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Egypt's long-overdue parliamentary elections begin. The absence of parties opposed to President Abdel Fattah Al-Sisi (2014- present) encourages a low voter turnout. Sisi raises the prospect of the current government remaining in office beyond the parliamentary elections. Sisi appoints former chairman of National Bank of Egypt Tarek Amer as Central Bank of Egypt (CBE) governor. Sisi confirms planned introduction of value added tax (VAT).

Pro-government parties dominate first stage of parliamentary elections

Voting in the first round of parliamentary elections closed on 19 October amid a subdued atmosphere and low turnout.¹ The low turnout and absence of opposition critical of President **Abdel Fattah Al-Sisi** (2014- present) undermines the democratic credibility of the new parliament. The election for the unicameral house of representatives is the third and final milestone in Egypt's political transition, following the January 2014 constitution and the May 2014 presidential election. The first round of the election covered 103 electoral constituencies across **Giza, Fayoum, Beni Suef, Minya, Assiut, Wadi el-Gedid, Sohag, Qena, Luxor, Aswan, Red Sea, Alexandria, Beheira** and **Marsa Matrouh Governorates**. The first round elected 60 party-based members of parliament (MPs) and 226 independent MPs. Of the party-based MPs, the **North, Middle and Upper Egypt** constituencies elected 45 and **West Delta** 15.²

The **For the Love of Egypt** coalition, which enjoys "*the backing of President Sisi and the government*",³ dominated the first round, winning all 60 party list seats available.⁴ The leader of For the Love of Egypt is **Sameh Seif Al-Yazal**, a former intelligence officer and the head of the state owned **Al-Gomhouria** newspaper's pro-government **Centre for Political and Strategic Studies** think tank.⁵ While For the Love of Egypt claims that it is politically independent, it has given Sisi great prominence in its election materials.⁶ For the Love of Egypt is expected to dominate the second round of the parliamentary vote (see below).⁷

According to **High Election Committee** figures, turnout in the first round was only 26.56%.⁸ The government gave public sector workers in **Giza** and **Alexandria** a half-day on 19 October to encourage voting.⁹ The government pressured private companies to close also.¹⁰ The low turnout contrasts with the November 2011 elections, the first since the ousting of president **Hosni Mubarak** (1981-2011) earlier that year. In the 2011 election, the substantial difference between the liberal **Egyptian Bloc** and the Islamist **Democratic Alliance for Egypt** and **Islamist Bloc** coalitions encouraged a large turnout. The Democratic Alliance – with the **Muslim Brotherhood's** political wing the **Freedom and Justice Party (FJP)** as its largest party – won the most votes and seats in parliament in 2011. The Muslim Brotherhood is now prohibited and the FJP dissolved. Liberal secular

¹ Egyptian Independent, 19 Oct 2015.

² Egyptian Independent, 19 Oct 2015.

³ Al Ahram, 25 Feb 2015.

⁴ Egyptian Independent, 22 Oct 2015.

⁵ Al Ahram, 8 Oct 2015.

⁶ Al Ahram, 8 Oct 2015.

⁷ Source, political analyst, UK

⁸ Al Ahram, 19 Oct 2015.

⁹ Al Ahram, 19 Oct 2015.

¹⁰ Al Ahram, 19 Oct 2015.

parties are fractious and struggling financially. The “winner takes all” model of the party list also discouraged smaller parties from standing candidates.

The absence of effective parties opposed to Sisi has discentivised voting.¹¹ The three electoral coalitions that contested in Upper Egypt – For the Love of Egypt, **Call of Egypt**, and **Independent National Re-Awakening Bloc** – all back Sisi. Secular activist **Tarek Zidan** is leader of the Call of Egypt coalition that campaigns in line with Sisi’s policy of excluding political Islam. The Independent National Re-Awakening Bloc is campaigning for the economic development of Upper Egypt. The **Egyptian Front** and the **Independence Current** coalition will not contest the Upper Egypt constituency after the **High Elections Committee** ruled that the parties had failed to submit the correct registration documents.¹² Both the Egyptian Front and the Independence Coalition are associated with Mubarak era officials. The Egyptian Front coalition includes the **Egyptian National Movement** party, whose leader is Mubarak’s last prime minister, **Ahmed Shafiq**. The Egyptian Front coalition also includes **Masr Baladi** (Egypt my Homeland), whose leader is Mubarak-era provisional governor **Qadri Abu Hussein**.

