

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing March 2018

#### Egypt Summary 1 March 2018

*Campaigning begins ahead of the 26-28 March presidential election, which President Abdel Fattah Al-Sisi (2014-present) is expected to dominate. The only other candidate, Mousa Mostafa Mousa, praises Sisi's "massive achievements" and says he is "not here to challenge the president." Israel-based Delek Drilling LP and United States (US)-based Noble Energy Inc agree to export natural gas from Israel to Egypt-based Dolphinus Holdings Ltd. The contract moves Egypt closer to becoming a regional energy hub. Egypt successfully issues a \$4 billion Eurobond, which is three-times oversubscribed. The Egyptian Armed Forces launch Operation Comprehensive Sinai 2018 offensive to secure the Sinai Peninsula.*

#### Campaigning begins ahead of presidential election

Campaigning for the 26-28 March presidential election started on 25 February.<sup>1</sup> President **Abdel Fattah Al-Sisi** (2014-present) faces no meaningful electoral challenge from pro-government **Al Ghad** party leader **Mousa Mostafa Mousa** and will easily win a second and final four-year term. Campaigning in the **Egyptian** diaspora will close on 13 March, and in Egypt on 23 March.<sup>2</sup> A day before the official **National Elections Committee (NEC)** campaign period opened, the NEC approved Sisi and Mousa as the only two presidential candidates, and approved the election symbols of both candidates: a star for Sisi and an aeroplane for Mousa.<sup>3</sup> Billboards featuring Sisi and his star appeared in **Cairo** and other governorates as soon as campaigning opened, and easily dwarfed those for Mousa.<sup>4</sup> The pro-Sisi billboards have slogans focusing on the economy ("*With you, we will export more and import less*") and security ("*With you, we will protect every part of our territory*").<sup>5</sup> There is concern that Sisi is making promises that he cannot keep in a second term.

*"As Sisi touts his wins, many payments are due in the next quarter. Everything they say is a win, is something that is taped with plaster. One of the problems they face [the government] is they can't control prices of essential goods; rampant corruption makes business in Egypt fraught. Investors remain cautious. What is being done to change the perceptions about Egypt? Frankly nothing. Instead they keep doing things that generate bad headlines."*<sup>6</sup>

The **Citizen Campaign**, which backs Sisi, has said it plans to hold between nine and 11 events on each day of the campaign.<sup>7</sup> The **Egyptian and Arab Tribes Council**, which backs Mousa, plans to hold events across each governorate.<sup>8</sup> However, the low-profile Mousa only intends to attend one in person, in Cairo on 23 March, and will only make his first nationally televised speech on the same day.<sup>9</sup> Mousa has also said that he does not intend to debate Sisi, claiming Sisi's "*massive achievements*"<sup>10</sup> over the past four years would render a debate pointless.<sup>11</sup> Mousa has not put

<sup>1</sup> Al Ahram, 27 Feb 2018.

<sup>2</sup> Al Ahram, 27 Feb 2018.

<sup>3</sup> Daily News Egypt, 25 Feb 2018.

<sup>4</sup> Al Ahram, 27 Feb 2018.

<sup>5</sup> Source, journalist, Cairo.

<sup>6</sup> Source, fund manager, Cairo.

<sup>7</sup> Al Ahram, 27 Feb 2018.

<sup>8</sup> Daily News Egypt, 25 Feb 2018.

<sup>9</sup> Al Ahram, 27 Feb 2018.

<sup>10</sup> AP, 25 Feb 2018.

<sup>11</sup> AP, 25 Feb 2018.

forward an alternative policy programme, saying if he wins, he will continue Sisi's policies.<sup>12</sup> Mousa's **Making Egypt Better** manifesto reflects this, for instance, in committing to respect the phasing out of subsidies.

*"I am not here to challenge the president... If I win that would be great, but I will not cause any problems."<sup>13</sup>*

Mousa has made little effort to reverse his previous political support for Sisi; his official **Facebook** page still has a photo of Sisi as its banner.<sup>14</sup> Sisi's refusal to allow meaningful competition has increased the risk of a low turnout further damaging the credibility of the election and the authority of his probable second administration.

