

## AFRICA RISK CONSULTING

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#### Egypt Summary 20 January 2016

*The house of representatives convenes, completing Egypt's political transition. The parliament elects Coalition to Support Egypt candidate Ali Abdel-Al as speaker. The Central Bank of Egypt (CBE) increases interest rates, tightens trade financing regulations and introduces new credit market regulations. The Egyptian Army partially reopens the strategic Al-Salam Bridge that crosses the Suez Canal and connects to the Suez Canal Container Terminal (SCCT).*

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#### Parliament convenes and elects Ali Abdel-Al speaker

The house of representatives convened for the first time, swearing in new members of parliament (MPs) on 10 January.<sup>1</sup> The mainly procedural first session proceeded relatively smoothly, but it remains unlikely that the parliament will successfully vote on all presidential decrees passed in the last three years within the constitutionally mandated 15-day limit. Failure to do so will result in the automatic repeal of the legislation.

The house of representatives elected **Ali Abdel-Al** speaker.<sup>2</sup> Abdel-Al won an **Upper Egypt** seat representing the liberal **For the Love of Egypt** party, which is now part of the **Coalition to Support Egypt (CSE)**.<sup>3</sup> Abdel-Al is a constitutional law professor at **Ain Shams University**.<sup>4</sup> In 2013, interim president **Adly Mansour** (2013- present) appointed Abdel-Al to the committee drafting the 2014 constitution.<sup>5</sup> In 2015, President **Abdel Fattah Al-Sisi** (2014- present) appointed Abdel-Al to the committee drafting the three election laws, and to the legislative reform committee that vetted all key political and economic legislation.<sup>6</sup> Abdel-Al is on record saying the ideal relationship between parliament and the president is "*cooperation rather than confrontation*".<sup>7</sup> A total of 401 MPs out of 585 voted in favour of Abdel-Al.<sup>8</sup> He had the backing of the CSE, as well as the liberal **Al Wafd** and **Free Egyptians** parties.<sup>9</sup> For the Love of Egypt party leader, former military intelligence officer **Sameh Saif El-Yazel**, had said he wants to curb the power of the house of representatives through control of its key offices.<sup>10</sup> For the Love of Egypt is pro- **Sisi**.<sup>11</sup>

Parliament also elected **Mahmoud El-Sharif** (CSE) and **Soliman Wahdan** (Wafd) as deputy speakers.<sup>12</sup> The constitution states that the speakers can only hold office for two consecutive legislative sessions. The new parliament did not elect committee members or chairs.

The procedural session proceeded relatively smoothly. The only dispute came when prominent MP **Mortada Mansour**, the chairman of **Cairo's Zamalek Sports Club**, failed to follow the text of the signing in oath to avoid endorsing the 2011 uprising that ousted president **Hosni Mubarak** (1981 -

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<sup>1</sup> Al Ahram, 10 Jan 2016.

<sup>2</sup> Aswat Masriya, 10 Jan 2016.

<sup>3</sup> Aswat Masriya, 10 Jan 2016.

<sup>4</sup> Al Ahram, 10 Jan 2016.

<sup>5</sup> Al Ahram, 10 Jan 2016.

<sup>6</sup> Aswat Masriya, 10 Jan 2016.

<sup>7</sup> Al Ahram, 10 Jan 2016.

<sup>8</sup> Aswat Masriya, 10 Jan 2016.

<sup>9</sup> Aswat Masriya, 10 Jan 2016.

<sup>10</sup> Aswat Masriya, 10 Jan 2016.

<sup>11</sup> Aswat Masriya, 10 Jan 2016.

<sup>12</sup> Al Ahram, 11 Jan 2016.

2011).<sup>13</sup> Interim speaker **Bahaeddin Abu-Shoqa**, secretary general of the Al Wafd party, threatened to suspend the session until Mansour read the correct text.<sup>14</sup> The new parliament contains members of Mubarak's now dissolved **National Democratic Party** who continue to challenge the legitimacy of the 2011 uprising, while pro-government media increasingly portrays it as a mistake.

