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The International Monetary Fund (IMF) releases the second \$1.25 billion tranche of a \$12 billion extended fund facility (EFF). The IMF praises recent cuts to fuel and electricity subsidies, and the recent Central Bank of Egypt (CBE) interest rate hike. The government plans to amend the Central Bank of Egypt Act and the Banking Act to improve corporate governance in the sector. The proposed legislation increases the president's powers over the CBE, jeopardising its political independence. Government appoints Mohamed Farid Saleh chairman of the Egyptian Exchange (EGX) as Mohamed Omran completes his term of office. Local council elections could follow the June 2018 presidential election.

IMF releases \$1.25 billion tranche

The **International Monetary Fund (IMF)** executive board approved the release of the second \$1.25 billion tranche of the \$12 billion extended fund facility (EFF) on 13 July.¹ The release of the funds reflects IMF backing for the pace and direction of prime minister **Sherif Ismail's** economic reform programme. In a statement, the IMF praised the impact of the government's fiscal consolidation efforts on public debt.² In particular, the IMF welcomed the introduction of value added tax (VAT), recent energy subsidy reforms, and public sector wage restraint.³ The IMF praised recent cuts to fuel and electricity subsidies, and the recent **Central Bank of Egypt (CBE)** interest rate hike, saying they will curb inflation, reduce the budget deficit, and contribute to stable growth.⁴ The IMF expects inflation to fall by the end of 2017 and be considerably lower by the second quarter 2018.⁵ The IMF also acknowledged progress on structural reforms, including the passage of the **Investment Guarantees and Incentives Act** and the **Bankruptcy Act**. The IMF described them as,

*"... critical pieces of legislation necessary to strengthen the business climate, attract investments, and promote growth."*⁶

The IMF acknowledged that the government had missed fiscal balance and fuel subsidy targets, but cited the impact of the currency depreciation, and granted waivers.

The IMF, however, appears to have revised its macroeconomic indicators for **Egypt**. The IMF has lowered its growth estimate for the 2016/2017 financial year. The IMF statement estimated growth at 3.5% compared to a previous estimate of 4.0%.⁷ The IMF expects the 2016/2017 budget deficit to have reached 10.5% of gross domestic product (GDP) compared to a previous estimate of 9.8%.⁸ The IMF now expects the budget deficit to reach 8.5% of GDP in 2017/2018 compared to a previous estimate of 8.4%.⁹ Seemingly in response to the revised IMF data, planning minister **Hala Saeed** released new government data at a press conference on 15 July.¹⁰ Saeed estimated that growth

¹ www.imf.org

² www.imf.org

³ www.imf.org

⁴ www.imf.org

⁵ www.imf.org

⁶ www.imf.org

⁷ www.imf.org

⁸ www.imf.org

⁹ www.imf.org

¹⁰ Reuters, 15 Jul 2017.

reached 4% in 2016/2017 compared to an original estimate of 3.8- 4%.¹¹ The government also expects the budget deficit to have reached 10.8% of GDP in 2016/2017 compared to 12.5% in the previous financial year.¹²

The IMF announced that mission chief **Chris Jarvis** was reassigned at the end of this three-year term in Egypt on 6 August.¹³ Jarvis was an enthusiastic advocate of maintaining social welfare spending under the government's economic reform programme, but his successor's policy stance is unclear.¹⁴ Jarvis's successor is **Subir Lall**, who will also serve as IMF assistant director of the **Middle East and Central Asia** department.¹⁵ Lall is currently the IMF mission chief in **Portugal** and assistant director of the **European** department.¹⁶ Lall was previously IMF assistant director for the **Asia and Pacific** department, and mission chief for **Germany, Indonesia, Korea, Malaysia, and The Netherlands**.¹⁷ Lall holds a PhD from **Brown University (United States)** and a BA from **Delhi University (India)**.¹⁸

Fitch Ratings echoed the IMF's praise, when upholding Egypt's B sovereign rating with stable outlook on 12 July.¹⁹ Fitch welcomed government efforts at fiscal consolidation, praising both the new budget and cuts to electricity and fuel subsidies.²⁰ According to Fitch, the subsidy cuts in particular are indicative of government efforts to control expenditure and therefore increase the credibility of the government's fiscal targets.²¹ Fitch forecast that headline inflation will rise above 30% on the back of the electricity price increases and the budget deficit will reach 9.3% of GDP.²² Fitch noted that the public sector wage bill will only increase 8% during the current fiscal year, which will be below the rate of inflation.²³ Fitch welcomes VAT as a significant source of government revenue.²⁴ Fitch warned that public finances weaken Egypt's sovereign credit profile, noting that the general government debt to GDP ratio exceeded 100% following the currency devaluation in November 2016.²⁵ Fitch estimated this will decrease to 87.9% in the 2018/2019 financial year.²⁶ According to Fitch, the main downside economic risk is increased political sensitivity around spending cuts and inflation around the May 2018 presidential election.²⁷ Finance minister **Amr El Garhy** described Fitch's findings as,

*"... a major testament by international institutions to the progress of the economic reforms and a vote of confidence in them."*²⁸

The release of the IMF funds signals the government's willingness and capacity to deliver on the conditions attached to the EFF despite concerns about their impact on inflation and living costs. The revised IMF growth estimate is possibly more realistic considering the impact of inflation on household demand and investor sentiment alike. The presidential election in June 2018 (see below) will test the government's fiscal discipline.

