

AFRICA RISK CONSULTING**Egypt Monthly Briefing January 2018**

Egypt Summary 8 January 2018

The United States (US) recognises Jerusalem as the capital of Israel and triggers a diplomatic fallout with Egypt. President Abdel Fattah Al-Sisi (2014-present) is well placed to play intermediary between the Israeli government and the Palestinian Liberation Organization (PLO). The International Monetary Fund (IMF) releases the next \$2.03 billion tranche of the \$12 billion extended fund facility (EFF). The government prepares to issue a Eurobond before the end of January. The National Electoral Commission (NEC) sets out the timetable for the March 2018 presidential election, with voting on 26-28 March and results on 2 April. If necessary, a runoff will take place on 24-26 April.

US recognition of Jerusalem as Israel's capital triggers regional fallout

Diplomatic relations between the **United States (US)** and **Egypt** have deteriorated over the US's recognition of **Jerusalem** as the capital of **Israel**.¹ However, Egypt remains a significant security and diplomatic regional ally for the US and any sanctions are likely to prove short-lived. Trump enacted a campaign promise to enact the **Jerusalem Embassy Act**, which his predecessors have waived since 1995, thereby recognising Jerusalem as the capital of Israel on 6 December and preparing to move the US embassy to there from **Tel Aviv**.² Egypt drafted a **United Nations (UN) Security Council** resolution on 11 December that called for all states to comply with existing UN Security Council resolutions on Jerusalem dating back to 1967, including the requirement that direct negotiations between Israel and the **Palestinians** determine its final status.³ The US vetoed the Security Council resolution. Egypt subsequently voted on 21 December in favour of a non-binding **UN General Assembly** resolution that echoed the language of the previous UN Security Council resolution.⁴ In the UN General Assembly, 128 members voted in favour of the resolution, and only nine against.⁵ US ambassador to the UN **Nikki Haley** said the vote would "make a difference to... how we look at countries that disrespect us in the UN."⁶ Analysts have interpreted Haley's comments as a threat to withhold financial aid from those member states that had backed either of the two resolutions. The US had already cut \$290m in aid to Egypt in August 2017, citing Egypt's poor human rights record and failure to reform the security services to ensure greater accountability.⁷ It is unclear if the threat of US sanctions will prove sufficient to sway President **Abdel Fattah Al-Sisi** (2014-present).

*"Trump is a glutton for chaos. The region is already beset by conflict. The timing of this couldn't be worse. While the President is being heralded as having killed the peace process, others are saying that he simply declared it dead. What will be interesting is to see how Egypt ends up positioning itself. So far in the UN and the press Egypt has condemned the move, but Sisi is a pragmatist so under pressure from Trump and **Saudi Arabia**. It's hard to tell what course he will chart. No one wants another Palestinian/Israeli conflict, but the atmosphere in Israel and the*

¹ Source, analyst, Cairo

² Reuters, 6 Dec 2017.

³ The Guardian, 11 Dec 2017.

⁴ The Guardian, 11 Dec 2017.

⁵ The Guardian, 11 Dec 2017.

⁶ Washington Post, 21 Dec 2017.

⁷ Reuters, 24 Aug 2017.

*West Bank is tense, there have been violent confrontations since the announcement. What Trump seems unaware of is that he is pushing on a tower of dominos and another all-out war could be a high probability, if the US shepherded by the rookie **Jared Kushner**, continues on the same path.”⁸*

The recognition of Jerusalem as Israel’s capital has had regional diplomatic implications. In the immediate aftermath of the resolutions, US deputy president **Mike Pence** suspended a planned visit to Egypt and Israel.⁹ Pence will now visit Egypt on 20 January.¹⁰ More significantly, the move has,

“... effectively ended ... hope of the US playing any role in the moribund peace process in its current form. The US is likely to put forward a parallel proposal, less politically palatable to all except the Israelis.”¹¹

There is speculation that the alternative US plan might involve the relocation of communities from the **Gaza Strip (Occupied Palestinian Territories)** to Egypt.