Three of the four coalitions contesting in West Delta also back Sisi. These are the For the Love of Egypt, **Knights of Egypt**, and the Egyptian Front and the Independence Current coalition. However, they had to see off a significant challenge from the Islamist **Al Nour** party. Al Nour is not contesting in Upper Egypt but does have candidates in the West Delta where party chairman **Younis Makhyou**n and other party officials are based in the Alexandria, Beheira and Marsa Matruh Governorates. Despite being its heartland, Al Nour failed to secure a single seat in West Delta, suggesting that political Islam will not have meaningful representation in the new parliament.

Of the 226 individual seats, only four candidates won the 50% of votes required to avoid a run-off on 27-28 October, with results expected on 30 October. Al Nour, the liberal secular **Al-Wafd** party, and the liberal **Free Egyptians** party all have a significant number of candidates in the run-offs. A notable feature is the number of Coptic Christian candidates that made the run-offs. This is in part due to the Free Egyptians, whose founder **Orascom Telecom Media and Technology** chairman **Naguib Onsi Sawiris** is a prominent Coptic Christian.

The second phase covers **Cairo, Qalyoubiya, Dakahliya, Menoufiya, Gharbeia, Kafr el-Sheikh, Sharqiya, Damietta, Port Said, Ismailia, Suez, North and South Sinai** Governorates. The second phase begins on 22 November, with runoffs finishing on 2 December. Final results are expected on 3-4 December, before parliament convenes in January 2016. Sisi on 5 October raised the prospect of the current government remaining in office after the parliamentary elections.¹³ The 2014 constitution gives parliament approval over government appointments including the prime minister and cabinet. There was therefore speculation that Sisi would nominate a new government to succeed the ministers he appointed in September. Sisi, however, said that he would only appoint new ministers if parliament did not approve the current government’s policy agenda.¹⁴ Sisi said he had tasked prime minister **Sherif Ismail** to prepare the policy agenda that the government will present to parliament.¹⁵ Sisi also clarified comments he made in September when he seemingly criticised the 2014 constitution.¹⁶ Sisi denied that he plans to amend the constitution.¹⁷

Tarek Amer becomes Central Bank of Egypt governor

Sisi appointed **Tarek Amer** as **Central Bank of Egypt (CBE)** governor on 21 October after accepting the early resignation of former governor **Hisham Ramez**.¹⁸ The resignation of Ramez came amid

¹¹ Egyptian Independent, 19 Oct 2015.

¹² Al Ahram, 8 Oct 2015.

¹³ Egyptian Independent, 5 Oct 2015.

¹⁴ Egyptian Independent, 5 Oct 2015.

¹⁵ Nile TV, 5 Oct 2015.

¹⁶ Nile TV, 5 Oct 2015.

¹⁷ Nile TV, 5 Oct 2015.

¹⁸ Al Ahram, 21 Oct 2015.

increased criticism that his long-standing reluctance to consider currency devaluation had discouraged investment. Ramez's term of office ended on 26 November and it is unclear why he chose instead to resign a month early. According to the 2014 constitution, neither the president nor parliament can dismiss the CBE governor. July 2015 legislation, however, gives the president the power to do so under vague conditions: the compromise of national security, the harming of Egypt or the government's interests, or if proved "*morally compromised*". While Ramez was not popular with the private sector (see below), he is close to Sisi and his standing in the government improved as he secured financial support from the **Gulf States**.¹⁹

Amer will start a four-year term as governor on 27 November. Amer is the managing director of the **United Kingdom (UK)** subsidiaries of state-owned **National Bank of Egypt (NBE)** and was NBE chairman between 2008 and 2013.²⁰ Amer has a reputation as a reformer from his time at the NBE, when he liquidated its toxic assets and improved its management with the result that it emerged from the global financial crisis as one of the **Middle East's** and **North Africa's** best performing banks.²¹ Prior to joining the NBE, Amer was the CBE deputy governor between 2003 and 2008, when he and then governor **Farouk El-Okdah** led a comprehensive reform of the CBE's monetary policy and restructuring of the wider banking sector which contributed to the CBE's positive reputation in the banking sector.²² Amer was deputy chairman of Egypt-based **Banque Misr (S.A.E.)**, and has held a number of international banking positions with **Bank of America Corp** and **Citigroup Inc**.

