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Egypt's Metro ticket price hikes spurs praise from economic watchers, while public anger in Cairo raises questions about the extent to which Egyptians will continue to bear the brunt of the latest round of austerity measures and reforms. The finance ministry raises €2 billion, (\$2.3 billion) as part of its latest bond offering. Significant planned cuts to crucial food, fuel and electricity subsidies are at the heart of budget discussions.

Metro ticket price hike spurs public anger

The **Egyptian** transport ministry increased the cost of a standard base metro fare from 2-3 pounds (EGP) (\$0.11-\$0.16), and up to EGP7 (\$0.39) for one ticket on 10 May.¹ The average commuter who took 20 trips per month for EGP40 (\$2.24) would now be paying EGP280 (\$15.69) for the same month. The transport ministry announced in a statement that the pricing system would now reflect a tier system based on distance travelled.² Metro pricing has historically been a political non-starter in Egypt, and transport minister **Hisham Arafat** had given conflicting signals on when the hike would take place. The issue was notably absent from pre-election debates, particularly since the government had already doubled ticket prices in March last year.³

Commuters in stations around **Cairo** greeted news of the price jump with anger. Many protested by jumping over turnstiles instead of paying the raised cost, and shouted slogans demanding the government remove the cost hikes.⁴ It was a rare display of public anger, since protesting was formally criminalised in 2013.⁵ The government has responded with a large show of force, posting para-troopers, and heavily armed central security force vehicles and high-ranking officers in metro stations across the city.⁶ This has done little to soothe public anger. Social media continues to buzz with videos of commuters, and news that at least 21 of those who protested were arrested.⁷

The transport price increase comes at a delicate time in Egypt. The election saw low turnout, and was seen as at best unfair, and by many as further humiliation in the aftermath of a once hopeful revolution. The government plans to further reduce fuel, gas, electricity and food subsidies that sustain millions of low-income families. The government was at pains to say that the move was necessary to make the metro “sustainable”, going as far as to say the new fares were still lower than operating costs and market rates. The transport ministry insisted that ticket prices are still subsidised, with the real price per ride being approximately EGP 16.50 (\$0.92).

Several analysts have suggested that the government’s handling of the issue of price hikes in crucial areas like the metro will be an indicator for ongoing stability.

“The metro rises will test the government’s ability to communicate with the public about the necessity of the cuts. They haven’t been doing that; instead there have been arrests and security.

¹ Al Mal, 10 May 2018.

² Al Mal, 10 May 2018.

³ Enterprise 27 Mar 2017.

⁴ Source, journalist, Cairo

⁵ Global Post, 26 Nov 2013.

⁶ Source, journalist, Cairo

⁷ Local journalist, Cairo

Egyptians are feeling the squeeze, and asking what next? It may have been different had people voted for a leader who had put forward a platform of reforms. But the way it's being rolled out is very blind.”⁸

Anticipating the fallout with the public, parliamentarians fresh from receiving further salary and pension rises, greeted the news with anger and complaints to the speaker which spurred the filing of several law suits seeking to have the rises reversed. President **Abdel-Fattah el-Sisi** (2014-present) has previously complained that metro prices were too low, as part of a general assertion which he has often repeated that Egyptians lack discipline when it comes to financial matters. However, actual price rises are widely considered to be linked the programme of austerity measures implemented as part of the measures of the \$12 billion bailout loan from the **International Monetary Fund (IMF)**.

The impact of the hikes has not been fully gauged with the month of Ramadan currently in progress. However, the large security presence in and around metro stations suggest the government is nervous, and wants to secure itself against any public demonstrations in order to be able to present an image of calm and stability. However, it is likely that the cuts, and the ensuing harsh security, will only add to the burden on ordinary Egyptians and the growing anger toward the government regarding inflation and increasing wealth disparities.