Sisi had on 31 December appointed by decree the final 28 members of the house of representatives in line with the constitution. The appointments are from academia, think tanks, private sector and government.<sup>15</sup>

- **Hussein Eissa**, former head of Ain Shams University;
- **Sarei Seyam**, board member of the **International Association for Penal Law** and former deputy head of the appeals court;
- **Anissa Hassouna**, secretary general of the **Egyptian Council for Foreign Affairs** and former diplomat;
- **Rania Elwani**, former athlete;
- **Lamis Gaber**, political writer;
- **Caroline Maher**, head of human resources at **Peugeot Egypt**;
- **Marianne Amir Rafael**, communications ministry consultant;
- **Magda El-Sayed Bakry**, assistant professor at the **Sadat Academy for Management Sciences**;
- **Doaa Youssef Soliman**, law professor at **Cairo University**;
- **Gihad Anis Amer**, director general of foreign relations at youth ministry;
- **Hala Mohamed Abu Ali**, economic and politics professor at Cairo University;
- **Sherin Ibrahim Farrag**, biomedical assistant professor at **MTI University** (Cairo);
- **Rasha Ahmed Ismail**, head of the Spanish department at Cairo University;
- **Galila Osman Henawy**, head of the **State Federation of Radio and Television**;
- **Mohga Ghaleb Hashem**, professor of Qur'anic interpretation at the **Al-Azhar University for Women**;
- **Bassant Ahmed Fahmy**, chairman of financial company;
- **Osama El-Sayed El-Azhary**, Islamic preacher and adviser to Sisi;
- **Khaled Hanafy Gooma**, lawyer and disability rights activist;
- **Abdel-Fattah Serag El-Din**;
- **Karim Darwish**;
- **Ashraf Mohey El-Din El-Arabi**, former head of the **Egyptian Tax Authority**;
- **Gamal El-Sayed Shiha**, surgical professor at Cairo University;
- **Amr Sedki**, owner of tourism company;
- **El-Sayed Abdel-Aal Abdel-Megid**, leader of the **Tagammu Party**;
- **El-Sayed Ahmed Felifel**, African studies professor at Cairo University;
- **Hassan El-Sayed Bassiouni**, judge and member of the legislative reform committee;
- **Mohamed Youssef El-Qaeid**, author;
- **Bahaa El-Din Abo-Shoqqah**, criminal lawyer.

Party dynamics in the house of representatives are yet to become clear. A number of parties have rejected the opportunity to join the CSE, raising questions about whether it will obtain its target of a bloc of 400 members of parliament, and therefore a two-thirds majority in the new house of representatives. The liberal **Nations Future** party under former student activist and **National**

<sup>13</sup> MENA, 10 Jan 2016.

<sup>14</sup> MENA, 10 Jan 2016.

<sup>15</sup> MENA, 31 Dec 2016.

**Student Union** head **Mohammed Badran** has reversed its 20 December decision to withdraw from the pro-Sisi parliamentary CSE.<sup>16</sup> The Nations Future party will hold 51 seats in the new parliament. Its withdrawal would have undermined the CSE. The party agreed to join the CSE after reportedly securing concessions including greater representation in the CSE political office.<sup>17</sup>

Other large parties have also rejected membership of the CSE. These include the liberal private sector-friendly **Free Egyptians** under businessman **Naguib Sawiris**, which will hold 65 seats. Free Egyptians has said it disagrees that any coalition should hold such a large parliamentary majority.<sup>18</sup> The liberal Al Wafd party, with 32 seats and under the leadership of businessman **El-Sayed El-Badaw**, has also rejected the opportunity to join CSE.<sup>19</sup> Al Wafd cited ideological differences with other CSE members.<sup>20</sup> Both the Free Egyptians and Al Wafd are loyal to Sisi. The leader of the CSE is El-Yazel, who led the pro-government liberal For the Love of Egypt coalition in the parliamentary elections.

The likelihood remains that Sisi will continue to dominate the legislative process in the same way that his predecessor Mubarak did.

