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Egypt joins a Saudi Arabia-led political and economic boycott of Qatar. Prime minister Sherif Ismail says the boycott will not impact gas imports, but that it is too early to determine the impact on Qatari investments in Egypt. The government publishes draft executive regulations for the Investment Guarantees and Incentives Act. Central Bank of Egypt (CBE) data suggests government efforts to improve the investor environment are delivering economic results. The government increases both energy and electricity prices as it looks to reduce its subsidy bill and usher in more efficient social welfare spending.

Egypt joins political and economic boycott of Qatar

In a move that will facilitate **Egypt's** political and economic rapprochement with **Saudi Arabia**, Egypt broke diplomatic ties with **Qatar** on 5 June.¹ The governments of Egypt, Saudi Arabia, the **United Arab Emirates (UAE)**, and **Bahrain** simultaneously recalled their diplomats from Qatar.² The four countries also suspended all travel to Qatar and gave Qatari diplomats 48 hours to leave.³ Egypt confirmed that its ports and airports are closed to Qatari vessels and aeroplanes.⁴ Egypt and Saudi Arabia cited Qatar's continued backing for terrorist organisations and interference in their domestic affairs for severing ties.⁵ Egypt specifically cited alleged Qatari support for the **Muslim Brotherhood**, while Saudi Arabia accused Qatar of backing regional rival **Iran**.⁶ The UAE and Bahrain accused Qatar of violating international laws without providing further details.⁷

Diplomatic tensions have increased in the **Gulf** since Qatar state-owned **Qatar News Agency** published a story that quoted Qatar emir **Sheikh Tamim bin Hamad Al Thani** (2013-present) as criticising **United States (US)** President **Donald Trump's** (2017-present) recent visit to Saudi Arabia, condemning renewed US and Saudi pressure on Iran, and praising diplomatic relations with **Israel**.⁸ The Qatari government claimed that the story was fake, and that hackers had uploaded it to the **Qatar News Agency** website.⁹ The Egyptian government responded by blocking Qatari websites, and cracking down on domestic websites that it considers sympathetic to Qatar.¹⁰

“Trouble has been mounting with Qatar for some time. It is known that they have financed different groups and have played a murky role in a number of kidnappings in the region, as well as their hosting of Islamists at home, some of whom are genuine

¹ Aswat Masriya, 5 Jun 2017.

² Aswat Masriya, 5 Jun 2017.

³ Aswat Masriya, 5 Jun 2017.

⁴ Aswat Masriya, 5 Jun 2017.

⁵ Aswat Masriya, 5 Jun 2017.

⁶ Aswat Masriya, 5 Jun 2017.

⁷ Aswat Masriya, 5 Jun 2017.

⁸ Times of Israel, 5 Jun 2017.

⁹ Times of Israel, 5 Jun 2017.

¹⁰ Times of Israel, 5 Jun 2017.

*terrorists. And then there is [Qatari state-owned media house] **Al Jazeera**, which has wildly fluctuated in its coverage since the Arab Spring, particularly in its Arabic coverage, and is deeply mistrusted by governments and citizens alike.”¹¹*

The Qatari foreign ministry issued a statement on the day of the boycott calling the allegations baseless, and pledging to protect its citizens and economy from the possible negative impact of diplomatic isolation.¹²

For Egypt, the suspended diplomatic relations have seen several developments:

- President **Abdel Fattah Al-Sisi** (2014-present) told the **French** defence minister **Sylvie Goulard** that he backed sanctions against states “*proven to support terrorism*”;¹³
- Prime minister **Sherif Ismail** assured the public that suspended diplomatic relations will not impact gas imports, but that it is too early to determine the impact on Qatari investments in Egypt;¹⁴
- Some Egyptian banks suspended transactions with Qatari banks, but continue to approve lines of credit required for imports.¹⁵ The **Central Bank of Egypt (CBE)** issued a statement that **QNB Alahi**, a subsidiary of Qatar-based **Qatar National Bank QPSC**, is an Egyptian joint stock company and thus unaffected by any restrictions on Qatari commercial activities;¹⁶
- Prominent Egyptian businessman **Naguib Sawiris** called on Egyptian companies to withdraw their investments from Qatar;¹⁷
- The **British-Egyptian Chamber of Commerce** warned the suspension of flights to Qatar will disrupt travel from **Asia** including **Japan** as these stop over on their way to Egypt.¹⁸

Egypt is currently chair of the **United Nations Security Council (UNSC)** anti-terrorism committee and could label Qatar as a state that supports and finances global terrorism. This would trigger sanctions including increased regulatory scrutiny on all financial transactions involving Qatar.