Amer faces a number of challenges on assuming office. These notably include adjusting the exchange market, rebuilding reserves, controlling inflation, creating balance in domestic interest rates, helping banks in the employment of their accumulated liquidity, and covering the budget deficit.

Ramez has had a poor relationship with the Egyptian investor and business community including the **Federation of Egyptian Chambers of Commerce**.²³ There was opposition particularly amongst importers to his foreign exchange market management including restrictions on dollar deposits, capping them at \$50,000 a month. Egyptian exports fell 19% in the first nine months of 2015, with the manufacturing sector complaining that currency restrictions made it difficult to open letters of credit to import materials.²⁴ Foreign currency restrictions have raised concerns amongst investors about the repatriation of profits. Ramez had long resisted the devaluation of the Egyptian pound (EGP) even as investors called for a more flexible approach. However, the CBE in October devalued the pound twice in one week. International financial institutions and investors consider the currency overvalued. The CBE on 18 October depreciated the pound against the **United States (US)** dollar at a \$37.5m foreign exchange auction, devaluing it from 7.83 to 7.93 to the dollar.²⁵ On 15 October, the CBE allowed the pound to weaken from 7.73 to 7.83 at a \$39.6m auction, the first devaluation since July.²⁶ The two devaluations combined meant the currency lost 2.5%, and 11% since the beginning of the year.²⁷ Analysts forecast that the pound will decline to 8.2 to the dollar by the end of year and 8.6 to the dollar by the end of June 2016.²⁸ The devaluation follows the CBE's foreign reserves decreasing for the third consecutive month in September. The current value of the pound is the lowest since the government introduced the foreign exchange auction system in December 2012 to regulate devaluation.

¹⁹ Source, business executive, Egypt

²⁰ Al Ahram, 21 Oct 2015.

²¹ Al Ahram, 21 Oct 2015.

²² Daily News Egypt, 21 Oct 2015.

²³ Daily News Egypt, 21 Oct 2015.

²⁴ Daily News Egypt, 21 Oct 2015.

²⁵ MENA, 19 Oct 2015.

²⁶ MENA, 19 Oct 2015.

²⁷ MENA, 19 Oct 2015.

²⁸ Reuters, 19 Oct 2015.

Government confirms introduction of VAT

Sisi on 28 September confirmed his intention to introduce value added tax (VAT).²⁹ The announcement was not a surprise as the main source of increased revenue in the 2015/ 2016 budget is indirect taxation. The **International Monetary Fund (IMF)** said in September that the implementation of VAT, alongside reductions to subsidies, "*would go a long way toward improving the strength of the budget*".³⁰ The finance ministry has prepared to introduce VAT for several years and finance minister **Hany Kadry Dimian** said in August that it would finalise the required legislation "*within weeks*".³¹ The government has not provided information about which sectors VAT will apply in. This has made the issue increasingly political amid concerns it will impact on Egypt's poorer communities.³² The VAT regime, if administered well, will further integrate the informal sector into the formal economy. However, analysts warn of poor implementation due to Egypt's poor infrastructure in technology and record keeping.³³

Implications

The low election turnout means that, even before it convenes, the house of representatives faces a democratic deficit. The dominance of the For the Love of Egypt suggests that Sisi will not face a meaningful check on his power and will pass his legislative agenda with ease. This over-centralisation of power is detrimental to Egypt's longer-term political stability.

Investors will welcome the appointment of Amer as CBE governor. His reformist reputation suggests a more flexible approach to monetary policy than under his predecessor. The appointment increases the possibility of a further devaluation which would increase Egypt's competitiveness and decrease the real value of public debt. Improving exports will, however, depend on **Eurozone** growth. The CBE's council's mandate also ends on 26 November suggesting there may be a total change of leadership at the CBE.

The introduction of VAT will contribute to a reduction in Egypt's budget deficit and facilitate improved relationships with international financial institutions that have long called for it. However, VAT may prove politically contentious as it will increase inflationary pressures.

²⁹ Egyptian Independent, 26 Sept 2015.

³⁰ IMF Statement, 17 Sept 2015.

³¹ Reuters, 16 Sept 2015.

³² Reuters, 16 Sept 2015.

³³ www.alborsanews.com

About Africa Risk Consulting:

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