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President Abdel Fattah Al-Sisi (2014- present) approves electoral law paving the way for parliamentary elections before the end of the year. Sisi approves a revised budget for the 2015 fiscal year that includes a projected budget deficit of 8.9% of GDP compared to 9.9% in an earlier draft. The government gazettes a new electricity law liberalising the sector, ending the Egyptian Electricity Holding Co (EEHC)'s monopoly over the sale and transmission of electricity. The Sinai Province militant group (formerly Ansar Beit al-Maqdis) conducts a car bomb attack on the Italian consulate in Cairo.

Parliamentary election law paves way for polls before end of year

President **Abdel Fattah Al-Sisi** (2014- present) on 9 July approved the amended electoral law,¹ which will allow the government to set a date for the long-delayed parliamentary elections. The most likely scenario is that elections will take place in the third quarter of 2015.² The supreme constitutional court had on 1 March ruled the December 2014 **Electoral Law** unconstitutional.³ The delay undermined **Egypt's** political transition to a nominally democratic government.

The amended law divides Egypt into 205 electoral districts for individual candidates and four districts determined by party lists.⁴ Under the electoral law, the lower parliamentary chamber will consist of 568 elected legislators. The high proportion of individual candidates may encourage a chaotic and ineffective parliament unable to check the power of the president (see *ARC Briefing Egypt April 2015*).

Egypt has been without a parliament since the dissolution of the **Shura Council** upper chamber in July 2013 following a court ruling declaring it unconstitutional. This means Sisi has never had to build a secure parliamentary base.⁵ Sisi came to power with the backing of the military rather than through the political party system, meaning he does not have an established party on which he can rely. Whether he is able to build effective working relations with parties in parliament will be crucial for Egypt's effective governance.⁶

Since entering office, Sisi has had tempestuous relations with Egypt's political parties. The liberal parties of the **National Salvation Front** that backed the ousting of President **Mohamed Morsi** (2012-2013) in July 2013 criticise Sisi for his heavy-handed crackdown on Islamists and secular activists alike, including the new counterterrorism law drafted in July.⁷ In the 2014 presidential election, the **Hizb el Dostour** (Constitution Party) backed Sisi's opponent, **Hamdeen Sabbahi**, while the **Egyptian Social Democratic Party** remained neutral. It is worth noting that none of the parties proved especially adept at campaigning or mobilising voters ahead of the presidential election, highlighting the shortcomings of Egypt's party political system.

¹ Al Ahram, 9 Jul 2015.

² Source, journalist, Cairo

³ MENA, 1 Mar 2015.

⁴ Al Ahram, 9 Jul 2015.

⁵ Source, journalist, Cairo

⁶ Source, journalist, Cairo

⁷ Source, aide to former presidential candidate

There were media reports in mid-2014 that **Mourad Mowafi**, former head of the **General Intelligence Directorate** and Sisi loyalist,⁸ would form a party to provide Sisi with a presence in parliament.⁹ These reports have proved unsubstantiated. Sisi will most likely rely on proxy parties to facilitate his legislative agenda. Before the parliamentary elections were suspended, the **For the Love of Egypt** coalition enjoyed *“the backing of president Sisi and the government”*.¹⁰ The For the Love of Egypt coalition includes the liberal,¹¹ free market,¹² secular¹³ **Free Egyptians Party**. **Orascom Telecom Media and Technology** chairman **Naguib Onsi Sawiris** founded the Free Egyptians Party in 2011 and continues to provide it with financial support.¹⁴ Sawiris has said that the Free Egyptian Party will provide unconditional backing to Sisi and may provide a vehicle for his legislative agenda.¹⁵

Building support in parliament will be especially challenging to Sisi’s style of governance. Sisi is,

*“not a natural consensus builder. In many ways, he is the archetypal military man, not politician.”*¹⁶

The current absence of a parliament has additionally encouraged Sisi to centralise decision making in the president’s office.¹⁷ Sisi is quick to blame his colleagues for his government’s failings. In June, Sisi publicly blamed prime minister **Ibrahim Mahlab** for the failure to implement unspecified government projects.¹⁸ This was most likely a reference to ongoing delays to government’s infrastructure projects and subsidy system reforms. Subsidy reforms are especially unpopular in Egypt, and Sisi may look to force them through before parliament is in place to avoid tortuous negotiations and compromises. The attempt to link Mahlab to subsidy reform may be Sisi positioning him as the *“fall guy”*¹⁹ should moves to decrease subsidies trigger social unrest.²⁰ Should Mahlab fall, his successor may provide the first significant challenge for Sisi’s relationships with the new parliament. Under the 2014 constitution, parliament must approve the president’s choice of prime minister. If parliament rejects the president’s nominee, then the largest party in parliament nominates the prime minister. Neither the prime minister nor members of his cabinet can be serving members of parliament.