A ten-day deadline for Qatar to meet the four countries’ demands in order to lift the boycott passed on 3 July. The demands include the closure of Al Jazeera and the ending of support to regional Islamist groups. Qatar has rejected the demands as a violation of its sovereignty.

*“Throwing insults and demanding the closure of Al Jazeera will not get anyone anywhere. ... It is too symbolically important to give up. It is also somewhat galling to argue that Qatar is the sole financier of terrorism, when the Saudi regime has been financing and fermenting extremism for decades. There needs to be a pragmatic mediator involved, maybe **Morocco** along with **Kuwait** could play this role jointly, because that calming force is clearly not the Trump administration, which seems to have no common agreement on how to solve the issues at hand.”¹⁹*

¹¹ Source, former diplomat, Cairo

¹² www.mofa.gov.qa

¹³ Presidential statement, 5 Jun 2017.

¹⁴ Al Masry Al Youm, 6 Jun 2017.

¹⁵ Reuters, 6 Jun 2017.

¹⁶ Al Borsa, 6 Jun 2017.

¹⁷ Enterprise, 6 Jun 2017.

¹⁸ Al Shorouk, 7 Jun 2017.

¹⁹ Source, journalist, Cairo

Egyptian foreign minister **Sameh Shoukry** and the foreign ministers of the other three countries leading the boycott criticised the Qatari response to the demands and its growing security ties to Iran and **Turkey**, on 5 July.²⁰ Qatar's continued diplomatic backing has strengthened its reluctance to accede to the boycotters' demands.

*"Qatar sees itself as a player too significant to be bullied, with its gas reserves and vast international investments, and to an extent that may be true. For now, they have the money to make sure the embargo is not painful. What will happen in the future will depend on a number of factors: the resolve of the **Gulf Cooperation Council**, the willingness of Qatar to make changes, the role that the US sees fit to take, and the desire of Turkey and Iran to assert their support. However, beyond maintaining independent foreign policy, we don't actually know what the Qataris want ... and how that could factor into the negotiations taking place."*²¹

Tensions remain high across the region:

*"The atmosphere is tense and confrontational with the Saudis leading another fight in the wrong direction. I want to think we have learnt from the Gulf War, and that with **Syria** and **Iraq** in dire straits, nobody wants another conflict in the region. When you look at the pettiness of this spat, you realise how fractured the region is: by alliances, by history, beset by small interpersonal conflicts."*²²

A speedy resolution to the boycott is unlikely. Turkish and Iranian backing, and neutrality of the US, has reduced the pressure on Qatar to accede to the demands of its regional neighbours. This has increased the economic risks that Egypt faces during an extended stand-off. Politically, backing Saudi Arabia rather than regional rival Iran increases the risk of Islamist terrorist attacks in Egypt. Economically, Qatar is an important source of remittances and – despite not being as extensive as Saudi Arabia or the UAE – an important source of foreign investment to Egypt.

Government publishes Investment Act executive regulations

The government published draft executive regulations for the **Investment Guarantees and Incentives Act** on 29 June.²³ The executive regulations provide for the practical implementation of the Investment Act. According to the executive regulations:

- Projects eligible for incentives must begin production or break ground within three years of the executive regulations taking effect;
- 50% of manufacturing inputs and raw materials must be sourced locally to qualify;
- 20% of total output has to be exported for an investment to qualify;
- Foreign investors are guaranteed the right and ability to repatriate profits and earnings;
- Foreign labour must not exceed 10% of the total workforce, except under exceptional circumstances;
- The **General Authority for Investment and Free Zones (GAFI)** will only allow the establishment of new private free zones if it determines that existing state-owned zones will not be able to serve the same purpose. Companies in private free zones must have capital of more than \$10m, employ at least 500 workers and export 80% of

²⁰ Financial Times, 5 Jul 2017.