*“This move puts Egypt in an awkward position, it makes rumours of Gazans being relocated to the **Sinai Peninsula** all the more plausible. While Egypt doesn’t support this as conducive to peace it will be interesting to see how the government will respond going forward if there is a peace deal put forward by the US that firmly puts Palestinian rights as secondary. It’s possible that as part of the reshaping that is currently going on in the **Middle East** with **Mohamed Bin Salman** that the Saudis and Egypt and the wider **Gulf** as allies will oversee the most unbalanced peace accord in history. The momentum of the new leaders, now shaping events, all of whom lack experience in the roles they now occupy, is very worrying. Trump’s decision to follow through on his foolish promise sets the scene for one of two things: either a major conflict or a major acquiescence. What does this bode for the future? We can’t even begin to know. It’s indicative of the current moment though, the flammable state of things.”¹²*

Egypt is well placed to act as an intermediary. Sisi is a trusted party to both Israel and Palestine. As a former chief of military intelligence and intelligence office in the Sinai Peninsula, Sisi has close links to the Israeli security establishment.¹³ Egypt is also one of only two **Arab** countries, alongside **Jordan**, to have formal ties with Israel. Sisi has also built on Egypt’s historical legacy of support for the **Palestinian Liberation Organization (PLO)** to develop a close relationship with PLO chairman and Palestinian president **Mahmoud Abbas** (2005-present).¹⁴ There are, however, security concerns for Egypt.

“We are yet to fully know how Egypt’s involvement in the peace process will be affected by the decision. Whilst there is general apathy toward the Palestinian cause in Egypt, there remains widespread hostility to Israel, and the idea of the Israelis formalising the occupation and formalising custodianship of the holy city, where the third most important site in Islam sits, is likely to rouse tensions not just in Egypt but in the region, more generally. What does it all mean? Well it depends on how the final outcome plays out. If we look at the decision broadly in terms of security it could mean: a violent conflict in Gaza and or the West Bank, a potential return to armed resistance, even suicide bombings by the Palestinians, but for Egypt it could mean more determination to traffic weapons into Sinai and carry out attacks on government or civilian sites as punishment for perceived support of Israel and its policies. And in this sense Egypt presents a much easier target than the fortified Israel. However, all of this is based on the assumption of

⁸ Source, journalist, Cairo

⁹ Washington Post, 21 Dec 2017.

¹⁰ Source, analyst, Cairo

¹¹ Source, former senior UN diplomat, Middle East

¹² Source, think tank analyst, Cairo

¹³ Source, former senior UN diplomat, Middle East

¹⁴ Source, analyst, Cairo

*Egypt supporting a controversial Trump-endorsed peace plan, of which the embassy decision is just the beginning, and there's no indication we are there yet."*¹⁵

Egypt has security and commercial interests that require cooperation with Israel, even in the face of popular domestic opposition. Egypt's response to the US decision to recognise Jerusalem as Israel's capital will therefore likely be muted. Sisi's trusted party status with Israel and the PLO will mean that Egypt is central to helping the region navigate the fallout from the US's unilateral action. If the US does impose economic sanctions on Egypt, it will look to non-traditional partners, notably **Russia** and **China**, to replace US financial support.

IMF releases \$2 billion, as government prepares Eurobond launch

The **International Monetary Fund (IMF)** executive board approved the release of the next \$2.03 billion tranche of the \$12 billion extended fund facility (EFF) on 20 December.¹⁶ The IMF has now disbursed \$6.08 billion under the EFF.¹⁷ In an accompanying statement, the IMF praised the reform programme's "*encouraging results*".¹⁸ The IMF said that the economy is stabilising, growth recovering, inflation moderating, and international reserves increasing.¹⁹ The IMF praised the **Central Bank of Egypt (CBE)**, noting that its monetary tightening had curbed inflation, thereby contributing to macroeconomic stability, and that its fees on foreign currency portfolio investments through the repatriation mechanism could increase the flexibility of the Egyptian pound.²⁰ The IMF identifies risks to its primary surplus targets from higher oil prices.²¹ The IMF therefore called on the government to persist with energy subsidy reform, tax policy revisions, and customs administration improvements.²²

Following the confirmation of the IMF disbursement, the investment and international cooperation ministry said Egypt had received \$25.5 billion in foreign aid, grants and loans during the 2016/2017 financial year.²³ The finance minister, **Amr El Garhy**, confirmed on 28 December that the government has selected five banks to manage its Eurobond sale before the end of January.²⁴ The government is looking to the international markets to bridge the budget deficit. The government has selected **United Kingdom (UK)-based HSBC Holdings Plc**, US-based **Citigroup Inc**, US-based **JPMorgan Chase & Co**, US-based **Morgan Stanley**, and the **United Arab Emirates (UAE)-based National Bank of Abu Dhabi**.²⁵ The government has contracted UAE-based **Al Tamimi & Co** and UK-based **Dechert LLP** as legal advisers.²⁶ El Garhy confirmed that the government is yet to set a date for the sale.²⁷ El Garhy also said the government may not hold a lengthy roadshow as it did during previous issuances.²⁸

The government will, however, benefit from an additional domestic revenue stream after the oil minister, **Tarek El Molla**, confirmed on 16 December that the offshore **Zohr** gasfield in the **Mediterranean** had come online as scheduled.²⁹ Egypt is well placed to capitalise on **Europe's** increasing demand for liquefied natural gas (LNG). Gas from Zohr is being pumped to a treatment facility in **Port Said** before onward delivery to the national grid.³⁰ According to El Molla, initial

¹⁵ Source, academic, Cairo

¹⁶ IMF, 20 Dec 2017.