*"This is a very nervous regime, and I think they will continue to scurry around on the defensive even after the election. They are deeply afraid of losing grip of power or even letting the national conversation shift directions. Which is funny because if you're standing on the other side, you're afraid. Yet it's the regime that's still afraid of us, "the youth". The ones who want real solutions to Egypt's problems. They are terrified that Egyptians see through the mega projects which haven't produced results, and the austerity measures that continue to punish the poor with little upside to overall growth."<sup>15</sup>*

The NEC has capped campaign spending at 20m Egyptian pounds (EGP) (\$1.1m), and has prohibited the offer of gifts or donations to level the playing field.<sup>16</sup> However, in the early days of campaigning, the Citizen Campaign appears to be disregarding the spirit of the cap, including organising convoys to deliver medical services to local communities.<sup>17</sup> The cap also does not stop Sisi benefiting from the power of the incumbency. On 25 February, Sisi appeared in military uniform – for only the second time in his presidency – during the inauguration of a military base near the **Suez Canal**, to portray himself as the candidate able to deliver security (see below) and infrastructure projects.<sup>18</sup>

Prior to the start of the campaign, the crackdown on individuals critical of the government continued. Security forces detained **Strong Egypt Party** leader and 2012 presidential candidate **Abdel Moneim Aboul Fotouh** on 14 February after a Cairo court included him on a terrorism list.<sup>19</sup> Fotouh had given an interview to regional media house **Al Jazeera** in which he criticised Sisi for encouraging an "environment of fear"<sup>20</sup> and called for an opposition boycott of the election.<sup>21</sup> The interior ministry issued a statement on 15 February alleging that Fotouh had held secret meetings with the proscribed **Muslim Brotherhood**, of which he is a former member, in **London (United Kingdom)**.<sup>22</sup>

Security forces also detained **Hisham Geneina**, the former head of the government's anti-corruption **Control Authority**, on 13 February after he claimed to have documents that show that the military was involved in stirring up tensions after the ouster of then president **Hosni Mubarak** (1981-2011) in 2011.<sup>23</sup> Geneina was a senior member of former opposition presidential candidate **Sami Anan's** campaign team.<sup>24</sup> On 13 February, 14 international and regional human rights non-governmental organisations (NGOs) issued a statement saying that the election fails to meet "the minimum

<sup>12</sup> Egypt Independent, 28 Feb 2018.

<sup>13</sup> Egypt Independent, 28 Feb 2018.

<sup>14</sup> Al Araby, 28 Feb 2018.

<sup>15</sup> Source, policy expert, Cairo.

<sup>16</sup> Al Ahram, 27 Feb 2018.

<sup>17</sup> Al Ahram, 27 Feb 2018.

<sup>18</sup> Hona Al Asema, 25 Feb 2018.

<sup>19</sup> www.middleeasteye.net.

<sup>20</sup> www.middleeasteye.net.

<sup>21</sup> www.middleeasteye.net.

<sup>22</sup> Interior ministry statement, 15 Feb 2018.

<sup>23</sup> Egypt Independent, 13 Feb 2018.

<sup>24</sup> Egypt Independent, 13 Feb 2018.

requirements for free and fair".<sup>25</sup> There is concern that Sisi's use of government institutions to crack down on the opposition will damage his authority during his probable second term.

*"I believe in the coming period we are going to see more rebellion within the ranks of the judiciary and even organisations affiliated with the state. You have the judges trying to appeal Sisi's changes to the law that oversees their selection. Then there's the conversation around presidential term limits which I think will return. The last time this topic surfaced you even had anger amid the parliament which was selected by Sisi. There was criticism in even the most loyal ranks of the state media. I think it's these things, however small, that tell you that there is still dissent in Egypt. There is still a flicker of hope left from the rubble of the revolution. And most of all that you never can quite predict when that small flicker will reignite, and people will stand up again and say 'no' to another 30-year leader like Mubarak. I think the president knows this quite well, and I think he fears it every day he's there."*<sup>26</sup>

Unless there is the need for a second round, the NEC will announce the winner of the presidential election on 2 April.<sup>27</sup>

It is extremely probable that Sisi will win the presidential election, ensuring policy continuation. Sisi's increasing authoritarianism will lead to increased political and popular discontent, as will his failure to deliver on his election campaign promises. While the opposition is weak, the bigger challenge to Sisi may come from within government if its political institutions see Sisi as detrimental to their own credibility and authority.

