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The Islamic State claims responsibility for sectarian attacks on Christian churches that killed 47 people on Palm Sunday. President Abdel Fattah Al-Sisi (2014-present) responds by imposing a nationwide state of emergency. Core inflation decreases from 33.1% year-on-year in February to 32.25% in March, the first decrease since the currency devaluation in November. However, the International Monetary Fund (IMF) calls on the government to maintain high interest rates. The finance ministry may issue a second Eurobond as soon as the first half of May.

State of emergency follows Palm Sunday terror attacks

President **Abdel Fattah Al-Sisi** (2014-present) announced a three-month nationwide state of emergency on 9 April following two sectarian bombings.¹ Continued Islamist militant attacks will undermine the authority of the government, but not result in its collapse. The **Islamic State** militant group claimed responsibility for the attacks that killed at least 47 people in **Alexandria** and **Tanta**.² The attacks targeted Coptic Christians during Palm Sunday ceremonies, the first day of Easter Week, which companies and governments often treat as a holiday for Christian employees.³ In Tanta, a suspected suicide bomber killed 29 people at **St George's Coptic Church**.⁴ In Alexandria, security forces stopped a suicide bomber from entering the **St Mark's Coptic Church** compound but he was able to detonate his explosives, killing 18 people.⁵ Pope **Tawadros II**, head of the **Coptic Orthodox Church** in **Egypt**, was due to lead the mass ceremony at St Mark's Coptic Church.⁶ He was unhurt in the explosion.⁷

The attack was the most significant targeting Coptic Christians since the 11 December bombing of the **St Peter and St Paul Church**, part of the **St Mark's Cathedral** complex, the seat of the Coptic Orthodox Church in Egypt and of pope Tawadros II.⁸

*"What we are seeing here is Islamic State shifting focus toward Egypt as they are losing ground in their own territories in [Iraq and Syria]. Egypt is ripe for extremism with its combination of repression and historic discrimination against Christians. Following the December attack on the centre of Coptic papacy in Cairo, IS stated they would continue attacks on Christians and they have lived up to that promise."*⁹

The Coptic Christians, who make up approximately 10% of the Egyptian population, were early backers of the Sisi administration. They have since criticised his administration for failing to address their relative political and economic marginalisation, and for restricting the construction of churches. In August, the **House of Representatives** (parliament) passed legislation allowing Copts to more easily build and restore churches, as Sisi looked to restore his support within the community. This has done little to address scepticism within the Christian community.

¹ www.madamasr.com

² Al Ahram, 10 Apr 2017.

³ Al Ahram, 10 Apr 2017.

⁴ Al Ahram, 10 Apr 2017.

⁵ Al Ahram, 10 Apr 2017.

⁶ Al Ahram, 10 Apr 2017.

⁷ Al Ahram, 10 Apr 2017.

⁸ Al Mal, 12 Dec 2016.

⁹ Source, Christian activist, Cairo

“Sisi and the media in Egypt are characterising this attack as an attempt to foster sectarian tensions to divide Egyptians. But Egyptians are already divided. Tensions have existed and worsened over decades, because there is deep prejudice against Christians in all sections of Egyptian society. Sisi has spoken about protecting us, but it is talk. If there’s a commitment to protect Christians then put proper security outside churches, punish anyone who is violent, ensure integration into all institutions; military, police, academia, parliament- use quotas if need be. Educate the next generation with tolerance and respect to all religions. Eliminate sheiks and imams who openly preach hate against Christians and Jews. There is a lot that could be done.”¹⁰

The **National Defense Council** convened after the attacks, with Sisi subsequently declaring the state of emergency and the formation of the **Supreme Anti-Terrorism Council (SATC)**.¹¹ Former president **Hosni Mubarak** (1981-2011) maintained a highly restrictive state of emergency almost continuously during his time in office. This is the first nationwide state of emergency since the adoption of the 2014 constitution which lessened its restrictions. It allows **State Security Emergency Courts** to try civilians, with no process of appeal against their rulings.¹² The president has the power to amend, annul, suspend or order a retrial in any case.¹³ The president can also intercept all forms of communication, censor publications, impose a curfew, order the closure of commercial sites, or the seizure of private property.¹⁴ Since a 2013 court ruling, the state of emergency no longer allows for the government to arbitrarily arrest and detain individuals suspected of endangering national security.¹⁵ The state of emergency can only be extended once.

