

AFRICA RISK CONSULTING**Country briefing – EGYPT**

January 2013

1 Summary

Violence threatens to overshadow progress towards parliamentary elections, widely expected in April. In the face of running clashes between protestors and security forces, government enforces state of emergency in towns along Suez Canal and deploys troops in Cairo and Alexandria. Shura Council passes parliamentary law which reflects Islamist dominance of the chamber. Coalitions begin to form before elections but Freedom and Justice Party (FJP) yet to decide whether to run alone and still possibility of Salafist coalition. Central Bank of Egypt begins new currency regime with foreign exchange auctions. The Egyptian pound falls to a record low of 6.50 against the dollar. Al- Morsy Hegazy, close to the Muslim Brotherhood, is appointed finance minister and Hisham Ramez becomes governor of the Egypt Central Bank.

Widespread violence overshadows progress towards April's parliamentary elections

In late January, widespread violence broke out across Egypt. The causes were twofold: the second anniversary of the 25 January revolution saw violent protests held against President **Mohammed Morsi** and the **Muslim Brotherhood** in **Cairo** and **Alexandria**, while **Port Said** saw riots after a court sentenced 21 people to death for their involvement in football violence last February (see below). Over 50 Egyptians were killed during the violence, 39 in Port Said, proving a challenge to Morsi's authority and claims that Egypt's continued democratisation had broken with the tactics of the **Hosni Mubarak** regime (1981- 2011). The country's political parties remained polarised, as the major opposition coalition, the **National Salvation Front**, rejected Morsi's calls to take part in a process of national dialogue which is expected to continue in February. They also threatened to boycott parliamentary elections unless held under a salvation government. **Egypt** is still expected to go to the polls in April, after which another government will be formed.

The violence overshadowed steady political progress towards the parliamentary elections. On 19 January the upper house of Egypt's parliament, the **Shura Council** approved the new parliamentary election law which reflects the Islamist dominance of the Council. The Council has sent the bill to the **High**

Constitution Court which will determine the constitutionality of its articles. The High Constitution Court has 45 days in which to do so, before referring it to President Morsi who will set the exact date for the upcoming elections for the **House of Representatives**, the lower house of parliament, widely expected in April¹.

The Salafist **Nour** party was able to ensure that the Council rejected proposals that the first half of each party's electoral list must include at least one female and one Christian candidate. The Muslim Brotherhood's **Freedom and Justice Party (FJP)** made sure that an amendment was rejected which would have required members of parliament to maintain their party affiliation throughout their term in office, therefore stopping members and independents from switching or joining parties after the election². This is likely to encourage horse trading after the election. It is likely that the FJP will be in a dominant position after the election, which may mean it will be best placed to take advantage of encouraging independents to enlist. There are still technical concerns about the electoral process. The opposition claims the size of the electoral districts are too large and favour the FJP which can benefit from the Muslim Brotherhood's well-established grassroots networks. In addition, the mechanism for determining the redistribution of votes which fail to meet the minimum threshold in each district is yet to be defined. There are also to be no domestic or international election observers for the election. Once the High Constitution Court declares the law constitutional, it cannot be declared unconstitutional, thus protecting the parliament against the sort of legal challenges that brought down its predecessor.

Election landscape begins to emerge

A period of intense negotiation between political parties in January began to clarify the political landscape in which the parliamentary elections are expected to take place in April. During the next month, political manoeuvring will begin in earnest, both publically and privately as parties attempt to finalise their electoral lists and coalitions remain factitious and prone to division³. The greatest unknown is whether the FJP will run alone. While talks with the Nour party under new leader, **Younes Makhoun**, proved unsuccessful, a "tentative agreement" may have been reached between the FJP and former presidential candidate **Hazem Salah Abu Ismail's Umma Party**⁴. Any agreement with Umma may prove significant due to the Salafist leader's popularity amongst the Egyptian public. Another possibility is an FJP alliance with **Emad Abdel Ghafour's Al-Watan Party** which formed in December when 150 members broke from Nour. The FJP, however, will not be aligning with Nour

¹ Al Masry Al Youm, 20 January 2013

² Al Masry Al Youm, 17 January 2013

³ Source, liberal political activist, Egypt.

⁴ Source, liberal political activist, Egypt.

after talks between the two broke down over the issue of electoral lists. Al- Watan remains ideologically close to Nour, however, and an alliance between the two also remains a distinct possibility. A centrist- Islamist alliance agreed between eight parties may have deterred the FJP from seeking common ground with liberals. While the National Salvation Front leadership have publically said that they will put forward only one list of candidates, there is tension between its youth committee and the **Wafd** party over the issue⁵.