### Israeli company agrees gas export contract with Egypt-based counterparty

Israel-based **Delek Drilling LP** and United States (US)-based **Noble Energy Inc** announced agreements to export natural gas from Israel to Egypt-based **Dolphinus Holdings Ltd** on 19 February.<sup>28</sup> The agreement will make Egypt a regional gas hub as it will meet domestic demand and allow energy exports. Delek and Noble will supply 64 billion cubic metres (bcm) from Israel's offshore **Tamar** and **Leviathan** gas fields.<sup>29</sup> The ten-year contract is worth a reported \$15 billion.<sup>30</sup> Delek and Noble will begin the supply of natural gas once the necessary infrastructure is in place.<sup>31</sup> Delek and Noble are reportedly considering reversing the existing **East Mediterranean Gas Co (EMG)** pipeline, which transported gas from Egypt to Israel until it was suspended due to domestic shortages in 2013, or via **Jordan**.<sup>32</sup> There is speculation that Delek and Noble may look to acquire EMG.<sup>33</sup>

The contract will last until either the supply reaches 64 bcm or 2030.<sup>34</sup> Dolphinus applied for a gas import permit immediately after the passage of the **Natural Gas Act 2017** that liberalised Egypt's natural gas market. The deal still requires regulatory approval in both Egypt and Israel, though both governments have welcomed it in principle.<sup>35</sup> In comments on 21 February, President Sisi said,

*"We have scored a goal ... I've been dreaming about it for four years, that we become a regional hub for energy... all the gas coming from around the region will come to us ... It's either re-exported to other countries or we use it locally."*<sup>36</sup>

<sup>25</sup> www.hrw.org.

<sup>26</sup> Source, former government official, Cairo.

<sup>27</sup> Al Ahram, 27 Feb 2018.

<sup>28</sup> Globes, 20 Feb 2018.

<sup>29</sup> Globes, 20 Feb 2018.

<sup>30</sup> Globes, 20 Feb 2018.

<sup>31</sup> Globes, 20 Feb 2018.

<sup>32</sup> Globes, 20 Feb 2018.

<sup>33</sup> Mada Masr, 23 Feb 2018.

<sup>34</sup> Globes, 20 Feb 2018.

<sup>35</sup> Globes, 20 Feb 2018.

<sup>36</sup> Al Ahram, 21 Feb 2018.

The Egyptian petroleum minister, **Tarek El Molla**, has said the deal will benefit the local economy as natural gas importers will pay the Egyptian government to use its infrastructure for transport and distribution, and will encourage investment in Egypt's dilapidated liquefied natural gas (LNG) export terminals at **Idku** and **Damietta** as a necessary prerequisite for energy re-exports.<sup>37</sup> El Molla told an international conference on 23 February that Egypt will sign a memorandum of understanding with the **European Union (EU)** to export LNG to **Europe** before mid-2018.<sup>38</sup>

El Molla, however, said imports from Israel will only begin when Israel drops a \$1.76 billion **Geneva-based International Chamber of Commerce** arbitration award in favour of Israeli state-owned **Israel Electric Corp** against Egyptian state-owned **Egyptian General Petroleum Corp (EGPC)** and **Egyptian Natural Gas Holding Co (EGAS)** and EMG over EMG pipeline supply disruptions.<sup>39</sup> The prime minister, **Sherif Ismail**, said on 22 February that Egypt and Israel had already resolved the dispute, but declined to provide additional details.