Critics of the government place the state of emergency in a wider pattern of increasing authoritarianism under Sisi:

*“What is more worrying [than the Islamic State attacks themselves] is the nature of the state of emergency. We already have a rubber stamp parliament, and now with state security able to try and confine anyone indefinitely, this is a very worrying development. Egypt already has huge issues with due process and the rights of detainees. Forced disappearances and extra judicial killings are a reality. Such a move can only make that situation worse. It has already begun; newspapers critical of government failure to protect Christians have been confiscated. The chairman of [state-owned newspaper] **Al-Ahram** has been pushed out, unsurprisingly as the paper has in a rare occurrence been critical of the government recently. It’s scary times for what little press independence remains alive in the county.”¹⁶*

Parliament approved the state of emergency on 11 April. The largest bloc in parliament, the pro-government **Support Egypt Coalition**, has declared its support for the newly introduced security measures.¹⁷ The SATC will have the “*necessary powers and jurisdiction*”¹⁸ to curb terrorism, including greater control over the media and religious discourse. The SATC will also consider new powers for security forces, as well as the fast-tracking of terror cases through the court system. The wider deployment of security forces in the **Sinai Peninsula** is likely to exacerbate tensions, with local communities accusing the military of wanton destruction of land and property.¹⁹ The deployment so far has done little to stop the Islamic State expanding its area of operations.²⁰

¹⁰ Source, Christian activist, Cairo

¹¹ www.madamasr.com

¹² www.madamasr.com

¹³ www.madamasr.com

¹⁴ www.madamasr.com

¹⁵ www.madamasr.com

¹⁶ Source, policy analyst, Cairo

¹⁷ Enterprise, 10 Apr 2017.

¹⁸ www.madamasr.com

¹⁹ Source, analyst, Egypt

²⁰ Source, analyst, Egypt

The **Egyptian Army** has deployed special units to protect churches and key infrastructure.²¹ However, this has so far proved insufficient to stop attempted attacks on Christian sites. The Islamic State militant group also claimed responsibility for an attack near the **St Catherine's Monastery in South Sinai** on 18 April.²² Gunmen on a motorcycle attacked a security checkpoint near the monastery, killing a member of the security forces and injuring three others.²³ Security forces reportedly injured a number of militants, with the remainder subsequently escaping.²⁴ Security forces have protected St Catherine's Monastery since before the recent state of emergency.²⁵ The attack did not harm the monks or priests in the monastery.²⁶

*"It seems like this is a turning point where Islamic State affiliates are moving away from attacking the police and military, mostly in **North Sinai** and are now brazenly attacking Christians as they promised in large cities, and at their places of worship. Several days ago, a monastery in South Sinai was attacked, which is a big shift as the South has been protected until now by local Bedouins who are very much anti-Islamic State."*²⁷

The attack also did not harm tourists who often visit St Catherine's Monastery as part of tours of the Sinai Peninsula.²⁸ The monastery is near key tourism sites including the **Red Sea** resort of **Sharm El-Sheikh**. Security personnel at these tourist sites are reportedly on high alert for further attacks.²⁹

The failure of the government to curb Islamic militancy has undermined its authority and the economic reforms it has delivered.

*"It should also be worrying to those who invest in a 'resurgent Egypt' as the economists are calling it. Autocracy, and a brutal one at that, is being wrapped up as progressive and reformist, but it would be foolish to think the status quo here is sustainable long term. The government, made up of mostly former security apparatus figures and low on technocrats, is a falling sand castle, at the mercy of an ever-rising tide. Nobody knows how long it can last."*³⁰

The Palm Sunday bombings highlight the threat that the Islamic State poses in Egypt, and the inadequacy of the government's security response. There is no evidence that the group retains the capacity to conduct a broader insurgency. A heavy-handed and misguided response from the government could encourage broader Islamist discontent in urban areas. However, the strength of Egypt's security forces will mean Islamist groups are unlikely to result in the fall of the government.