Central Bank of Egypt's new Currency Regime takes effect

The long expected depreciation of the Egyptian pound began in earnest in January, as the **Central Bank of Egypt** began a new currency regime in response to net foreign reserves falling to critical levels. Whether financial confidence returns to Egypt, however, will depend on political stability. At the height of January's violence, ratings agency **Fitch** downgraded its sovereign rating by one notch to B⁶. The Central Bank auctions of foreign exchange and new controls on foreign currency- limiting clients from withdrawing more than \$30,000 in cash per day and charging 1- 2% administrative fees⁷ on the purchase of foreign currency- have seemingly deterred the threat of a disorderly devaluation. According to the Central Bank, \$5 billion in foreign investments flowed out of Egypt during the past six months, while investments from the EU fell significantly in the last quarter from \$4.2 to \$1.76 billion⁸. In January, the **Egyptian General Petroleum Corporation** purchased only half of what it was seeking in a tender for crude oil because of a lack of capital⁹. The Central Bank held its fourteenth currency auction on 27 January during which it offered \$48m to banks, lower than the \$75m offered during several of the auctions. Not only did the amounts put up for auction vary, but so did the frequency, emphasising the greater flexibility the Egyptian authorities enjoy to determine the exchange rate. The Egyptian pound fell to a record low of 6.50 against the dollar on 27 January- equalling the record reached on 13 January- and has weakened by approximately 7% since the first auction held on December 30 2012¹⁰. The stock market has remained unaffected, up about 25% from November. Foreign investors have taken advantage of the lower pound and, in the first weeks of the month, were net buyers of stock almost every day¹¹. Foreign reserves rose to \$15.5 billion, helped by a purchase of \$2.5 billion worth of government bonds by Qatar¹². Concerns remain, however. A weaker Egyptian pound is unlikely to offer much support to the balance of payments as Suez Canal receipts and oil export revenues are not sensitive to movements in the pound, while any significant

⁵ Al Tahrir, 15 January 2013

⁶ Reuters, 30 January 2013

⁷ Egypt Independent, 4 January 2013

⁸ Egypt Independent, 16 January 2013

⁹ Reuters, 8 January 2013

¹⁰ Reuters, 27 January 2013

¹¹ Reuters, 9 January 2013

¹² Reuters, 19 January 2013

increase in household dollar holdings would challenge the still fragile foreign reserves of the Central Bank. Much depends on the still unsigned \$4.8 billion IMF loan which continued to be negotiated during January. While the IMF team is expected to return to Cairo in the next couple of weeks, the Egyptian government will then have to demonstrate the political will to reduce spending and remove subsidies.

Changes of major financial personnel

As part of the 6 January cabinet reshuffle, **Al-Morsy Hegazy** was appointed finance minister. Not widely known in business or financial circles, he is a public finance professor at Alexandria University where he specialises in Islamic finance. Close to the Muslim Brotherhood, he is a supporter of sukuk, the Islamic equivalent of bonds, and on 16 January, the cabinet approved a draft law to allow sovereign Islamic bonds¹³. **Hisham Ramez** replaced **Farouq el- Oqda**, who had been in office since 2003, as governor of the **Egypt Central Bank**, and will hold the position until November 2015. It is expected that Ramez will maintain el- Oqda's longstanding monetary policies of shoring up the Egyptian pound against foreign currencies by tightening restrictions on speculation¹⁴. His appointment, however, may be a bellwether for further changes in appointments. Ramez served as deputy governor between 2008 and 2011, before departing to **Egypt's Commercial International Bank** where he was vice chairman and managing director. It is unlikely that El- Oqda's resignation is related to the recent devaluations of the Egyptian pound. He had already exceeded his eight year mandate and had himself suggested that the governor's tenure should be limited to two four year terms in Egypt's constitution¹⁵.

The first impact of Ramez's appointment was the stepping down of the chairman of **Egypt's National Bank (Ahly Bank)**, **Tarek Amer**. The former deputy Central Bank governor (2003- 2008), Amer had attempted to resign two years earlier following the civil war but el- Oqda denied his request. He had also been considered a nominee for governor of the Central Bank¹⁶. It is likely that there will be other changes of leadership at major banks after Ramez assumes office in February. **Mohamed Barakat**, the **Arab Union's** deputy chairman and CEO of **Banque Misr** is likely to succeed Amer¹⁷.

Also in January, the **World Bank** appointed **Hartwig Schafer** as the new country director for Egypt, **Yemen** and **Djibouti**. Schafer was previously director of operations and strategy in the African region for the World Bank (2006- 2008) and the chief administrative officer for the Africa region.