*"We reached an agreement to receive part of the gas in Egypt via [EMG's] pipelines and this is part of the resolution to the arbitration."*<sup>40</sup>

Separately, the **Cypriot** energy minister, **Georgios Lakkotrypīs**, said on 21 February that **Cyprus** is close to reaching an agreement to sell natural gas to Egypt.<sup>41</sup> The agreement will cover the offshore **Aphrodite** field.<sup>42</sup> These offshore resources are politically sensitive due to **Turkey** rejecting a 2013 maritime demarcation agreement between Cyprus – with whom Turkey has no diplomatic relations – and Egypt, which allows for gas exploration.<sup>43</sup> Turkish foreign minister **Mevlut Cavusoglu** described the 2013 agreement as "*null and void*" on 7 February.<sup>44</sup> Egypt has rejected Turkish criticisms, claiming Turkey's position violates Egypt's rights in its **Eastern Mediterranean Exclusive Economic Zone**.<sup>45</sup> On 9 February, the Turkish navy blocked an **Italy**-based oil group **ENI SpA** drilling ship as it crossed from Block 6 to Block 3 in Cyprus' Exclusive Economic Zone.<sup>46</sup> Egypt has deployed its navy to the **Zohr** gasfield as part of **Operation Sinai 2018**, a move that analysts see as a potential warning to Turkey that it is willing to take military action to defend its offshore gas resources.<sup>47</sup> On 23 February, the EU president, **Donald Tusk**, threatened to cancel a summit with Turkish president **Recep Tayyip Erdogan** (2014-present) in March over its forced relocation of the ENI drilling vessel.<sup>48</sup>

Sisi can point to Egypt's improved domestic energy supply as one of the successes of his first term of office. Additionally, Egypt's existing cross-Mediterranean infrastructure, LNG plants, and amicable relations with Israel and Arab states alike mean it is well-placed to become a regional energy hub during Sisi's probable second term of office. The biggest threat to Egyptian ambitions comes from Turkish obstructionism, but Turkey will not want to unnerve international energy companies as it looks to develop its own gas resources.

## Egypt issues \$4 billion Eurobond

Egypt successfully issued a \$4 billion Eurobond, which was three-times oversubscribed, on 13 February.<sup>49</sup> The positive investor response is indicative of increased confidence in Egypt's macroeconomic fundamentals. The Eurobond was a three-tranche offering: \$1.25 billion in five-year

<sup>37</sup> Hona Al Asema, 20 Feb 2018.

<sup>38</sup> Petroleum ministry statement, 23 Feb 2018.

<sup>39</sup> Source, Egypt analyst, UK.

<sup>40</sup> Bloomberg, 21 Feb 2018.

<sup>41</sup> Bloomberg, 21 Feb 2018.

<sup>42</sup> Bloomberg, 21 Feb 2018.

<sup>43</sup> Ekathimerini, 12 Feb 2018.

<sup>44</sup> Reuters, 7 Feb 2018.

<sup>45</sup> Ekathimerini, 12 Feb 2018.

<sup>46</sup> Reuters, 22 Feb 2018.

<sup>47</sup> Al Ahram, 20 Feb 2018.

<sup>48</sup> Bloomberg, 23 Feb 2018.

<sup>49</sup> Enterprise, 14 Feb 2018.

notes with a yield of 5.58%; \$1.25 billion in 10-year notes with a yield of 6.59%, and \$1.5 billion in 30-year notes with a yield of 7.91%.<sup>50</sup> Appetite was equally strong across the three tranches.<sup>51</sup> The finance ministry reported that strong global demand resulted in a total order book over \$12 billion.<sup>52</sup> **United States (US)** and **Europe**-based institutional investors were responsible for the demand, but the finance ministry said there were more **Middle East** and **Asia**-based funds than in previous offerings.<sup>53</sup> Before the issuance, there was uncertainty about demand in the wake of the selloff that created significant market volatility in the week beginning 5 February.<sup>54</sup> Following the selloff, a number of emerging markets, including **Indonesia**, postponed or called off offerings.<sup>55</sup>

