

Egypt's President Doubles Beer Tax to 200 Percent

SARAH EL DEEB, Associated Press

CAIRO (AP) — Egypt's president decreed an increase in sales tax on cigarettes, beer and wine, the latest in a series of price hikes that aim to ease the country's staggering budget deficit.

The decision announced Sunday increases a flat tax on local and imported cigarettes to between 25 and 40 cents per pack, depending on the brand. It doubles an already existing tax on beer, from 100 percent to 200 percent, and increases the tax on local and imported wines to 150 percent.

Since assuming the presidency last month, former military chief Abdel-Fattah el-Sissi has vowed to take tough decisions to deal with the country's battered economy, and bring it out of the bottleneck within two years.

Taking on one of the country's most explosive issues — its massive energy subsidies — his government partially raised fuel prices by up to 80 percent over the weekend. The decision came after the government announced it is gradually raising electricity prices.

Subsidies on basic food stuffs and energy eat up nearly a quarter of the state budget. Despite recommendations by international financial institutions to slash subsidies, no Egyptian leader has managed to broach the issue, fearing unrest in a country where nearly 50 percent of the population live in poverty and rely on government aid.

Speaking to the editors of Egyptian media outlets Sunday, el-Sissi said the decision to lift the subsidies was "50 years late" and described it as part of his efforts to set the country on the "correct" path. His comments were published by the state news agency.

The government has also introduced new property taxes, and plans to introduce a new scheme for value-added taxes. Defending the decision to partially lift fuel subsidies, the government said the move will free nearly \$7 billion to be spent on health, education and salaries.

Previous loan talks with the International Monetary Fund since 2011 have centered on subsidy cuts and new taxation, but they faltered in part because governments feared social upheaval.

Early this year, the average minimum wage for public sector workers rose to \$171 per month from a meager \$50 per month, but it only applies to some 5 million out of Egypt's 27 million strong labor force. El-Sissi also set a maximum wage for

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government employees at about \$6,000 per month.

During the last three years of turmoil, the state budget deficit hovered at around 12 percent or higher, foreign reserves fell sharply, tourism revenues crashed, while investors shied away because of the turbulent politics. Unemployment increased to over 13 percent.

The decision announced Sunday is clearly aimed at increasing government revenues.

Estimates put the number of smokers in Egypt between 17 to 21 percent of the adult population. The World Health Organization put alcohol consumption in Egypt at around 0.2 liters per person a year in 2006. The industry also caters to the tourism sector.

El-Sissi's predecessor, the Islamist Mohammed Morsi, tried to raise sales taxes on alcoholic beverages, cigarettes and other luxury goods, but suspended the decision under fire from critics.

El-Sissi came to office on a wave of nationalist fervor after overthrowing Morsi during popular protests against him.

Though steep, the price hikes have so far not caused mass protests or an outpour of discontent.

Most people appeared to be still calculating the cost.

In downtown Cairo, 42-year-old hospital security guard and father of three Mohammed Mohey said he was now paying 75 percent more for his daily public transport fare.

Mohey said he already has a second job to complement his main \$171 a month salary.

"I should just give the government my \$171 salary so they can deal with it, and feed my daughters and put them to school," he said, sounding a helpless note.

Critics say the decisions were made in isolation, in the absence of an elected parliament or a detailed budget released to the public.

Mohammed Abu Basha, an economist with Egypt's largest investment bank EFG-Hermes, said the partial lifting of fuel subsidies will cause a "price shock" to the economy in the short term, increasing the prices of everything, raising inflation and reducing purchasing power. The increase also included increasing the price of fuel for industrial use.

But, he added: "This puts the economy on a more sustainable path."

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