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Egypt Summary 1 February 2018

President Abdel Fattah Al-Sisi (2014-present) will contest the March presidential election against opposition Al Ghad party leader Mousa Mostafa Mousa, after higher-profile opposition candidates withdraw or are disqualified. Observers warn that anti-democratic tendencies will undermine the credibility and authority of Sisi in the longer-term. Ratings agency Fitch revises Egypt's long-term foreign currency issuer default outlook from stable to positive, while Moody's projects that Egypt will enjoy the fastest growth rate in the Middle East and North Africa. The investment ministry completes amendments to the Companies Act executive regulations. The House of Representatives passes the Bankruptcy Act, a long-standing investor demand.

Sisi to contest March presidential election largely unchallenged

President **Abdel Fattah Al-Sisi** (2014-present) will contest the March presidential election against opposition **Al Ghad** party leader **Mousa Mostafa Mousa** alone, following the withdrawal or disqualification of other opposition candidates.¹ The Al Ghad party is supportive of Sisi and has held events supporting his standing for a second term.² This raises questions about the authenticity of Mousa, who only announced his candidacy on 29 January, the day that the window for candidates to register closed.³ The absence of a credible opposition challenge also raises concerns that the March presidential elections will not meet international standards of genuine competitiveness.⁴

*"The vote will be essentially a one-man ballot, minus the very late addition of a man that has previously pledged allegiance and who has no public following to speak of."*⁵

Sisi first announced on 19 January that he intends to run in the presidential election.⁶ He pledged to continue his economic reforms should he win.⁷ Sisi listed the economic achievements of his first term in office including passage of the **Investment Act**, implementation of value added tax (VAT), the floatation of the currency, and reform of fuel and electricity subsidies.⁸ Sisi promised a "free and transparent election"⁹ and called for a high turnout "regardless of which candidate [voters] choose".¹⁰ There is, however, popular scepticism about the election, which may lower turnout:

"Plenty are calling this election a huge embarrassment to Egypt, and an insult to the 2011 revolution. I keep seeing comments on social media like 'we didn't fight and die for this'. The four candidates that could have run against Sisi between them have been threatened, arrested, fired or deported, or have disappeared. All have been intimidated and faced threats against their families and colleagues. The government is both very arrogant and very nervous and that is a

¹ Reuters, 29 Jan 2018.

² Source, analyst, Egypt.

³ Source, analyst, Egypt.

⁴ Source, analyst, Egypt.

⁵ Source, former diplomat, Cairo.

⁶ Al Mal, 19 Jan 2018.

⁷ Al Mal, 19 Jan 2018.

⁸ Al Mal, 19 Jan 2018.

⁹ Al Mal, 19 Jan 2018.

¹⁰ Al Mal, 19 Jan 2018.

*terrible combination. I almost believe this election season to be more vicious and farcical than the election spectacles we were used to under former president **Hosni Mubarak** (1981-2011)."*¹¹

Prior to the close of candidate registration, the **National Elections Committee (NEC)** disqualified presidential candidate lieutenant general **Sami Anan** on 24 January following his detention by the military.¹² Anan had only announced on 20 January that he intended to run in the presidential election on a security platform.¹³ Anan was the military chief of staff between 2005 and 2012 and is reportedly still a serving military officer.¹⁴ Armed police, apparently on the orders of the military prosecutor's office, detained Anan on 23 January.¹⁵ The **Egyptian Armed Forces** said in a statement that it could "*not overlook the blatant legal violations [Anan] has committed, which are a serious breach of the laws of military service.*"¹⁶ Specifically, the Egyptian Armed Forces accused Anan of announcing his candidacy without their prior approval.¹⁷ Legally, military officers must resign their commission before standing for elected office. The Egyptian Armed Forces also accused Anan of forging documentation that claimed his military service is over, and of encouraging divisions between the military and the Egyptian people.¹⁸ The Egyptian Armed Forces subsequently issued a media blackout on the case prohibiting any further reporting.¹⁹

*"Anan's whereabouts remain unknown (he is said to be in a military prison) and he is being labelled a liar and traitor."*²⁰

Anan has reportedly made Egypt's military and political elite nervous by criticising Sisi's failures on "*water*"²¹, reportedly a coded reference to the politically sensitive **Grand Ethiopian Renaissance Dam in Ethiopia**, and "*land*"²², reportedly a coded reference to the politically sensitive transfer of the **Red Sea islands of Tiran and Sanafir to Saudi Arabia**.²³