¹⁷ IMF, 20 Dec 2017.

¹⁸ IMF, 20 Dec 2017.

¹⁹ IMF, 20 Dec 2017.

²⁰ IMF, 20 Dec 2017.

²¹ IMF, 20 Dec 2017.

²² IMF, 20 Dec 2017.

²³ Al Masry Al Youm, 20 Dec 2017.

²⁴ Bloomberg, 28 Dec 2017.

²⁵ Bloomberg, 28 Dec 2017.

²⁶ Bloomberg, 28 Dec 2017.

²⁷ Bloomberg, 28 Dec 2017.

²⁸ Bloomberg, 28 Dec 2017.

²⁹ Bloomberg, 16 Dec 2017.

³⁰ Bloomberg, 16 Dec 2017.

production at Zohr is 350 million cubic feet per day (cf/d).³¹ Output will increase to 1 billion cf/d in June, and 2.7 billion cf/d by the end of 2019.³² Zohr holds an estimated reserve of about 850 billion cubic meters of natural gas.³³ El Molla estimated that production will save the government \$720m annually in import costs and subsidy payments.³⁴ The trade and industry minister, **Tarek Kabil**, separately said that the coming online of Zohr will attract additional investment in energy-intensive sectors, including fertiliser and steel production.³⁵ **Italy**-based **Eni SpA**, through subsidiary **IEOC Production BV**, holds a 60% interest in Zohr, Russia state-owned **Rosneft PJSC**, through subsidiary **Upstream Projects PTE Ltd** 30%, and UK-based **BP Plc** 10%.³⁶ In a television appearance on 16 December, El Molla denied that his ministry is in discussions with US-based **Exxon Mobil Corp** over oil and gas exploration on the back of Zohr.³⁷

The release of the funds reflects IMF backing for the pace and direction of the government's economic reform programme. However, there is a disconnect between Egypt's macroeconomic performance and the economic position and confidence of ordinary households is concerning. The government will use the proceeds of the Eurobond issues to finance the fiscal deficit, with Egypt's international debt burden remaining relatively limited. The Zohr gasfield, if managed properly, will provide a more sustainable, longer-term financing stream for the government than the international markets.

NEC sets out election timetable

National Electoral Commission (NEC) chairman **Lasheen Ibrahim** set out the timetable for the March 2018 presidential election on 8 January. Sisi is yet to announce his candidacy, but is expected to run and to easily win the election.³⁸ Under the NEC timetable, candidates will register between 20 and 29 January.³⁹ Voting in Egypt will take place on 26-28 March.⁴⁰ The diaspora will vote over a three-day period a week earlier.⁴¹ The NEC will announce the results on 2 April.⁴² In the event that no candidate wins a majority, a runoff will take place on 24-26 April.⁴³ The NEC will announce the results of any necessary runoff on 1 May, more than a week before the start of Ramadan.⁴⁴ Ibrahim said the NEC will work to ensure that candidates comply with campaigning and spending regulations, and receive the same level of media coverage.⁴⁵ Sisi benefited from an unequal electoral landscape in the 2014 election when he won 97% of the vote.⁴⁶

Campaigning for the election is expected to peak in early March, providing a distraction for businesses and politicians alike. Despite the NEC's spending and campaigning regulations, Sisi, as the incumbent, has an almost insurmountable advantage over any other candidate who might stand.

³¹ Bloomberg, 16 Dec 2017.

³² Bloomberg, 16 Dec 2017.

³³ Bloomberg, 16 Dec 2017.

³⁴ Enterprise Press, 18 Dec 2017.

³⁵ Enterprise Press, 18 Dec 2017.

³⁶ www.eni.com

³⁷ Enterprise Press, 18 Dec 2017.

³⁸ Source, political analyst, Cairo

³⁹ Al Masry Al Youm, 8 Jan 2018.

⁴⁰ Al Masry Al Youm, 8 Jan 2018.

⁴¹ Al Masry Al Youm, 8 Jan 2018.

⁴² Al Masry Al Youm, 8 Jan 2018.

⁴³ Al Masry Al Youm, 8 Jan 2018.

⁴⁴ Al Masry Al Youm, 8 Jan 2018.

⁴⁵ Al Ahram, 7 Jan 2018.