²¹ Source, former diplomat, Cairo

²² Source, regional commentator, Abu Dhabi

²³ www.almasryalyoum.com

their total output. The GAFI will proscribe energy-intensive activities including fuel and fertiliser production in private free zones.²⁴

Investment minister **Sahar Nasr** said on 1 July the executive regulations will help Egypt attract \$8.7 billion in foreign direct investment in 2017.²⁵

The government and the CBE continue to work to improve the investor environment. The CBE removed controls limiting international currency transfers on 15 June.²⁶ The CBE lifted the restriction as foreign currency shortages continue to ease. The CBE introduced a cap in January limiting individuals to \$100,000 in transfers in a single year.²⁷ A previous restriction had limited individuals to a single \$100,000 transfer regardless of the time period.²⁸ The CBE argued that the move will facilitate transactions and meet client demand.²⁹ CBE governor **Tarek Amer** had pledged in May to lift the cap, and said the move marked the end of the foreign exchange crisis in Egypt.³⁰ Dollar inflows have improved since the \$12 billion **International Monetary Fund (IMF)** extended fund facility (EFF) and related currency devaluation in November which contributed to increased international appetite for Egyptian debt.³¹ The **Egyptian Exchange (EGX)** and the **Egyptian Financial Supervisory Authority** have said they will amend regulations on global depository receipts trading in line with the lifting of the CBE cap.³² According to EGX chairman **Mohamed Omran**, this may involve lifting 2012 and 2015 regulations that the proceeds from the sale of global depository receipts can only be withdrawn from banks in the currency with which the original shares were purchased.³³

The CBE published trade and investment data on 15 June suggesting moves to improve the investor environment are delivering results.³⁴ The CBE data reflects improved investor sentiment on the back of the IMF EFF and related economic and business reforms, and bodes well for the feasibility of the budget's growth and revenue targets. According to the CBE data, Egypt recorded an \$11 billion balance of payments surplus in the first three quarters of the 2016/2017 financial year.³⁵ Of the total, \$9 billion arrived after the November currency devaluation.³⁶ The capital and financial account recorded \$24.6 billion during the period under review, compared to \$14.6 billion during the equivalent period in the previous financial year.³⁷ Total foreign direct investment (FDI) inflows reached \$10.8 billion, a 12.1% increase on the first three quarters of 2016/2017.³⁸ This was mainly due to oil sector investments, which increased from \$1.5 billion in 2016/2017 to \$3.3 billion.³⁹ Portfolio investments reached \$7.8 billion, compared to \$1.5 billion during the corresponding period

²⁴ www.almazryalyoum.com

²⁵ Al Mal, 1 Jul 2017.

²⁶ Financial Times, 15 Jun 2017.

²⁷ Financial Times, 15 Jun 2017.

²⁸ Financial Times, 15 Jun 2017.

²⁹ Enterprise, 15 Jun 2017.

³⁰ Al Masry Al Youm, 15 Jun 2017.

³¹ Financial Times, 15 Jun 2017.

³² Al Masry Al Youm, 15 Jun 2017.

³³ Al Masry Al Youm, 15 Jun 2017.

³⁴ CBE press release, 15 Jun 2017.

³⁵ CBE press release, 15 Jun 2017.

³⁶ CBE press release, 15 Jun 2017.

³⁷ CBE press release, 15 Jun 2017.

³⁸ CBE press release, 15 Jun 2017.

³⁹ CBE press release, 15 Jun 2017.

in the previous fiscal year due to increased international investment in treasury bonds.⁴⁰ Merchandise exports increased 19.3% year-on-year during the first three quarters of the 2016/2017 resulting in the trade deficit decreasing 9.4% year-on-year to \$27 billion.⁴¹ This was largely due to the increased competitive advantage of Egyptian exports following the exchange rate liberalisation.⁴² However, there was some less positive data: Tourism receipts decreased 25.9% year-on-year, while **Suez Canal** receipts decreased 4.2% year-on-year.⁴³

Despite years of political and economic instability, the size of the Egyptian market meant it remained attractive to investors taking a longer-term perspective. Now, currency and regulatory environment are unlocking foreign investment.