¹³ Ahram Online, 6 January 2013

¹⁴ Ahram Online, 11 January 2013

¹⁵ Ahram Online, 11 January 2013

¹⁶ Egypt Independent, 14 January 2013

¹⁷ Egypt Independent, 14 January 2013

2 Operations

In the face of increasing violence, the interior ministry deployed armed forces in Cairo, **Giza**, **Suez**, **Ismailia** and Port Said to secure the governorates and major roads¹⁸. On January 27, the government declared a 30 day state of emergency in three cities along the Suez Canal- Port Said, Ismailia and Suez- following several days of violent protests. Protestors blocked **Mohamed Ali Street**, a major road that links Port Said to Cairo and Ismailia. The government deployed troops, passed legislation allowing the military to arrest civilians, and imposed a curfew. The measure, however, was ignored and protests continued, most notably, with attacks on police stations. Morsi allowed governors to amend or cancel the curfews, leading to the governor of Ismailia reducing the curfew from nine hours to three, starting from 2am. The authorities in Port Said and Suez are considering whether to follow suit. According to the Suez Canal Authority, trade through the canal was unaffected by the violence¹⁹. In Cairo, police fired volleys of teargas at protestors in **Tahrir Square** throwing stones and Molotov cocktails, who then stormed the **Semiramis Intercontinental** hotel²⁰. Clashes continued until Sunday 27, concentrated mainly between **Qasr el Nil** bridge and Tahrir square. There were also clashes between protestors and security forces outside the interior ministry. In Alexandria, protestors blocked off the **Abu- Qir** Boulevard, clashed with **Central Security Forces** in Manshiya, and disrupted trains leaving from **Sidi Gaber** train station and trams in **Al- Raml** and **Azarteh** districts.

3 Implications

Despite the government's attempts at national dialogue, Egypt's political system is likely to remain polarised before and during April's elections and the formation of a new government. Political coalitions will remain fractious because of the issue of party lists. There is the potential for sporadic outbreaks of violence during this period. Possible triggers include the March ruling of the other 54 defendants, including senior police officers, in the February 2012 football violence case. However, widespread violence is unlikely in a country that has been equally polarised during generally peaceful elections and referendums held since 2011. While the military has warned about the effects of continuing violence, a coup is unlikely as the **Supreme Council of the Armed Forces** has not enjoyed a period of direct rule since the fall of Mubarak, and is more comfortable with the degree of indirect influence the new constitution affords it. Egypt's economic reforms and changes of financial personnel will only lead to sustained growth if matched by political stability and the will to remove subsidies.

¹⁸ AFP, 25 January 2013

¹⁹ Reuters, 31 January 2012

²⁰ Reuters, 31 January 2012

4 Key events chronologies

4.1 Previous month –1 Jan – 31 Jan

30 Jan 2013 Cairo (Egypt) *Reuters*. Unknown gunmen kill two men in **Tahrir square**;

29 Jan 2013 Cairo (Egypt) *Reuters*. Head of the Egyptian military and defence secretary, general **Abdel Fattah al-Sisi**, warns that the “continuation of the struggle of different political forces... could lead to the collapse of the state”;

28 Jan 2013 Cairo (Egypt) *Reuters*. **National Salvation Front (NSF)** says it is to boycott **President Mohamed Morsi's** process of national dialogue;

27 Jan 2013 Port Said (Egypt) *Al Jazeera*. Unknown gunmen open fire at funeral procession to **Al Mariam Mosque**, killing 17;

27 Jan 2013 Cairo (Egypt) *AP*. Clashes continue near the interior ministry, **6 October Bridge** and **Garden City Corniche**;

26 Jan 2013 Suez (Egypt) *Independent*. Violent clashes in **Alexandria**;

26 Jan 2013 Cairo (Egypt) *Independent*. NSF calls for salvation government;

25 Jan 2013 Cairo (Egypt) *Al Masry Al Youm*. Court sentences 21 defendants to death following the death of 72 Abyly fans after football match with Al-Masry in February 2012. 31 people die in violent clashes;

23 Jan 2013 Cairo (Egypt) *Independent*. The three **Coptic** churches announce their withdrawal from the national dialogue process;

19 Jan 2013 Cairo (Egypt) *Ahram*. **Shura Council** approves parliamentary election law;

19 Jan 2013 Cairo (Egypt) *Ahram*. Cairo court upholds three year jail sentence against businessman and head of the **Wafd** party, **El Sayed El-Badawi**;

17 Jan 2013 Assiut (Egypt) *Al Masry Al Youm*. Security forces kill eight militants during operation;

17 Jan 2013 Washington DC (US) *Reuters*. Freedom House describes Egypt's democratic gains as “modest”;

16 Jan 2013 Cairo (Egypt) *Ahram*. Cabinet approves draft law to allow sovereign Islamic bonds;

16 Jan 2013 Alexandria (Egypt) *AFP*. Collapsing building in Alexandria kills 23;

14 Jan 2013 Cairo (Egypt) *Ahram*. EU president **Herman Van Rompuy** announces \$6.7billion in grants, loans and concessions to Egypt;