⁴⁶ Source, political analyst, Cairo

Planner

1 May 2018 **(Egypt)** *Al Masry Al Youm*. Result of runoff presidential election, if necessary;

24-26 Apr 2018 **(Egypt)** *Al Masry Al Youm*. Runoff presidential election, if necessary;

2 Apr 2018 **(Egypt)** *Al Masry Al Youm*. Result of presidential election;

26-28 March 2018 **(Egypt)** *Al Masry Al Youm*. Voting in presidential election;

Late Jan 2018 **Cairo (Egypt)** *Enterprise*. Government to publish initial public offering (IPO) programme;

First Quarter 2018 **Cairo (Egypt)** *Reuters*. **Engineering for the Petroleum & Process Industries (Enppi)** IPO expected to begin 18-24 month government liberalisation pipeline;

Early 2018 **Cairo (Egypt)** *Reuters*. Proposed \$2-4 billion Eurobond issue;

Chronology

8 Jan 2017 **Cairo (Egypt)** *Al Masry Al Youm*. The **National Electoral Commission (NEC)** sets out the timetable for the March 2018 presidential election;

3 Jan 2017 **Cairo (Egypt)** *Press release*. The **Central Bank of Egypt (CBE)** says international reserves reached \$37 billion in December compared to \$24 billion in December 2016;

2 Jan 2017 **Cairo (Egypt)** *MENA*. Sisi extends state of emergency by three months;

29 Dec 2017 **Helwan (Egypt)** *Reuters*. The **Islamic State** claims responsibility after gunman kills 11 people in attack on Coptic church and Christian-owned shop;

28 Dec 2017 **Cairo (Egypt)** *Press release*. The CBE maintains overnight deposit rate at 18.75% and the overnight lending rate at 19.75%;

26 Dec 2017 **(Egypt)** *Press release*. The government proposes including the **World Bank** in multilateral talks over the **Grand Ethiopian Renaissance Dam**;

19 Dec 2017 **Cairo (Egypt)** *Press release*. The **International Monetary Fund (IMF)** executive board approves the release of the next \$2.03 billion tranche of the \$12 billion extended fund facility;

19 Dec 2017 **Cairo (Egypt)** *Al Borsa*. The government signs \$1.4 billion worth of contracts with **China Road and Bridge Corp** for development of **Safaga, Nuweiba, and Sharm El Sheikh Ports**;

18 Dec 2017 **Cairo (Egypt)** *Al Mal*. The CBE could sell stakes in state-owned **Banque du Caire** and **United Bank** to strategic investors rather than list them;

16 Dec 2017 **Offshore (Egypt)** *Bloomberg*. The oil minister, **Tarek El Molla**, confirms that the offshore **Zohr** gasfield in the **Mediterranean** has come online as scheduled;

15 Dec 2017 **(Egypt)** *TASS*. **Egypt** and **Russia** sign civil aviation security cooperation protocol that will allow for the resumption of direct flights between **Moscow** and **Cairo**, starting from February;

11 Dec 2017 **Cairo (Egypt)** *Aswat Masriya*. President **Abdel Fattah Al-Sisi** and **Russian** counterpart, President **Vladimir Putin** sign agreement for financing of \$30 billion **Dabaa** nuclear power plant;

10 Dec 2017 **Cairo (Egypt)** *Reuters*. **Central Agency for Public Mobilization and Statistics** data shows urban consumer price inflation decreased from 30.8% in October to 26% in November;

10 Dec 2017 **Cairo (Egypt)** *Press release*. CBE data shows \$5.1 billion balance of payments surplus during first quarter 2017/2018 compared to \$1.9 billion during same period last year;

8 Dec 2017 **(Egypt)** *Press release*. The World Bank and the government signed a funding agreement for \$1.15 billion to support the government's economic reform programme;

6 Dec 2017 **(Israel)** *Reuters*. **United States (US)** President **Donald Trump** recognises **Jerusalem** as **Israel's** capital;

5 Dec 2017 **Offshore (Egypt)** *Reuters*. US-based **Exxon Mobil** is looking to invest in Egypt's offshore oil and gas fields;

5 Dec 2017 **(Egypt)** *Press release*. The **European Bank for Reconstruction and Development** says it is looking to support Egypt's agribusiness sector;

4 Dec 2017 **Cairo (Egypt)** *Al Borsa*. **NI Capital** expects listing of 30 state-owned enterprises over next two years under government's initial public offering programme;

3 Dec 2017 **(Egypt)** *Press release*. The CBE imposes 1% entrance fee on foreign currency portfolio investments through repatriation mechanism;

2 Dec 2017 **Cairo (Egypt)** *Reuters*. The former prime minister, **Ahmed Shafiq**, arrives back in the country to contest the 2018 presidential election;