*"It's always hard to speculate about a future especially in Egypt right now. It's even more of a black box than what it was under the former president, as far as I can tell. What does Sisi need? It's hard to say that precisely. In general it's useful to have some type of interface between you and the public, between you and important constituencies such as the business sector so that it's not just some sort of one man show."*

*"I think the regime this year is being more aggressive than the regime has been in the past. But I wouldn't say it's a different regime than Mubarak's... Sisi has been very aggressive obviously against journalists in particular and of course the **Muslim Brotherhood**. But that's just a change in posture or attitude. I don't see a structural change."*<sup>21</sup>

### **CBE raises interest rates, tightens trade financing and banking regulations**

The **Central Bank of Egypt (CBE)** is increasingly willing to intervene economically under new governor **Tarek Amer** who continues to resist market pressure for a devaluation of the Egyptian pound. The CBE monetary policy committee on 24 December increased its benchmark overnight deposit rate by 50 basis points, having left them unchanged since January 2015.<sup>22</sup> Analysts have warned that the move will increase the cost of lending for the private sector, thereby deterring investment. The CBE cited inflationary pressures for its first interest rate increase since July 2014.<sup>23</sup> The overnight deposit rate now stands at 9.25%, the overnight lending rate at 10.25%, and the discount rate at 9.75%.<sup>24</sup> The CBE said it would *"not hesitate to adjust the key CBE rates to ensure price stability over the medium-term"*.<sup>25</sup> The CBE coordinating council also met on 10 January to discuss a new framework with the government which targets: narrowing the fiscal deficit, maintaining price stability by avoiding double digit inflation, reducing the trade deficit by encouraging local production, and stepping up structural economic reform to raise the potential output.<sup>26</sup>

The CBE has tightened trade financing regulations to support the local manufacturing sector.<sup>27</sup> The CBE hopes that the regulations, announced on 22 December, will help to reduce the trade deficit and

<sup>16</sup> Al Ahram, 23 Dec 2015.

<sup>17</sup> Al Ahram, 23 Dec 2015.

<sup>18</sup> Al Ahram, 23 Dec 2015.

<sup>19</sup> Al Ahram, 3 Dec 2015.

<sup>20</sup> Al Ahram, 23 Dec 2015.

<sup>21</sup> Source, political scientist, Egypt

<sup>22</sup> Egyptian Independent, 24 Dec 2015.

<sup>23</sup> Egyptian Independent, 24 Dec 2015.

<sup>24</sup> Egyptian Independent, 24 Dec 2015.

<sup>25</sup> Egyptian Independent, 24 Dec 2015.

<sup>26</sup> Egyptian Independent, 24 Dec 2015.

<sup>27</sup> Al Ahram, 22 Dec 2015.

curb the ongoing foreign exchange shortage. The CBE has instructed local banks to obtain import documents directly from foreign banks rather than from their clients.<sup>28</sup> The **Egyptian Customs Authority** has said the move will prevent importers from manipulating the receipts.<sup>29</sup> The CBE has also instructed importers to provide 100% cash deposits on letters of credit for importers, rather than the current system of 50%.<sup>30</sup> The new letters of credit regulations exclude the import of manufacturing components. The CBE has denied asking suppliers to extend payment terms due to the foreign currency crunch.<sup>31</sup> The trade ministry had additionally imposed import controls requiring overseas suppliers of 50 designated textile and fast moving consumer goods to register with the state **General Authority for Import/ Export Quality Control** to allow inspections.<sup>32</sup> International media reports had claimed that Egypt is struggling to pay for dollar priced petroleum products and liquefied natural gas imports.<sup>33</sup>

The CBE on 12 January introduced new credit market regulations that reduce the maximum amount banks can lend to a single client from 20% to 15% of tier one capital to mitigate credit risk.<sup>34</sup> Banks have a three-year period in which to comply. The state-owned **National Bank of Egypt** and the **Commercial International Bank** notably both have a high concentration of loans to a few select clients.<sup>35</sup> The CBE regulations also decreased the amount that banks can invest in money market funds to 2.5% of their local currency deposits compared to 5% previously, which will reduce their holdings of high yielding government debt and encourage private sector lending.<sup>36</sup> The new regulations will also limit retail and consumer loans.<sup>37</sup> The CBE now insists that the total instalments of personal or non-mortgage housing loans cannot exceed 35% of a client's income in order to reduce the risk of non-performing loans.<sup>38</sup> According to CBE data, consumer loans now account for 50 – 60% of some banks' total lending portfolio, and 27% of all private sector loans.<sup>39</sup> The National Bank of Egypt, with 18% market share of retail loans, and **Banque du Caire** with 10% market share, stand to benefit from the new regulations which will improve their loan portfolio.