Another opposition candidate, human rights lawyer and **Egyptian Center for Economic and Social Rights (ECESR)** founder **Khaled Ali**, withdrew his candidacy on 24 January, accusing the government of suppressing political freedoms.²⁴ Ali is popular with Egypt's liberal middle class.²⁵ However, he faced a court case that jeopardised his participation in the election. On 3 January, a misdemeanour court in **Cairo** delayed making a ruling in a case against Ali until 7 March.²⁶ In September 2017, a court convicted Ali of making an inappropriate hand gesture during anti-government protests against the transfer of the Tiran and Sanafir islands to Saudi Arabia.²⁷ Ali is appealing the conviction. If upheld in March, this would have prevented him from standing in the presidential election.

The former prime minister, **Ahmed Shafik**, reversed his previous intention to stand in the election on 7 January.²⁸ Shafik's lawyers have subsequently claimed that the government forced his withdrawal by threatening to re-open old corruption charges against him.²⁹

¹¹ Source, newspaper columnist, Cairo.

¹² Al Masry Al Youm, 24 Jan 2018.

¹³ Middle East Eye, 20 Jan 2018.

¹⁴ Reuters, 23 Jan 2018.

¹⁵ Reuters, 23 Jan 2018.

¹⁶ Enterprise Press, 24 Jan 2018.

¹⁷ Enterprise Press, 24 Jan 2018.

¹⁸ Enterprise Press, 24 Jan 2018.

¹⁹ Enterprise Press, 24 Jan 2018.

²⁰ Source, newspaper columnist, Cairo.

²¹ Middle East Eye, 23 Jan 2018.

²² Middle East Eye, 23 Jan 2018.

²³ Middle East Eye, 23 Jan 2018.

²⁴ Middle East Eye, 24 Jan 2018.

²⁵ Stratfor Worldview, 3 Jan 2018.

²⁶ Stratfor Worldview, 3 Jan 2018.

²⁷ Stratfor Worldview, 3 Jan 2018.

²⁸ Reuters, 7 Jan 2018.

²⁹ New York Times, 8 Jan 2018.

“Ahmed Shafik eventually gave up... and is detained in a secret location.”³⁰

Five senior opposition figures issued a statement on 28 January calling for a boycott of the election.³¹ The signatories included 2012 presidential candidate **Abdel Moneim Aboul Fotouh**, former **Central Auditing Organization** head **Hisham Genena**, who was involved in Anan’s election campaign, and former presidential candidate **Mohamed Anwar Sadat**, who also withdrew his candidacy earlier this month.³² The statement came the day after unknown individuals attacked and badly injured Genena in Cairo, in an incident seemingly linked to the election.³³

“Sadat, was pushed out of the parliament after he questioned human rights and military spending.”³⁴

The withdrawal of the opposition candidates is apparently part of an intentional strategy by Sisi to secure his victory.

“What the past few months have demonstrated is how terribly afraid of dissent Sisi is. And how willing he is to protect a position he thinks God has personally assigned to him. But letting the other candidates run would have actually been the savvy thing to do for several reasons. Number 1) it would have fractured both the revolutionary and army camps’ votes. Number 2) it would have made him appear statesmanlike and benevolent by preserving some shred of the notion that Egypt is a democracy. And ultimately he still would have won, because he controls the media and political sphere. Also, because the other candidates don’t have the same mass following. But the process wouldn’t have represented the national embarrassment that it now does.”³⁵

The move may, however, backfire in the longer-term by undermining Sisi’s credibility.

“It is no small irony that in precluding the other candidates Sisi has managed to make himself look small, stupid and out of touch. It never ceases to amaze me how much this man represents the worst instincts of both politicians and Egypt itself.”³⁶

Sisi will win the March presidential election and is likely to maintain his political and security policies during his second term in office. His increasing authoritarianism will lead to increased political and popular discontent, but the fractured and weak opposition will not be able to take advantage of this.