14 Jan 2013 Suez (Egypt) *Independent*. Oil shipments through **Suez Canal** in 2012 at four year high;

14 Jan 2013 Giza (Egypt) *Reuters*. Train derailment in **Badrashin** kills 19 passengers;

14 Jan 2013 Cairo (Egypt) *Independent*. Public funds prosecutor drops charges against former prime minister **Ahmed Nazif**;

13 Jan 2013 Cairo (Egypt) *AFP*. **Court of Cessation** orders a retrial of former president **Hosni Mubarak** and former interior minister, **Habib El-Adly**;

13 Jan 2013 Cairo (Egypt) *Independent*. Egyptian pound hits record low, LE6.56, against the US dollar;

13 Jan 2013 Cairo (Egypt) *Xinhua*. Government says it will not sign the **Entebbe Agreement** in its current form;

12 Jan 2013 Cairo (Egypt) *Reuters*. NSF calls for implementation of 11 conditions for elections to be fair;

12 Jan 2013 Sinai (Egypt) *AFP*. Gunmen attack police patrol guarding cross- **Sinai** gas pipeline in the **Ouja** region;

10 Jan 2013 Cairo (Egypt) *Ahram*. **Hisham Ramez** replaces **Farouq El-Oqda** as governor of **Central Bank of Egypt**;

9 Jan 2013 Cairo (Egypt) *Reuters*. Finance ministry announces tax revenue for first half of financial year at LE98bn, raising doubts as to whether will achieve LE260bn target;

9 Jan 2013 Cairo (Egypt) *Independent*. **General Petroleum Authority** signs an agreement with member of **Islamic Development Bank Group** to receive \$265m loan under murabaha agreement;

8 Jan 2013 Cairo (Egypt) *Reuters*. **Qatar** offers Egypt \$2.5 billion in economic aid;

7 Jan 2013 (UK) *The Times*. Reports claim that the president's assistant for foreign relations met with major general **Qassem Suleimani**, commander of the **Iranian Quds Brigade**, in **Cairo**;

7 Jan 2013 Cairo (Egypt) *AFP*. The IMF meet with prime minister **Hisham Kandil** to discuss \$4.8bn loan;

7 Jan 2013 Cairo (Egypt) *ESIS*. Hisham Kandil says that foreign remittances to Egypt increased by 40% in 2011;

7 Jan 2013 Cairo (Egypt) *Reuters*. **Customs Authority** allows **Centamin** to resume gold exports;

6 Jan 2013 Cairo (Egypt) *ESIS*. Morsi completes cabinet reshuffle by swearing in ten new ministers;

6 Jan 2013 Cairo (Egypt) *Independent*. **Essam al- Erian** leaves the presidential advisory team;

6 Jan 2013 Cairo (Egypt) *Ahram*. **Mohammed ElBaradei** calls for liberal alliance for upcoming parliamentary elections;

6 Jan 2013 Cairo (Egypt) *Aswat Masriya*. Cairo criminal court retracts decisions by the **Illicit Gains Authority** to freeze the assets of businessman **Ibrahim Kamel**, a prominent member of Mubarak's **National Democratic Party**;

5 Jan 2013 Cairo (Egypt) *Ahram*. Rating agency **Fitch** praises CBE's new currency regime;

2 Jan 2013 Cairo (Egypt) *Reuters*. Shura Council convenes;

2 Jan 2013 Sinai (Egypt) *Reuters*. Egyptian armed forces thwart an attempt to bomb Sinai's **Rafah Church**;

1 Jan 2013 Cairo (Egypt) *Ahram*. Planning minister, **Ashraf El- Arabi**, says that budget deficit is likely to reach LE200bn by the end of the fiscal year;

1 Jan 2013 Cairo (Egypt) *New York Times*. **United Arab Emirates** authorities arrest ten Egyptian members of the **Muslim Brotherhood**;

4.2 Forward looking

Feb: IMF team to return to Cairo;

Feb: Bidding round of mainly offshore exploration blocks to begin;

Feb: Morsi to meet with president **Barack Obama** in US;

1 Feb: Morsi to meet with president of **France, Francois Holland**, in **Paris**;

2 Feb: Hisham Ramez to take office as governor of Central Bank of Egypt;

3 Feb: Supreme Constitutional Court to rule on dissolution of the Constituent Assembly;

7 Feb: **Organization of the Islamic Cooperation summit** in **Cairo**, president of **Iran, Mahmoud Ahmadinejad** to attend;

9 Feb: South Cairo Criminal Court to rule in case of **Alaa** and **Gamal Mubarak** regarding the sale of **Watany Bank**;

25 Feb: Parliamentary electoral procedures set to begin;

9 Mar: Cairo court to announce sentences of other 54 defendants, including senior police officers in, February 2012 football violence case;

Apr: Parliamentary elections expected;

1 May: Suez Canal Authority to raise fees 2% for container ships and car transporters, and 5% for oil, petroleum and bulk carriers.