Sisi approves revised budget

Sisi approved a revised budget for the 2015 fiscal year on 2 July. Most notably, the revised budget includes a projected budget deficit of 8.9% of GDP compared to 9.9% in an earlier draft.²¹ The budget deficit for the current fiscal year is forecast to reach 10.8%.²² Finance ministry data shows that the budget deficit increased 38% year on year to 261 billion Egyptian pounds (EGP) (\$33.3 billion) during the first 11 months of the 2014/2015 financial year.²³ State revenues increased 3.8% year on year to EGP 350 billion (\$44.6 billion).²⁴ Taxation revenue increased 22% to EGP 260 billion (\$33.1 billion) due to a 14% increase in income tax revenues, 12.7% increase in property tax, 35% increase in sales tax on goods and services, and 23% increase in customs revenues. Government spending increased

⁸ www.mondediplo.com

⁹ www.mondediplo.com

¹⁰ Al Ahram, 25 Feb 2015.

¹¹ Diplomatic Insight, 31 Jul 2014.

¹² Egypt Independent, 8 Mar 2015.

¹³ Diplomatic Insight, 31 Jul 2014.

¹⁴ FT, 11 Mar 2015.

¹⁵ Egyptian Independent, 17 Mar 2015.

¹⁶ Source, business executive, Egypt

¹⁷ Source, journalist, Cairo

¹⁸ MENA, 8 Jun 2015.

¹⁹ Source, business executive, Egypt

²⁰ Source, business executive, Egypt

²¹ Finance ministry statement, 2 Jul 2015.

²² Finance ministry statement, 2 Jul 2015.

²³ MENA Today, 10 Jul 2015.

²⁴ MENA Today, 10 Jul 2015.

15.7% to EGP 601 billion (\$76.7 billion) due to a 15.7% increase in subsidy spending and a 10% increase in the cost of debt servicing.²⁵ By the end of this period, the budget deficit stood at 10.8%.²⁶ This compares to 9.5% for the same period in the previous financial year. The finance ministry is planning to tap the domestic debt markets in July to raise \$10.2 billion to help bridge the projected budget deficit for the current financial year.²⁷

The final budget projects that public expenditure will increase 17% on the previous year to reach EGP 868 billion (\$112.3 billion).²⁸ The final budget projects that state revenues will increase 28% on the previous year to reach EGP 622 billion (\$80.5 billion).²⁹ Of the total revenue, tax will account for EGP 422 billion (\$55.6 billion) while grants will account for EGP 2.2 billion (\$285m) compared to EGP 25.7 billion (\$3.4 billion) in the previous fiscal year.³⁰ Spending on fuel subsidies is projected at EGP 61.7 billion (\$8 billion), with the budget forecasting an estimated price of \$70 per barrel of crude.³¹ Spending on electricity subsidies is projected at EGP 31.1 billion (\$4 billion).³² Spending on debt servicing will increase approximately a quarter to EGP 244 billion (\$31.6 billion).³³ The government claims that this will not impact on government investments, which will increase 25% to EGP 55 billion (\$7.1 billion).³⁴ Social spending is also set to increase 11.8%.³⁵ The final budget targets growth of 5.0% for the year.³⁶

The **Central Bank of Egypt (CBE)** allowed the Egyptian pound to slide against the dollar for the first time since February on 2 July.³⁷ The move will reassure investors who view the currency as overvalued amid concerns about foreign currency shortages. The CBE set a cutoff rate of EGP 7.63 per dollar in its regular dollar sales, compared to the previous rate of EGP 7.53.³⁸ The Egyptian pound fell 1.3% on 2 July to 7.73 to the dollar on the interbank market on the back of the devaluation.³⁹ International financial institutions and investors have both previously called on the government to adopt a more flexible exchange rate regime to address the persistent foreign currency shortage.

New electricity law ends Egyptian Electricity Holding Co's monopoly

The government on 13 June gazetted a new electricity law liberalising the sector. The new law will enable market reform, prioritise purchasing for renewable energy, and improve energy efficiency.⁴⁰ The new law aims to curtail **Egyptian Electricity Holding Co (EEHC)**'s monopoly over the sale and transmission of electricity. It will do this by establishing bilateral contracts between eligible customers (mostly large scale industrial consumers) and generation companies. The electricity will still flow through the **Egypt Electricity Transmission Co (EETC)** transmission grid but customers will negotiate generation rates directly with producers. This will allow third party access to the grid to allow private companies to set up as transmission and distribution operators sitting between consumers and generation companies. It will also unbundle the EETC from the EEHC so it remains a separate state-owned entity responsible for the transmission of electricity and the associated infrastructure.

²⁵ MENA Today, 10 Jul 2015.

²⁶ MENA Today, 10 Jul 2015.

²⁷ Amwal Al Ghad, 10 Jul 2015.

²⁸ Finance ministry statement, 2 Jul 2015.

²⁹ Finance ministry statement, 2 Jul 2015.

³⁰ Finance ministry statement, 2 Jul 2015.

³¹ Finance ministry statement, 2 Jul 2015.

³² Finance ministry statement, 2 Jul 2015.

³³ Finance ministry statement, 2 Jul 2015.

³⁴ Finance ministry statement, 2 Jul 2015.

³⁵ Finance ministry statement, 2 Jul 2015.

³⁶ Finance ministry statement, 2 Jul 2015.

³⁷ Financial Services Monitor Worldwide, 3 Jul 2015.