¹¹ Reuters, 15 Jul 2017.

¹² Reuters, 15 Jul 2017.

¹³ Al Ahram, 6 Aug 2017.

¹⁴ Al Ahram, 6 Aug 2017.

¹⁵ Al Ahram, 6 Aug 2017.

¹⁶ LinkedIn.

¹⁷ Al Ahram, 6 Aug 2017.

¹⁸ LinkedIn.

¹⁹ www.fitchratings.com

²⁰ www.fitchratings.com

²¹ www.fitchratings.com

²² www.fitchratings.com

²³ www.fitchratings.com

²⁴ www.fitchratings.com

²⁵ www.fitchratings.com

²⁶ www.fitchratings.com

²⁷ www.fitchratings.com

²⁸ Enterprise, 13 Jul 2017.

Government to revise banking legislation

Local media reported on 20 July that the government plans to amend the **Central Bank of Egypt Act** and the **Banking Act**.²⁹ The government hopes the legislation will improve corporate governance in the banking sector, but banks are likely to resist elements of the legislation. Notably, draft versions of the revised legislation limit banking sector managing directors to nine-year terms.³⁰ The CBE originally issued a decree limiting managing director terms in March 2016. However, the **Administrative Court** ruled in June 2016 that term limits violate banking sector managing directors' employment rights and criticised the retrospective application of the decree.³¹ Other provisions in the draft legislation include increasing the power of the CBE to appoint representatives to bank boards, and requiring all senior bank staff to be "*apolitical*".³² The new legislation requires banks to remit 5% of their net income to a sector development fund, and increases fees payable to the CBE as much as tenfold.³³ The legislation increases minimum capital requirements for all financial institutions, with a minimum capital of EGP 1.5 billion (\$83.6m).³⁴ The legislation modernises the banking system, recognising electronic documentation and no longer requiring banks to retain paper records.³⁵

The banking sector is concerned that the draft legislation reportedly places the CBE under the authority of the presidency.³⁶ The banking sector sees this as a challenge to the political independence of the CBE.³⁷ The legislation reportedly removes the constitutional power of the **House of Representatives** to approve the appointment of the CBE governor, further strengthening the influence of the president.³⁸

The CBE has denied claims that governor **Tariq Amer** is using the legislation to extend the power of the CBE governor at the expense of commercial bank shareholders.³⁹ The government is currently consulting with commercial financial institutions and the **Federation of Egyptian Banks (FEB)** over the proposed reforms.⁴⁰ The FEB has, however, publically criticised the term limits, warning it would force the exit of a number of current CEOs and managing directors.⁴¹ Prime minister **Sherif Ismail** called on the banking sector to remain calm during the consultation process.⁴²

The CBE has overseen a consolidation and liberalisation of the banking sector in recent years. Increased minimum capital requirements and improved record keeping will further consolidate these gains. However, giving the president the power to appoint the CBE governor will raise concerns about the independence of the CBE and raise the risk of politicised monetary policy-making.

Egyptian Exchange gets new head

Ismail appointed **Mohamed Farid Saleh** chairman of the **Egyptian Exchange (EGX)** on 6 August.⁴³ Saleh's appointment is important as he will be involved the initial public offerings (IPOs) of state-owned enterprises under the government's liberalisation programme. Saleh's predecessor, **Mohamed Omran**, stood down as expected at the end of his four-year term.⁴⁴ Before his departure, Omran told

²⁹ Al Borsa, 20 Jul 2017.

³⁰ Al Borsa, 20 Jul 2017.

³¹ Al Borsa, 20 Jul 2017.

³² Al Mal, 23 Jul 2017.

³³ Al Mal, 23 Jul 2017.

³⁴ Al Mal, 23 Jul 2017.

³⁵ Al Mal, 23 Jul 2017.

³⁶ Al Borsa, 20 Jul 2017.

³⁷ Al Borsa, 20 Jul 2017.

³⁸ Al Borsa, 20 Jul 2017.

³⁹ Al Borsa, 20 Jul 2017.

⁴⁰ Al Masry Al Youm, 20 Jul 2017.

⁴¹ Al Mal, 23 Jul 2017.

⁴² Al Shorouk, 20 Jul 2017.

⁴³ Government press release, 6 Aug 2017.