The day after the successful issuance, the finance minister, **Amr El Garhy**, said that the government will issue a euro-denominated bond in April.<sup>56</sup> El Garhy said the government will seek Europe-based banks to manage the issuance.<sup>57</sup> **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** led the 13 February issuance.<sup>58</sup>

The Eurobond issuance, combined with a **Central Bank of Egypt (CBE)** rates cut on 15 February, will improve liquidity and therefore private sector access to credit. The CBE cut its key policy rates 100 basis points on 15 February.<sup>59</sup> Prior to the cut, the CBE had maintained its rates since July 2017 when it completed a 1,000 basis point tightening cycle that began in December 2015.<sup>60</sup> The CBE cut the overnight deposit rate, the overnight lending rate and its main operation rate to 17.75%, 18.75% and 18.25% respectively.<sup>61</sup> The CBE cited a moderation in inflation, which decreased to 17.1% in January, the lowest level since October 2016.<sup>62</sup> Inflation has decreased for six consecutive months, which the CBE noted was in part due to favourable base effects.<sup>63</sup> The CBE reiterated its target of 13% inflation, plus/minus 3%, by the fourth quarter of this year and then single digit inflation.<sup>64</sup> The CBE said growth increased 5.3% in December, making the fourth quarter the fifth consecutive quarter of growth.<sup>65</sup> The CBE said growth was on the back of increased external demand, due to more competitive exchange rates since the currency floatation, and public domestic demand, which offset lower private domestic demand.<sup>66</sup> The CBE monetary policy committee next meets on 29 March.<sup>67</sup>

The successful Eurobond issuance signals increased investor confidence on the back of Sisi's economic reforms. While Egypt's macroeconomics have improved under Sisi, the concern is that ordinary households are yet to benefit, which will pose a risk of popular discontent during Sisi's second term.

### Armed Forces begin Sinai Peninsula offensive

The **Egyptian Armed Forces** launched a sweeping offensive on 9 February to secure the **Sinai Peninsula**.<sup>68</sup> Sisi had given Armed Forces chief of staff **Mohamed Farid Hegazy** and the interior

<sup>50</sup> Enterprise, 14 Feb 2018.

<sup>51</sup> Enterprise, 14 Feb 2018.

<sup>52</sup> Enterprise, 14 Feb 2018.

<sup>53</sup> Enterprise, 14 Feb 2018.

<sup>54</sup> Enterprise, 14 Feb 2018.

<sup>55</sup> Enterprise, 14 Feb 2018.

<sup>56</sup> Bloomberg, 14 Feb 2018.

<sup>57</sup> Bloomberg, 14 Feb 2018.

<sup>58</sup> Bloomberg, 14 Feb 2018.

<sup>59</sup> Central Bank News, 15 Feb 2018.

<sup>60</sup> Central Bank News, 15 Feb 2018.

<sup>61</sup> Central Bank News, 15 Feb 2018.

<sup>62</sup> Central Bank News, 15 Feb 2018.

<sup>63</sup> Central Bank News, 15 Feb 2018.

<sup>64</sup> Central Bank News, 15 Feb 2018.

<sup>65</sup> Central Bank News, 15 Feb 2018.

<sup>66</sup> Central Bank News, 15 Feb 2018.

<sup>67</sup> Central Bank News, 15 Feb 2018.

<sup>68</sup> Mada Masr, 9 Feb 2018.

minister, **Magdy Abdel Ghaffar**, an end of February deadline – one month prior to the general election – to improve security in the region. The **Operation Comprehensive Sinai 2018** offensive includes the deployment of thousands of soldiers to north and central Sinai, the **Western Desert** and the **Nile Delta**.<sup>69</sup> The offensive aims to stop the inflow of arms and militants from **Libya**.<sup>70</sup> The interior ministry raised the national alert level to maximum across all governorates and increased security at all strategic sites and major roads.<sup>71</sup> The operation is unlikely to improve the security situation in the longer term.