Ratings agencies offer positive assessment of Egypt

Ratings agency **Fitch** revised **Egypt**’s long-term foreign currency issuer default outlook from stable to positive on 16 January and affirmed its rating at ‘B’.³⁷ The positive outlook revision will facilitate more favourable terms during the government’s imminent Eurobond issuances. Fitch noted progress in fiscal consolidation and improvements in macroeconomic stability following the inflationary spike.³⁸ Fitch noted that inflation is starting to subside and will average 13%-14% in 2018.³⁹ The **Central Agency for Public Mobilization and Statistics (CAPMAS)** published data on 10 January showing that monthly inflation decreased -0.2% in December, the lowest rate since November 2015.⁴⁰ According to the CAPMAS, annual inflation decreased to 21.9% in December from 26% in November.⁴¹ Annual core inflation decreased to 19.86% in December from 25.54% in November.⁴²

³⁰ Source, newspaper columnist, Cairo.

³¹ Al Mal, 28 Jan 2018.

³² Al Mal, 28 Jan 2018.

³³ Al Mal, 28 Jan 2018.

³⁴ Source, newspaper columnist, Cairo.

³⁵ Source, former diplomat, Cairo.

³⁶ Source, human rights lawyer, Egypt.

³⁷ Fitch, 16 Jan 2018.

³⁸ Fitch, 16 Jan 2018.

³⁹ Fitch, 16 Jan 2018.

⁴⁰ CAPMAS statement, 10 Jan 2018.

⁴¹ CAPMAS statement, 10 Jan 2018.

⁴² CAPMAS statement, 10 Jan 2018.

Fitch estimated 4.2% real GDP growth in the 2017 financial year, projecting it to increase to 4.8% in 2018 as the impact of the exchange rate adjustment cools and gas production increases.⁴³

Fitch praised the **Central Bank of Egypt's (CBE)** exchange rate reform in November 2016, describing it as a “*turning point for the economy and Egypt's external finances*”.⁴⁴ Fitch noted that the current account deficit has subsequently started to decrease, reaching \$1.6 billion in the third quarter 2017 from \$4.8 billion in third quarter 2016.⁴⁵ The current account deficit will further decrease in 2018 and 2019 due in part to large increases in gas output.⁴⁶ International reserves reached \$37 billion in November 2017, compared to \$19.1 billion in October 2016.⁴⁷ The current level equates to approximately six months of current external payments.⁴⁸

Fitch warned that public finances will remain a key weakness of Egypt's credit profile, but that the government debt/ GDP ratio will improve in the 2018 financial year.⁴⁹ The government debt/ GDP ratio will decrease from 103% in the 2017 financial year to 93% in 2018 and 88% in 2019.⁵⁰ Fitch, however, warned that guaranteed debt has increased in recent years, reaching 26% of GDP in June 2017.⁵¹ Fitch forecast that the budget sector deficit will decrease to 9.7% in the 2018 financial year, before Egypt achieves a primary surplus in the 2019 financial year.⁵² The finance minister, **Amr El Garhy**, told Sisi on 10 January that the budget deficit stood at 4.4% of gross domestic product (GDP) in the first half of 2017/2018.⁵³ The budget deficit stood at 5% during the first half of the last financial year.⁵⁴ The primary budget deficit decreased to 0.3% of GDP in first half of 2017/2018 compared to 1.1% in the corresponding period of the last financial year.⁵⁵ The government said the improvement is due to 38% year-on-year growth in state revenues during the first half of 2017/2018, primarily due to a 61% increase in tax revenues.⁵⁶ According to Fitch, gross external debt reached \$100 billion by the end of 2017.⁵⁷ Gross external debt amounted to approximately 44% of GDP, compared to 23% a year earlier.⁵⁸

Fitch warned that security and political risks continue to weigh on Egypt's rating, and that there is a risk that structural reform will exacerbate social tensions. However, Fitch noted that the government has mitigated this risk through improved social welfare programmes and electricity provision.⁵⁹ The government has the approval of the **International Monetary Fund (IMF)** to maintain high levels of spending on social welfare programmes to offset the impact of the economic reform programme. Government spending on the **Takaful** and **Karama** social welfare networks increased 141% in the first half of 2017/2018, while spending on food subsidies increased 65% year-on-year.⁶⁰ Fitch expects Sisi to win the March presidential election.⁶¹

Fitch said a ratings upgrade could follow continued progress on fiscal consolidation decreasing the government debt/ GDP ratio, sustained stronger economic growth, or improvements in international

⁴³ Fitch, 16 Jan 2018.

⁴⁴ Fitch, 16 Jan 2018.

⁴⁵ Fitch, 16 Jan 2018.

⁴⁶ Fitch, 16 Jan 2018.

⁴⁷ Fitch, 16 Jan 2018.

