



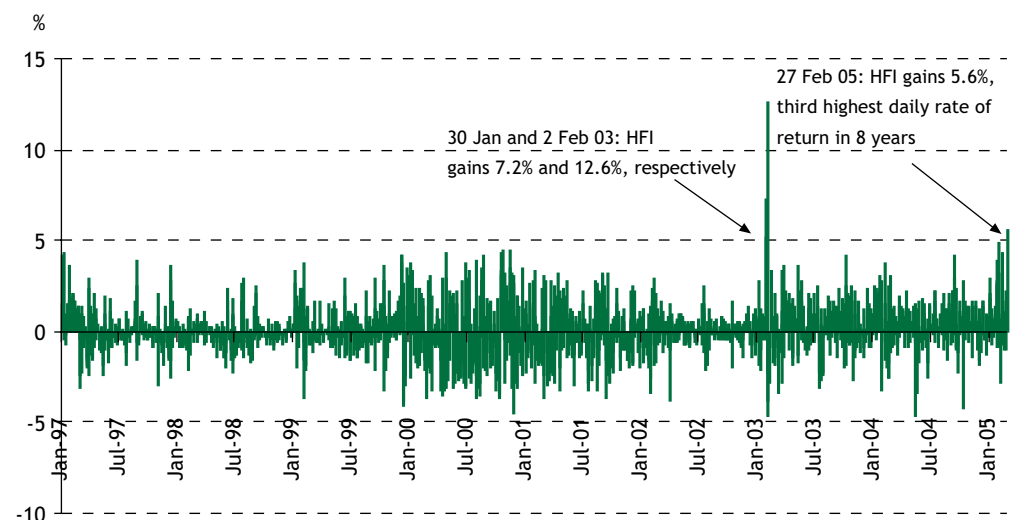
On 26 February 2005, President Hosni Mubarak, in office since 1981, publicly announced that the Constitution (in effect since September 1971) will be amended to allow for the election of the president via a popular vote, rather than his nomination by parliament. According to the president, the proposed amendment has already been submitted to both the consultative council and the parliament for ratification and is expected to be effective in readiness for the upcoming presidential election/referendum, scheduled to be held in September 2005.

According to the existing system, which is detailed in Article 76 of the Constitution (see end of note), the Egyptian Parliament is responsible for nominating the presidency candidate upon the approval of two-thirds of its 454 members (444 elected and 10 appointed members). The nominated candidate becomes the president of the republic for a six-year term, subject to indefinite renewal if he wins an absolute majority in a public referendum.

We believe the announcement is positive for the equity market as investors perceive the initiative as a major political reform related to the constitutional provisions of the presidency. Indeed, the performance of the market the day after the announcement, which is discussed in the next paragraph, is supportive of this view. Historic and cross-country evidence supports the assertion that the announcement/implementation of significant political reform triggers a broad-based rally as investors adopt a lower risk premium and expect higher levels of foreign direct/portfolio investment in that respective country.

On February 27, the day after the announcement, the broad-based Hermes Financial Index (HFI) rose 5.6%. This represents the third highest daily percentage rise since January 1997 after the 7.2% and 12.6% daily percentage rises realized on 30 January 2003 and 2 February 2003, the second and third days of trading following the floatation of the EGP. The sentiment-effect triggered by the announcement was evident in the broad-based nature of the rally as is indicated by the high advance to decline ratio, 27:4, and the 21% increase in trading volumes. It is important to highlight that the rally took place in the absence of western institutional investors (Sunday trading day) and was mainly fueled by retail investors. With the aforementioned rally, the HFI has risen approximately 43% in EGP terms and 51% in USD terms since the beginning of 2005.

Figure 1: HFI Daily Returns in EGP (January 1997 - Present)



Source: EFG-Hermes

Flash Note

Article 76 of the Egyptian Constitution

"The Parliament shall nominate the President of the Republic. The nomination shall be referred to the people for a plebiscite. The nomination for the President of the Republic shall be made in the Parliament upon the proposal of at least one third of its members. The candidate who obtains two thirds of the votes of the members of the Parliament shall be referred to the people for a plebiscite. If he does not obtain the said majority the nomination process shall be repeated two days after the first vote. The candidate obtaining an absolute majority of the votes of the Assembly members shall be referred to the citizens for a plebiscite. The candidate shall be considered President of the Republic when he obtains an absolute majority of votes cast in the plebiscite. If the candidate does not obtain this majority, the Assembly shall propose the nomination of another candidate and the same procedure shall follow concerning his candidature and election."

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