Government completes latest Eurobond offering

Egypt raised €2 billion (\$2.3 billion) in a bond offering on 9 April.⁹ The latest in a series of bond offerings, the most recent previous sale in February, saw the government raise \$4 billion through a triple-tranche offering.¹⁰ The Egyptian government hired **France-based BNP Paribas, Italy-based Banca IMI, Germany-based Deutsche Bank and United Kingdom (UK)-based Standard Chartered Bank** to act as joint book runners.¹¹ The bonds were issued with maturities of eight and 12 years at 4.75% and 5.625%, attracting an overall €7.5 billion (\$8.8 billion) in orders.¹²

A BNP source says that UK-based institutional investors accounted for 40% of demand of the €2 billion (\$2.3 billion) bond issuances.¹³ The remainder of the issuance was split between **European Union (EU)** investors, who accounted for 30%, **United States (US)** investors at 20%, and investors from the **Gulf and Asia** at 10%.¹⁴ The offering was 3.8 times oversubscribed, attracting orders of €7.5 billion (\$8.8 billion) from over 350 investors in 35 countries.¹⁵

Finance minister **Amr El Garhy** touted the sale as a win, using it as proof of renewed interest in Egypt, particularly among European and US investors. He added that interest in Egypt is “*not likely to fade soon*” because the “*trade-off between risks and returns remains attractive*.”¹⁶ Egypt is planning \$6-7 billion worth of US dollar and euro-denominated eurobond issuances in FY2018-19, according to El Garhy.¹⁷

“As investors see that things are improving in Egypt and that there's no fatigue in economic reform, I think we'll see more and more people coming. It's a win-win situation... Investors need to come to Egypt to make good returns and the country needs to make use of that as well, in terms of hiring people, labour, and reducing the unemployment rate.”¹⁸

⁸ Source, policy analyst, Cairo

⁹ Reuters, 9 Apr 2018.

¹⁰ Reuters, 3 Apr 2018.

¹¹ Enterprise, 27 Mar 2018.

¹² Enterprise, 27 Mar 2018.

¹³ Enterprise 10 Apr 2018.

¹⁴ Enterprise, 17 Apr 2018.

¹⁵ Enterprise, 17 Apr 2018.

¹⁶ Bloomberg TV, 30 Apr 2018.

¹⁷ Bloomberg TV, 30 Apr 2018.

¹⁸ Amr E-Garhy quoted on Bloomberg TV, 30 Apr 2018.

As the international press continues to write in glowing terms about Egypt's miracle recovery, some **Africa** watchers and local sources have quietly encouraged further scrutiny on the issuings. They have warned again that these bond sales underline a lack of long-term strategy on the government's part, and also raise questions about lack of transparency about where these funds will be used.

*"It is the equivalent of using one credit card to pay off another."*¹⁹

Garhy argued that the government is focused on altering the overall environment for investors by "fighting day in and day out" to implement legislative and structural reforms that facilitate processes such as land availability and allocation, as well as issuing licences and permits.²⁰

While credit agencies have ranked Egypt lower in comparison to other emerging markets like **Nigeria** and **Argentina**, the cost of insuring Egypt's debt against default for five years is lower than Nigeria's and similar to Argentina's.²¹ Egyptian equities also continue to outperform their higher-ranked peers.²² The ongoing interest suggests investors are confident in Egypt's reform efforts and its capacity to repay. The interest also reflects investors' preference for continuity, so as Sisi continues to court the IMF and implement aggressive reforms that generate savings, such as expected tax hikes, Egypt's upward economic trajectory should continue to be positive.

Subsidy cuts dominate media

Subsidy cuts have dominated Egypt's media in recent weeks, as budget debates in the House saw the leaking of some of the expected cuts on social media platform **Twitter**. Subsidy cuts, as with the cost of transportation such as the metro, may form the biggest challenge to the government's survival. Both have received significant coverage with an estimated 70 million Egyptians receiving food stamps avidly following how the changes will affect them. Rumoured subsidy cuts include a 19.1% cut to EGP 89.08 billion (\$500m) in fuel subsidies and a 46.6% cut in electricity subsidies down to EGP 16 billion (\$89m) in the next fiscal year.²³ Food subsidies are expected to increase by 5%, while spending on commodity subsidies is expected to grow to 36.6% in FY2018-19 to EGP 86.18 billion (\$482m).