Inflation stabilises, but IMF says more must be done

The **Central Bank of Egypt (CBE)** published data on 9 April showing that core inflation decreased from 33.1% year-on-year in February to 32.25% in March.³¹ This is the first decrease since the currency devaluation in November, suggesting the tapering off of the initial price shock. Consumer price inflation stood at 2.0% month-on-month in March, compared to 2.63% in February and 4.07% in January.³² Year-on-year consumer price inflation reached 30.9% in March compared to 30.2% in February, its slowest gain since the currency devaluation. Following the price shock of the devaluation, analysts say that changes in inflation will again be determined by government economic

²¹ Interior ministry statement, 10 Apr 2017.

²² Al Ahram, 18 Apr 2017.

²³ Al Ahram, 18 Apr 2017.

²⁴ Al Ahram, 18 Apr 2017.

²⁵ Al Ahram, 18 Apr 2017.

²⁶ Al Ahram, 18 Apr 2017.

²⁷ Source, journalist, Cairo

²⁸ Al Ahram, 18 Apr 2017.

²⁹ Reuters, 18 Apr 2017.

³⁰ Source, policy analyst, Cairo

³¹ www.cbe.org.eg

³² www.cbe.org.eg

reforms, exchange rate fluctuations, or seasonal factors, such as Ramadan (26 May to 24 June), impacting consumer demand.³³

The CBE data follows a meeting between Sisi and **International Monetary Fund (IMF)** managing director **Christine Lagarde**. According to an IMF statement, it is working with the government and the CBE to “bring inflation under control and supports the steps the Egyptian authorities are taking to protect its poorest and most vulnerable citizens.”³⁴ The IMF subsequently called on the government to maintain high interest rates – 14.75% since November 2016 – during the IMF and **World Bank** spring meetings that started on 21 April.³⁵ The IMF is aware that the successful implementation of its economic reform programme depends upon the government carefully managing the impact of inflation on ordinary Egyptian households. IMF **Middle East** and **Central Asia** director **Jihad Azour** said on 21 April that interest rates are “the right instrument”³⁶ to curb Egypt’s high inflation rate. However, citing the moderating impact of the price shock, Egyptian finance minister **Amr El Garhy** seemed to push back against the IMF prescription, saying,

“While headline inflation year-on-year is high, the pace of price increases month-on-month is moderating. We do not believe that [an interest rate hike] would reduce inflation in Egypt.”³⁷

An IMF delegation is expected to visit Egypt from 28 April to 11 May to review implementation of the economic reform programme and discuss the release of the next tranche of the \$12 billion extended fund facility (EFF).

The IMF revised downwards Egypt’s projected gross domestic product (GDP) growth from 4.0% to 3.5% on 18 April.³⁸ The IMF said the government’s economic reforms, especially the currency flotation, are responsible for this revision.³⁹ The reforms mean the medium-term picture is more positive, with growth reaching 4.5% in 2018.⁴⁰ The IMF included the growth data in its **World Economic Outlook April 2017** report.⁴¹ The IMF also projected that consumer price inflation will average 22% in 2017, before decreasing to 16.9% in 2018.⁴² Unemployment will decrease from 12.6% this year to 11.8% in 2018.⁴³ The IMF figures compare to those contained in the World Bank’s **Egypt Economic Outlook April 2017** report.⁴⁴ The World Bank projects growth of 3.9% this year, increasing to 4.6% in 2018.⁴⁵ The World Bank projects that consumer price inflation will average 20.1% in 2017 and 14.2% in 2018.⁴⁶

Also at the World Bank and IMF’s joint spring meetings, investment and international cooperation minister **Sahar Nasr** called for further investment from international donors and investors.⁴⁷ Nasr and housing minister **Moustafa Madbouly** discussed the release of the third tranche of the \$3 billion World Bank loan, a proposed \$500m World Bank investment in development projects in **Upper Egypt**, and a proposed \$150m loan to support labour-intensive sectors.⁴⁸ Nasr reportedly

³³ Bloomberg, 10 Apr 2017.

³⁴ www.imf.org

³⁵ Reuters, 20 Apr 2017.

³⁶ Bloomberg, 21 Apr 2017.

³⁷ Bloomberg, 21 Apr 2017.

³⁸ IMF World Economic Outlook, 18 Apr 2017.

³⁹ IMF World Economic Outlook, 18 Apr 2017.

⁴⁰ IMF World Economic Outlook, 18 Apr 2017.

⁴¹ IMF World Economic Outlook, 18 Apr 2017.