⁴⁸ Fitch, 16 Jan 2018.

⁴⁹ Fitch, 16 Jan 2018.

⁵⁰ Fitch, 16 Jan 2018.

⁵¹ Fitch, 16 Jan 2018.

⁵² Fitch, 16 Jan 2018.

⁵³ Presidential office statement, 9 Jan 2018.

⁵⁴ Presidential office statement, 9 Jan 2018.

⁵⁵ Presidential office statement, 9 Jan 2018.

⁵⁶ Presidential office statement, 9 Jan 2018.

⁵⁷ Fitch, 16 Jan 2018.

⁵⁸ Fitch, 16 Jan 2018.

⁵⁹ Fitch, 16 Jan 2018.

⁶⁰ Presidential office statement, 9 Jan 2018.

⁶¹ Fitch, 16 Jan 2018.

reserves due to a decreasing current account deficit and robust net foreign direct investment.⁶² A ratings downgrade could follow a failure to improve the fiscal deficit and government debt/GDP ratio, reversal of fiscal or monetary reforms, downward pressure on international reserves due to pressure on the balance of payments.⁶³

Fitch's upgrade came on the same day that ratings agency **Moody's** published a regional outlook projecting that Egypt's growth will reach 5.0% in the 2019 financial year and 5.5% by 2021: the fastest growth rate in the **Middle East and North Africa**.⁶⁴ Moody's optimistic outlook is based on structural reforms diversifying the economy away from a consumer-based growth model on the back of increased competitiveness following the currency floatation, and the coming online of the **Zohr** gasfield.⁶⁵ Moody's, however, warns that high inflation and interest spending will challenge fiscal consolidation.⁶⁶ Moody's expects the budget deficit to decrease from 11% of GDP in 2017 to 10% in 2018 and 8.5% in 2019.⁶⁷ Moody's expects the government debt/ GDP ratio to decrease from 100% in 2017 to 83% in 2019.⁶⁸ Moody's warns that the government's fiscal discipline might slip as the election approaches.⁶⁹

The Fitch and Moody's reports are evidence of the success of Sisi's economic reform programme during his first term in office. Sisi will maintain his economic reform policies during his second term. Though households are yet to experience the benefits of Egypt's improved macroeconomic conditions, continued spending on social programmes will negate popular discontent over the government's reforms.

Government revises Companies Act and parliament passes Bankruptcy Act

The Sisi administration continued its business-friendly reforms in January. Investors will welcome regulatory amendments that increase the ease of doing business in Egypt. The investment ministry announced on 23 January that it has completed amendments to the **Companies Act** executive regulations.⁷⁰ The amendments do not the approval of the **House of Representatives** and will come into effect on their publication in the official gazette. The amendments prohibit companies from holding treasury stocks for over a year, at which point they must either divest them or distribute them to employees.⁷¹ The amendments limit share buybacks to 10% of a company's shares, and allow a weighted voting system for shareholders to appoint board members.⁷² The amendments give companies greater flexibility in the division of assets and shares when spinning off parts of the business.⁷³ The amendments prohibit sole-proprietorship companies from establishing subsidiaries that are also sole proprietorships.⁷⁴ The **Maglis El Dowla** (Egyptian Council of State) must still approve the amendments.

The House of Representatives passed the **Bankruptcy Act** on 28 January.⁷⁵ The banking sector will welcome reform of Egypt's archaic bankruptcy system which will give them more flexibility in dealing with struggling companies.⁷⁶ The new law eliminates prison sentences for individuals declaring

⁶² Fitch, 16 Jan 2018.

⁶³ Fitch, 16 Jan 2018.

⁶⁴ Moody's, 16 Jan 2018.

⁶⁵ Moody's, 16 Jan 2018.

⁶⁶ Moody's, 16 Jan 2018.

⁶⁷ Moody's, 16 Jan 2018.

⁶⁸ Moody's, 16 Jan 2018.

⁶⁹ Moody's, 16 Jan 2018.

⁷⁰ Investment ministry website, 23 Jan 2018.

⁷¹ Investment ministry website, 23 Jan 2018.

⁷² Investment ministry website, 23 Jan 2018.

⁷³ Investment ministry website, 23 Jan 2018.

⁷⁴ Investment ministry website, 23 Jan 2018.

⁷⁵ Youm7, 28 Jan 2017.