*“With regard to security, I think the situation will continue to escalate, violence begets violence after all. There will be more attacks in Cairo and potentially on public infrastructure. With the new Sinai operation, the Army promised to wipe out the threat once and for all. The threat being around 1000 **Islamic State** militant group-affiliated fighters. Now, they are asking for another three months to do so. Which is what’s happening every time. There’s always an extension but never a solution or a shift in strategy.”<sup>72</sup>*

Despite coming to power on the back of promises of increased security and stability, Sisi has failed to effectively address militancy, especially in the Sinai Peninsula. Militancy will continue until the government addresses local economic grievances, and bring local communities on side.

## 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 if decided in first round;  
 Apr 2018 **Cairo (Egypt)** *Bloomberg*. Euro-denominated Eurobond issue;  
 26-28 March 2018 **(Egypt)** *Al Masry Al Youm*. Voting in presidential election;  
 March 2018 **(Egypt)** *Al Mal*. Parliament to discuss budget;  
 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;

## Chronology

27 Feb 2018 **(Egypt)** *Enterprise*. The finance ministry will publish timeline for state initial public offering (IPO) programme before March;  
 25 Feb 2018 **(Egypt)** *Al Ahram*. Campaigning for the 26-28 March presidential election starts;  
 22 Feb 2018 **(Egypt)** *Al Ahram*. New **Bankruptcy Act** comes into effect;  
 21 Feb 2018 **(Egypt)** *Bloomberg*. The **Cypriot** energy minister, **Georgios Lakkotrypīs**, says that Cyprus is close to reaching an agreement to sell natural gas to Egypt;  
 19 Feb 2018 **(Egypt)** *Globe*. **Israel-based Delek Drilling LP** and **United States (US)-based Noble Energy Inc** announce agreements to export natural gas from Israel to Egypt-based

<sup>69</sup> Mada Masr, 9 Feb 2018.

<sup>70</sup> Mada Masr, 9 Feb 2018.

<sup>71</sup> Mada Masr, 9 Feb 2018.

<sup>72</sup> Source, former diplomat, Egypt.

**Dolphinus Holdings Ltd;**

16 Feb 2018 **(Egypt)** *Press release*. The US commerce secretary **Wilbur Ross** threatens to impose prohibitive tariffs on steel imports from Egypt;

15 Feb 2018 **Cairo (Egypt)** *CentralBankNews*. The **Central Bank of Egypt (CBE)** cuts its key policy rates 100 basis points;

13 Feb 2018 **Cairo (Egypt)** *Bloomberg*. The finance minister, **Amr El Garhy**, says that the government will issue a euro-denominated bond in April;

13 Feb 2018 **Cairo (Egypt)** *Bloomberg*. Egypt successfully issues a \$4 billion Eurobond, which is three times oversubscribed;

12 Feb 2018 **(Egypt)** *Reuters*. **BP** pledges to invest \$1 billion in Egypt this year, and projects production from **Atoll** gas field will begin seven months ahead of schedule;

11 Feb 2018 **Cairo (Egypt)** *Press release*. Parliament approves a two-year extension of the **Tax Dispute Resolution Act**;

9 Feb 2018 **Sinai Peninsula (Egypt)** *Mada Masr*. The **Armed Forces** launches **Operation Comprehensive Sinai 2018** offensive;

8 Feb 2018 **Cairo (Egypt)** *Reuters*. **Central Agency for Public Mobilization and Statistics (CAPMAS)** data shows annual inflation decreased to 17.1% in January from 21.9% in December;

7 Feb 2018 **Cairo (Egypt)** *Reuters*. The oil minister, **Tarek El Molla**, says that fuel subsidy costs had increased 34% in the first half of the 2017/2018 fiscal year;

7 Feb 2018 **Cairo (Egypt)** *Al Mal*. The parliamentary economics committee approves amendments to the **Capital Markets Act** allowing privately-owned stock exchanges;

6 Feb 2018 **Cairo (Egypt)** *Al Borsa*. The electricity minister, **Mohamed Shaker**, says electricity prices across all user tiers will come into force in July;

5 Feb 2018 **Sinai Peninsula (Egypt)** *Al Ahram*. The Armed Forces denies **Israel** is conducting covert air strikes in the Sinai Peninsula.