⁴⁴ Al Ahram, 30 Jul 2017.

the media that the EGX is considering lifting restrictions on global depository receipt (GDR) transactions as access to foreign exchange has improved.⁴⁵ This would involve removing 2012 and 2015 regulations that the proceeds from the sale of GDR can only be withdrawn from banks in the currency with which the original shares were purchased.⁴⁶ Omran also said that foreign exposure to Egyptian stocks had increased EGP 11 billion (\$615m) since the currency floatation in November 2016.⁴⁷ Omran said he expects the EGX to begin trading bonds in the first quarter 2018.⁴⁸ Omran also raised the possible privatisation of the EGX.⁴⁹

Farid is currently the chairman and CEO of Cairo-based financial consultancy **Dcode Economic and Financial Consulting**.⁵⁰ Farid has held this position since 2012.⁵¹ Prior to this, Farid was vice-chairman of the EGX between July 2010 and October 2011.⁵² In this role, Farid developed the EGX's weighting of indices and the development of a derivatives market.⁵³ Prior to his original EGX appointment, Farid was a staffer under investment minister **Mahmoud Mohiddin**, between 2004 and 2010, and head of the investment ministry's capital markets unit.⁵⁴ Farid has been a **World Bank** consultant, and an adjunct professor at the **American University in Cairo** and the **Arab Academy for Science, Technology and Maritime Transport**.⁵⁵ The day after Farid assumed his post, EGX vice chairman **Mohsen Adel** said the EGX expects three to five medium to large IPOs before the end of the year.⁵⁶ Adel said high interest rates mean the cost of capital in equity is relatively less expensive than increased debt.⁵⁷ Adel also said the government will present an amended **Capital Markets Act** to the House of Representatives in October.⁵⁸

There is continued speculation that Omran may become chairman of the **Egyptian Financial Supervisory Authority (EFSA)**.⁵⁹ EFSA chairman **Sherif Samy** stepped down as expected on 6 August at the end of his tenure.⁶⁰ Before his departure, Samy tightened listing regulations, with companies now required to have at least 5% of their shares in free float or face delisting with a single month's notice. The new regulations could result in the delisting of at least 30 companies including **Orange Egypt**, **QNB**, the **National Cement Co**, **Alexandria Container & Cargo Handling Co**, the **International Co For Leasing (Incolease)**, and **Bank ABC**.⁶¹ Until President **Abdel Fattah Al-Sisi** (2014-present) appoints a permanent successor to Samy, his deputy, **Reda Abdel Moati**, will be interim EFSA chairman.⁶²

Local polls to follow presidential election in 2018

Local media reported on 30 July that Egypt could hold local council elections after the presidential election in June 2018.⁶³ Newly elected municipal governments will improve local service delivery across Egypt's governorates. The government has pledged to hold local elections since 2014, but has regularly postponed them due to political disagreements over the exact election process, as well as

⁴⁵ Reuters, 30 Jul 2017.

⁴⁶ Al Masry Al Youm, 15 Jun 2017.

⁴⁷ Al Masry Al Youm, 15 Jun 2017.

⁴⁸ Al Masry Al Youm, 15 Jun 2017.

⁴⁹ Al Masry Al Youm, 15 Jun 2017.

⁵⁰ www.schools.aucegypt.edu

⁵¹ www.schools.aucegypt.edu

⁵² www.schools.aucegypt.edu

⁵³ Enterprise, 7 Aug 2017.

⁵⁴ www.schools.aucegypt.edu

⁵⁵ www.schools.aucegypt.edu

⁵⁶ Reuters, 7 Aug 2017.

⁵⁷ Reuters, 7 Aug 2017.

⁵⁸ Reuters, 7 Aug 2017.

⁵⁹ Daily News Egypt, 1 Aug 2017.

⁶⁰ Al Ahram, 6 Aug 2017.

⁶¹ Enterprise, 7 Aug 2017.

⁶² Al Ahram, 6 Aug 2017.

⁶³ Al Masry Al Youm, 30 Jul 2017.

security and logistical concerns.⁶⁴ The House of Representatives continues to review the long-overdue **Local Administration Act**, which will set out the exact mechanism used to elect the local councils.⁶⁵ The **Maglis el Dawla** (council of state) passed the legislation to the House of Representatives in October 2016 but it has subsequently made only limited progress.⁶⁶ According to local media, the House of Representatives is now expected to pass the Local Administration Act at the end of its next session, in mid-2018.⁶⁷ This would mean local elections would only take place after the presidential election. There are reportedly significant disagreements over the exact electoral mechanism for the local election including whether voters should choose from individual candidates or party lists, and what percentage of seats should be reserved for what the constitution describes as “workers and peasants”.⁶⁸ The government provided the **Higher Committee for Elections** EGP1 billion (\$60m) in the current budget to finance the local elections.⁶⁹

Presidential and local elections will distract the government from effective governance and policy making over the next year. They will prove a test of the government’s fiscal discipline.

⁶⁴ Al Masry Al Youm, 30 Jul 2017.

⁶⁵ Al Masry Al Youm, 30 Jul 2017.

⁶⁶ Al Masry Al Youm, 30 Jul 2017.

⁶⁷ Al Masry Al Youm, 30 Jul 2017.

⁶⁸ Al Masry Al Youm, 30 Jul 2017.

⁶⁹ www.middleeastmonitor.com

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