⁷⁶ Youm7, 28 Jan 2017.

bankruptcy.⁷⁷ It provides companies with more time and options to restructure by introducing new mechanisms to settle commercial disputes.⁷⁸ The law forms special bankruptcy courts within the **Economic Courts** system to mediate and arbitrate cases.⁷⁹ The law gives companies 60 days in which to complete a restructuring plan, though a bankruptcy court judge can extend that period.⁸⁰ The bankruptcy law also reduces the liquidation period for companies to nine months, instead of the current average of more than two years.⁸¹ Bankruptcy proceedings in Egypt currently take 2.5 years compared to the **Organisation for Economic Co-operation and Development (OECD)** average of 1.7 years.⁸² Creditors in Egypt recover an average of \$0.26 for every \$1 lent, compared to the OECD average of \$0.712.⁸³

Investors will welcome a second Sisi administration. Improvements to the regulatory environment will continue to unlock foreign investment.

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;
 First Quarter 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

29 Jan 2018 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah Al-Sisi** will contest the March presidential election against opposition **Al Ghad** party leader **Mousa Mostafa Mousa** as **National Elections Committee (NEC)** candidate registration window closes;
 28 Jan 2018 **Cairo (Egypt)** *Al Mal*. Five senior opposition figures issue statement calling for a boycott of the election following withdrawal or disqualification of leading opposition candidates;
 28 Jan 2018 **Cairo (Egypt)** *Youm7*. The **House of Representatives** passes the **Bankruptcy Act**;
 24 Jan 2018 **Cairo (Egypt)** *Al Masry Al Youm*. The NEC disqualifies presidential candidate lieutenant general **Sami Anan** following his detention by the military the previous day;
 24 Jan 2018 **Cairo (Egypt)** *Middle East Eye*. Human rights lawyer **Klahed Ali**, withdraws his

⁷⁷ Youm7, 28 Jan 2018.

⁷⁸ Youm7, 28 Jan 2018.

⁷⁹ Youm7, 28 Jan 2018.

⁸⁰ Youm7, 28 Jan 2018.

⁸¹ Youm7, 28 Jan 2018.

⁸² Forbes Middle East, 28 Jan 2018.

⁸³ Forbes Middle East, 28 Jan 2018.

presidential candidacy, accusing the government of suppressing political freedoms;

23 Jan 2018 **Cairo (Egypt)** *Press release*. The investment ministry completes amendments to the **Companies Act** executive regulations;

23 Jan 2018 **Cairo (Egypt)** *Press release*. The **International Monetary Fund (IMF)** executive board praises Egypt's macroeconomic performance in its second review of the economic reform programme;

20 Jan 2018 **Cairo (Egypt)** *Press release*. Sisi publicly backs **Palestinian** claims to **Jerusalem** during meeting with the **United States (US)** vice president, **Mike Pence**;

20 Jan 2018 **Cairo (Egypt)** *Middle East Eye*. Former military chief of staff **Sami Anan** plans to run for president;

19 Jan 2018 **Cairo (Egypt)** *Al Mal*. Sisi confirms his intention to stand in March presidential election;

17 Jan 2018 **Cairo (Egypt)** *Al Ahram*. Sisi delivers state of the nation, having previously said he would use response to address to decide whether to run for president;

16 Jan 2018 **(Egypt)** *Press release*. **Fitch** revises Egypt's outlook from stable to positive, and retains its long-term foreign currency issuer default rating at 'B';

14 Jan 2018 **Cairo (Egypt)** *Bloomberg*. **Egyptian Exchange** stocks are above their pre-currency floatation dollar valuations;

14 Jan 2018 **Cairo (Egypt)** *Press release*. Sisi completes limited cabinet reshuffle, retaining key economic ministers including El Garhy and the investment minister, **Sahar Nasr**;

10 Jan 2018 **Cairo (Egypt)** *Press release*. CAPMAS data shows monthly inflation was -0.2% in December, the lowest rate since November 2015;

10 Jan 2018 **Cairo (Egypt)** *Press release*. El Garhy says budget deficit decreased to 4.4% of GDP in first half 2017/2018, compared to 5% in corresponding period last year;

9 Jan 2018 **Cairo (Egypt)** *Al Mal*. House of Representatives gives preliminary approval to the **Bankruptcy Act**;

9 Jan 2018 **Cairo (Egypt)** *Al Mal*. House of Representatives approves three-month extension of state of emergency starting 13 January;