⁴² IMF World Economic Outlook, 18 Apr 2017.

⁴³ IMF World Economic Outlook, 18 Apr 2017.

⁴⁴ World Bank Egypt Economic Outlook April 2017

⁴⁵ World Bank Egypt Economic Outlook April 2017

⁴⁶ World Bank Egypt Economic Outlook April 2017

⁴⁷ Government statement, 24 Apr 2017.

⁴⁸ Government statement, 24 Apr 2017.

elicited the following investment announcements from **United States (US)**-based corporations both during at an **American Chambers of Commerce** conference and in individual meetings:⁴⁹

- **Apache Corp** is to invest in eight to 19 platforms and 90 to 100 wells in Egypt, and conduct a 3D seismic imaging of potential fields;
- **International Business Machines Corp (IBM)** is to use Egypt as a software hub to service the **Middle East and North Africa (MENA)** market;
- **Gilead Sciences Inc** will release the fourth generation of its hepatitis C treatments;
- **General Electric Co** is reportedly interested in expanding its renewable energy projects in Egypt, and providing 200-300 railway cars.

Inflation appears to have stabilised. Increased demand for consumer goods during Ramadan is likely to result in an inflationary spike, but it should ease thereafter. The continued engagement of the IMF and World Bank will ease pressure on international reserves and therefore facilitate imports, again reducing inflationary pressures. The foreign direct investment (FDI) commitments from US-based companies show that FDI investors, who have a longer perspective when it comes to risk, remain positive about Egypt's outlook, mainly due to the weaker pound.

Government considers second Eurobond launch

Local media speculated on 23 April that the finance ministry may issue a second **Eurobond** as soon as the first half of May.⁵⁰ The government is looking to take advantage of lower interest rates on foreign currency borrowing to avoid high domestic interest rates. The government hopes to replicate its successful oversubscribed \$4 billion multi-tier Eurobond issuance in January. The speculation about the Eurobond launch comes after prime minister **Sherif Ismail** raised the ceiling on the maximum value of dollar-denominated bonds it can issue on international markets from \$5 billion to \$7 billion on 20 April.⁵¹ Prior to the announcement about the revised ceiling, deputy finance minister **Mohamed Maiit** on 12 April said the government is planning a bond issuance of \$3-4 billion before the end of the year.⁵² According to Maiit, approximately \$1 billion of that issuance will be in the form of sukuk, Shariah-compliant bonds.⁵³ On the same day as the revised ceiling, the cabinet approved revisions to the **Capital Market Law**, which – as well as introducing tighter sanctions for violations of its regulatory provisions, and revising rules regarding the trading of futures contracts – now provides a framework for the issuance of sukuk.⁵⁴

Local media has subsequently speculated that the government may look to accelerate Maiit's timeline to curb the projected increase in the budget deficit in the next fiscal year.⁵⁵ The government is reportedly in discussions with investment banks on the timing of the transaction and the current state of the international debt markets.⁵⁶ Should investor interest be sufficient, the government is reportedly considering increasing the offer size to \$3 billion.⁵⁷

According to CBE data, Egypt's external debt reached \$67.3 billion at the end of 2016 compared to \$47.8 billion at the end of 2015.⁵⁸ Of the new debt, \$4 billion came from international financial institutions, while borrowing from **Gulf Cooperation Council (GCC)** member states rose from \$14.9

⁴⁹ Enterprise, 24 Apr 2017.

⁵⁰ Al Borsa, 24 Apr 2017.

⁵¹ Cabinet statement, 20 Apr 2017.

⁵² Al Borsa, 13 Apr 2017.

⁵³ Al Borsa, 13 Apr 2017.

⁵⁴ Al Borsa, 13 Apr 2017.

⁵⁵ Al Borsa, 24 Apr 2017.

⁵⁶ Al Borsa, 24 Apr 2017.

⁵⁷ Al Borsa, 24 Apr 2017.

⁵⁸ www.cbe.org.eg

billion to \$18.2 billion.⁵⁹ The ratio of external debt to GDP reached 37.6% compared to 13.6% at the end of 2015.⁶⁰

The planned Eurobond issue is again indicative of investors having a positive long-term view of Egypt. Much, however, will depend on the government's continued political will and capacity to deliver on sensitive economic restructuring.

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