### Al-Salam Bridge partially reopens

The **Egyptian Army** has partially reopened the strategic **Al-Salam Bridge** that crosses the **Suez Canal**.<sup>40</sup> The army reopened the bridge to one-way traffic on a trial basis starting on 12 January. The full reopening is key to government plans to develop the **Suez Canal Corridor Area Project** special economic zone. The government closed the bridge in July 2013 citing security concerns, notably the threat from a car bomb that might close the Suez Canal waterway.<sup>41</sup>

The bridge links the restive **Sinai Peninsula** to the rest of Egypt. The bridge is the main access point to **Port Said's** east terminal, where **APM Terminals** operates the **Suez Canal Container Terminal (SCCT)**.<sup>42</sup> The SCCT is the only Egyptian port with the capacity to simultaneously handle ultra large container vessels (ULCVs).<sup>43</sup> While the Al-Salam Bridge was closed, the only land crossing was

<sup>28</sup> Al Ahram, 22 Dec 2015.

<sup>29</sup> Al Ahram, 22 Dec 2015.

<sup>30</sup> Al Ahram, 22 Dec 2015.

<sup>31</sup> Egypt Independent, 22 Dec 2015.

<sup>32</sup> Egypt Independent, 22 Dec 2015.

<sup>33</sup> Reuters, 23 Dec 2015.

<sup>34</sup> Aswat Masriya, 12 Jan 2016.

<sup>35</sup> Aswat Masriya, 12 Jan 2016.

<sup>36</sup> Aswat Masriya, 12 Jan 2016.

<sup>37</sup> Aswat Masriya, 12 Jan 2016.

<sup>38</sup> Aswat Masriya, 12 Jan 2016.

<sup>39</sup> Aswat Masriya, 12 Jan 2016.

<sup>40</sup> Journal of Commerce, 8 Jan 2016.

<sup>41</sup> www.theloadstar.co.uk.

<sup>42</sup> Journal of Commerce, 8 Jan 2016.

<sup>43</sup> www.theloadstar.co.uk.

hundreds of miles south at **Suez** or via ferries at **Port Said West**.<sup>44</sup> The SCCT had a 23% share of **Maersk Line**'s exports and 10% share of imports in 2012, which fell to 19% and 8% respectively in 2013.<sup>45</sup> The SCCT involves logistics, shipping and industrial zones along the Suez Canal, in **Ismailia**, **Ain Sokhna-Suez** and Port Said.

The military statement announced the re-opening with traffic only in one direction (from Sinai). It did not say whether the bridge will be open to all categories of vehicles. Re-opening the bridge to container trucks is crucial if Egypt is to maximise the benefits from the **Suez Canal Axis** channel that opened in August 2015 (see *ARC Briefing Egypt June 2015*). While the new Suez Canal channel has resulted in greater efficiency for vessels transiting the waterway, it has not yet had a significant impact on container supply chains for Egypt itself.<sup>46</sup>

### Implications

The election of Coalition to Support Egypt MP Abdel-Al as speaker will raise concerns that parliament will not provide an effective check on Sisi. Nevertheless, the increasing sentiment that the 2011 revolution was an error is indicative of a popular desire for political stability. The Egyptian electorate may tolerate a weak parliament if Sisi is able to ensure security and stability. Sisi will remain central to the legislative process. Parliament is likely to vote in favour of the government's policy programme before the end of January, meaning it is unlikely that Sisi will need to appoint a new cabinet.

The CBE is demonstrating a more reform-minded approach under Amer than predecessor **Hisham Ramez**. Investors will, however, remain cautious until the CBE lifts foreign currency restrictions, while the market will continue to put pressure on a currency devaluation. While the import restrictions will improve the balance of payments, improving exports will, however, depend on **Eurozone** growth. The CBE credit market regulations will reduce credit risk in banks' retail portfolios and improve banks' asset quality.

Importers and exporters will welcome the trial reopening of the Al-Salam Bridge, hoping it will lead to a full resumption of traffic. Shipping volume is expected to increase both due to Egypt's improving economic position and increased activity in the shipping and freight transport sectors.

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<sup>44</sup> [www.theloadstar.co.uk](http://www.theloadstar.co.uk)

<sup>45</sup> [www.theloadstar.co.uk](http://www.theloadstar.co.uk)

<sup>46</sup> [www.theloadstar.co.uk](http://www.theloadstar.co.uk)

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