Government increases energy and electricity prices

The government has increased both energy and electricity prices as it looks to reduce its subsidy bill. The government increased energy prices on 29 June.⁴⁴ The new fuel prices are:

Fuel type	% increase	New price
95 octane petrol	5.6 %	6.60 Egyptian pounds (EGP) (\$0.365) per litre
92 octane petrol	53%	EGP 5.00 (\$0.276) per litre
80 octane petrol	55%	EGP 3.65 (\$0.202) per litre
Diesel fuel	55%	EGP 3.65 (\$0.202) per litre
Kerosene	55%	EGP 3.65 (\$0.202) per litre
Cooking gas cylinders	100%	EGP 30 (\$1.66)
Commercial gas cylinders	100%	EGP 60 (\$3.32)
Cement factories fuel oil	40%	EGP 3,500 (\$194) per tonne

The **Cabinet Information and Decision Support Center (IDSC)** published a report confirming that the price of natural gas to industry will not change.⁴⁵ The IDSC also said that the changes will not impact the price of public transport fares.⁴⁶ The government, however, acknowledged that the move will increase inflationary pressures, with analysts expecting inflation to reach 35-36% during the next couple of months on the back of the increase.⁴⁷ The **Federation of Egyptian Industries (FEI)** has said it does not expect the price increase to have a significant impact on costs for the majority of industrial sectors and acknowledged it as necessary for economic reform.⁴⁸ The **Federation of Egyptian Chambers of Commerce (FECC)** warned, however, that the cost of land transport will increase by 25%.⁴⁹ According to the FECC, this will result in the cost of food production increasing 3% and automobile manufacturing 5 to 7%.⁵⁰ Supply minister **Ali El Moselhy** said on 1 July that the

⁴⁰ CBE press release, 15 Jun 2017.

⁴¹ CBE press release, 15 Jun 2017.

⁴² CBE press release, 15 Jun 2017.

⁴³ CBE press release, 15 Jun 2017.

⁴⁴ ENC, 29 Jun 2017.

⁴⁵ Al Shorouk, 29 Jun 2017.

⁴⁶ Al Shorouk, 29 Jun 2017.

⁴⁷ Al Shorouk, 29 Jun 2017.

⁴⁸ Al Mal, 29 Jun 2017.

⁴⁹ Al Mal, 29 Jun 2017.

⁵⁰ Al Mal, 29 Jun 2017.

government will issue new directives with “*more severe punishments*”⁵¹ for companies involved in price gouging.

The electricity ministry subsequently increased both residential and commercial prices on 6 July.⁵² For residential users, the pricing changes are as follows:⁵³

Consumption (KW)	New price per KW (EGP)	Old price per KW (EGP)
0-50	0.13 (\$ 0.0073)	0.11 (\$0.0061)
51-100	0.22 (\$0.0122)	0.19 (\$0.0106)
100-200	0.22 (\$0.0122)	0.19 (\$0.0106)
200-350	0.55 (\$0.0307)	0.45 (\$0.0251)
350-650	0.75 (\$0.0419)	0.55 (\$0.0307)
650-1000	1.25 (\$0.0698)	0.95 (\$0.0531)
1000 +	1.35 (\$0.0754)	0.95 (\$0.0531)

Prices also increased for industrial and commercial users.⁵⁴ Industrial users will pay a maximum of EGP 0.654 (\$0.0365) per KW during peak hours and EGP 0.982 (\$0.0549) off-peak.⁵⁵ Monthly consumer tariffs are now:⁵⁶

Consumption (KW)	New price per KW (EGP)	Old price per KW (EGP)
0-100	0.45 (\$0.0251)	0.35 (\$0.0196)
100-250	0.84 (\$0.0469)	0.69 (\$0.0386)
250-600	0.96 (\$0.0536)	0.69 (\$0.0386)
600-1000	1.35 (\$0.0754)	0.96 (\$0.0536)
1000+	1.40 (\$0.0754)	0.96 (\$0.0782)

The electricity ministry confirmed that the government now plans to subsidise the power sector until 2022, rather than remove all subsidies by 2019 due to the impact of the November 2016 currency floatation.⁵⁷

The price increases are part of a broader government strategy to replace universal subsidies with more efficient social welfare spending specifically targeting poorer households. While these measures will reduce the budget deficit, they will increase inflationary pressures and as a result increase pressure on households and the cost of business inputs.

⁵¹ Al Shorouk, 1 Jul 2017.

⁵² Al Mal, 6 Jul 2017.

⁵³ Al Mal, 6 Jul 2017.

⁵⁴ Al Mal, 6 Jul 2017.

⁵⁵ Al Mal, 6 Jul 2017.

⁵⁶ Al Mal, 6 Jul 2017.

⁵⁷ Al Mal, 6 Jul 2017.

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