dominate key sectors of the economy.



Despite this partial move, the government continues to grant sweeping exemptions to major foreign investors such as Abu Dhabi Holding. The firm has been involved in high-profile projects like the Ras El Hekma deal and continues to enjoy preferential treatment that reflects an Egyptian economic strategy aimed at attracting Gulf capital—even at the expense of domestic fiscal balance.

By contrast, other international entities have faced resistance. In November 2023, Euroclear—a global securities settlement platform—requested a tax exemption on Egyptian treasury bonds and bills as a precondition for giving Egypt access to international debt markets. To date, Cairo has not issued a formal response.

Observers note that Egypt's leniency toward Gulf investors must be seen within a broader political and regional context. Countries like the UAE and Saudi Arabia have long supported Egypt through large central bank deposits, extensive investments, and direct financial aid.

Since Egypt's economic crises began to snowball in 2016, the government's dependency on Gulf backing has deepened, creating a nexus between politics and economics. This has resulted in preferential treatment for Gulf

firms—particularly Emirati ones—raising questions about fairness and long-term benefit.

Within this dynamic, Abu Dhabi Holding has strengthened its position by acquiring stakes in five top-tier Egyptian firms listed on the stock exchange, most of which generate hard currency revenue.

The \$1.8 billion deal included Commercial International Bank (Egypt's largest private bank), Abu Qir Fertilizers, Misr Fertilizers Production Company, Alexandria Container & Cargo Handling, and Fawry for digital payments.

These companies are among Egypt's most prominent, appearing on Forbes' list of the 50 most powerful Egyptian firms, with a combined market value nearing \$10 billion and assets totaling nearly \$19.6 billion. Collectively, they account for about 39% of the EGX30 index.

Between April 2022 and June 2024—roughly two and a half years since the acquisitions—Abu Dhabi Holding generated operating returns of \$890 million, excluding capital gains from surging stock prices. This is nearly half of its initial investment, an impressive performance given the timeframe.

With each new acquisition, concerns over transparency, asset valuation, and the actual impact of these investments on the broader economy continue to grow. Official figures often showcase these deals as successes, yet their benefits rarely trickle down to everyday Egyptians.

Many fear that Egypt is increasingly becoming a haven for foreign capital seeking generous tax shelters, without ensuring tangible gains for a struggling economy grappling with high poverty rates and deep structural challenges.

Who Pays the Price?

Tax revenues are the backbone of any national budget, enabling governments to fund vital sectors such as education, healthcare, and infrastructure. In Egypt's case, this is even more critical given soaring external debt and diminished revenue streams due to weak economic performance and currency volatility.

By waiving taxes on massive foreign investments, Egypt's treasury forfeits much-needed income that could alleviate fiscal deficits or improve living standards. Meanwhile, ordinary Egyptians bear the brunt of rising costs amid declining currency value, inflated prices, and deteriorating services.

This reflects a broader economic strategy that prioritizes foreign investors over basic public needs. The growing tax burden on the poor and middle class—via indirect taxes and fees on utilities like electricity and water—further entrenches inequality.

Egypt's latest budget relies almost entirely on tax revenue, targeting over 2.6 trillion pounds—accounting for 85% of total revenue, up from 77% the previous year. These taxes disproportionately impact low- and middle-income citizens, who pay half of all tax revenue through income and VAT.



VAT alone is expected to generate more than 780 billion pounds, a 43% increase from the previous fiscal year. This means ordinary Egyptians will face significantly higher taxes, even as subsidies like fuel support have been cut.

These tax hikes coincide with ballooning debt servicing costs—interest and principal payments on loans—which consume about 65% of the state budget. New borrowing in the upcoming fiscal year is set to exceed 3.5 trillion pounds. In this context, the government increasingly turns to citizens' pockets to cover the gaps left by its failed policies.

Policies endorsed by a compliant parliament are exacerbating inequality and widening the gap between rich and poor. This heightens the risk of future social unrest, especially in the absence of credible economic reforms or measures that promote equitable wealth distribution.

Against this backdrop, the generous incentives granted to foreign—particularly Gulf—capital, and to certain domestic entities exempt from tax obligations, raise fundamental questions: Who truly shoulders Egypt's tax burden? And how

sustainable is an economic model that overburdens citizens while enriching powerful investors?

Despite its fragility and growing poverty, Egypt's economy appears to be subsidizing one of the region's most powerful sovereign funds—offering tax breaks and privileged access to undervalued assets. Whether these policies are just, beneficial, or sustainable remains an open question.

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