³⁸ Financial Services Monitor Worldwide, 3 Jul 2015.

³⁹ Financial Services Monitor Worldwide, 3 Jul 2015.

⁴⁰ EgyptERA presentation, 2014

The law provides for the separation of the **Egyptian Electric Utility and Consumer Protection Regulatory Agency (EgyptEra)** from the electricity ministry. The new market will be free to establish a fluctuating price of electricity. The regulated market will still have a central tariff set, but EgyptEra will amend this on the basis of changing economic circumstances that can include the price of electricity on the new market.⁴¹

Over time the government hopes that more and more electricity will be generated through the deregulated market. The government will publish the legislation by-laws within six months, and electricity utilities will then have an additional six months to ensure they meet its provisions.

Islamist militants attack Italian Consulate in Cairo

Islamist militants have broadened their targets in Egypt potentially signaling a change in strategy. The **Sinai Province** militant group (formerly **Ansar Beit al-Maqdis**) claimed responsibility for a car bomb attack on the **Italian** consulate in **Cairo** on 11 July.⁴² The attack was the first during the current campaign of Islamist militancy to target a foreign diplomatic mission. The attack killed one Egyptian national and destroyed consular offices.⁴³ In response, the Italian government suspended all consular services.⁴⁴ The attack suggests that the Sinai Province militant group is beginning to target Sisi's international political and economic allies. Italy is Egypt's largest **European Union (EU)** trading partner and third biggest trading partner globally. In an online posting, the Sinai Province militant group said it viewed diplomatic offices as "*security dens*"⁴⁵ and therefore legitimate targets, and warned of further attacks.⁴⁶ In an indication that the government is losing patience with the failure of its security forces to curb insecurity in Cairo, interior minister **Magdy Abdel-Ghaffar** dismissed major general **Osama Bede**, the official responsible for security in Cairo.⁴⁷

The Sinai Province militant group also continues to attack security and government targets. The group launched coordinated attacks on government buildings, police stations and security checkpoints in **Sheikh Zuweid** and **Rafah** on 1 July. The level of coordination signals the **Sinai Peninsula** group's increasing sophistication. The military claimed it killed 100 militants in the attack, but there is no independently verifiable figure for casualties.⁴⁸ In a separate incident on the same day, security forces killed 13 members of the proscribed **Muslim Brotherhood** during a raid on a flat in Cairo.⁴⁹ Security officials claimed that the Muslim Brotherhood members opened fire first, but this is impossible to verify independently. The Muslim Brotherhood members included former MP **Nasser al-Haffi**, **Gharbiya** chapter leader **Abdel Fattah Mohamed Ibrahim**, and **Qaliybiya** chapter leader **Taher Ismail**.⁵⁰ The government has approved anti-terror legislation in response to the increased violence. The new legislation notably limits the appeals process for those convicted on terrorism offences.⁵¹

Islamist militants have targeted judicial officials in retaliation for the death sentences handed down to senior members of the Muslim Brotherhood. A bomb killed state prosecutor **Hisham Barakat** in Cairo on 29 June.⁵² Barakat's assassination was the first attack targeting a senior official in Cairo since a suicide bomber failed to assassinate the then interior minister **Mohamed Ibrahim** in September 2013.

⁴¹ EgyptERA presentation, 2014

⁴² MENA, 11 Jul 2015.

⁴³ Egyptian Independent, 11 Jul 2015.

⁴⁴ Egyptian Independent, 11 Jul 2015.

⁴⁵ AP, 13 Jul 2015.

⁴⁶ AP, 13 Jul 2015.

⁴⁷ Al Ahram, 16 Jul 2015.

⁴⁸ Egyptian Independent, 2 Jul 2015.

⁴⁹ Egyptian Independent, 2 Jul 2015.

⁵⁰ Egyptian Independent, 2 Jul 2015.

⁵¹ Egyptian Independent, 2 Jul 2015.

⁵² Al Ahram, 29 Jun 2015.

Implications

The parliamentary election will most likely occur before the end of the year. It will be several months after until the legislature is in place. Its first task will be to review and approve all legislation passed under presidential decrees since the dissolution of the last parliament. It is likely to be a weak body unable to pose a meaningful check on the executive or the security agencies. Popular criticism about an over-centralisation of power in Sisi will remain muted, with Egyptians and investors accepting a strong executive as the price of stability following the **Arab Spring**.

The approved budget shows the government's commitment to fiscal consolidation. The government will continue to promote a less expansionary fiscal policy as it seeks to rebuild public finances. Nevertheless, it will continue to prioritise increasing investment, with the recovering economy and the phasing out of subsidies reducing the fiscal deficit.

Increased power capacity is a government priority as dilapidated infrastructure fails to meet increasing demand resulting in intermittent blackouts. While the new law will increase Egypt's attractiveness to investors, the politicisation of the electricity sector will continue to deter the high levels of investment required.

Violence will continue until the government finds a way to accommodate political Islam. Targets will include government and judicial officials, security forces, infrastructure and businesses linked either to the government or to international investors from countries that provide political or economic backing to Sisi.

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