Some commentators have praised the government as brave for announcing further cuts in the face of likely public backlash. However, the government has little choice: the implementation of subsidy cuts is crucial to Egypt complying with the 2016 IMF loan conditions. When asked recently about Egypt's stability as a potential obstacle for investors in reference to the events of the recent election, investment minister **Sahar Nasser** was quick to describe the country as an "island of stability" in the region.²⁴

However, analysts and local sources suggest that while the government is publicly forging ahead, behind closed doors there is huge anxiety about the tolerance of the public to more cuts as wages stagnate, and unemployment amongst youth remains high.

*"I think the combination of these rises, subsidy cuts and inflation on food stuffs are going to bring to the fore discontent. Just recently Sisi inaugurated a \$1 billion concrete plant owned by the Army. Which is crazy when you remember that the market is already far over supplied with concrete. If we keep seeing these crony projects, and the antics of the parliamentarians, I think anger can only boil from here."*²⁵

The reaction to these cuts following the month of Ramadan will considerably test the popularity of Sisi and the government generally. And it will set the tone for whether the public will tolerate further cuts, especially to food and gas subsidies. It will also likely determine whether the government and

¹⁹ Enterprise 10 Apr 2018.

²⁰ Al Mal, 12 Apr 2018.

²¹ Bloomberg, 12 Apr 2018.

²² Bloomberg, 12 Apr 2018

²³ Enterprise 16 Apr 2018.

²⁴ CNN, 21 Apr 2018.

²⁵ Source, policy expert, Cairo

pro-state parliamentarians will attempt in the near future to change the constitution to amend presidential term limits, which would theoretically allow the president to hold office indefinitely. Should public anger continue to boil, it is less likely the parliament or Sisi will try to pursue such constitutional changes.

Planner

May: Cairo **(Egypt)** *Al Masry Al Youm* **French** President **Emmanuel Macron** to visit Egypt;
 June 2018 **Cairo (Egypt)** *Press release*. Government expects next \$2 billion disbursement from **International Monetary Fund (IMF)** before new financial year, after IMF completes review in May;
 7 June 2018 **Cairo (Egypt)** *Al Sharouk*. President **El Fattah el-sisi's** second term in office officially begins;
 2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;
 Second quarter 2018 **(Egypt)** *Reuters*. Government to issue \$1-1.5 billion euro-denominated bond sale before start of next financial year;

Chronology

10 May 2018 **Cairo (Egypt)** *Reuters*. Transport ministry hikes **Cairo** metro fare in latest austerity measure;
 10 May 2018 **Cairo (Egypt)** *Reuters*. Egypt signs MOU with **China's Golden Concord Group (GCL)** for \$2 billion solar panel factory;
 4 May 2018 **(Egypt)** *Al Ahram*. Foreign Minister hints Arab troops might be sent to **Syria**;
 1 May 2018 **(Egypt)** *Egypt Independent*. **International Monetary Fund (IMF)** loan review team to visit Egypt;
 30 Apr 2018 **(Egypt)** *Enterprise*. Finance ministry announces **Banque du Caire IPO** on the **Egyptian Exchange** headed for late 2018 or early 2019;
 29 Apr 2018 **(Egypt)** *Al Mal*. Electricity ministry is reportedly looking to force factories to source a minimum percentage of their power needs from renewable energy;
 29 Apr 2018 **(Egypt)** *Press Release*. Egypt's non-oil exports grew 15% y-o-y in 1Q2018 to \$6.3 billion, up from \$5.5 billion in the same period last year;
 23 Apr 2018 **(Egypt)** *Press Release*. Egypt is looking to attract as much as \$10 billion in new foreign investment in the oil and gas sector in FY2018-19 thanks to new discoveries in the **East Mediterranean**;
 23 Apr 2018 **(Sudan)** *Enterprise*, Sudan dismisses foreign minister **Ibrahim Ghandour** who was central in talks on the **Grand Ethiopian Renaissance Dam (GERD)** and Sudan's territorial dispute with Egypt over **Halayeb** and **Shalateen**;
 22 Apr 2018 **(Egypt)** *Youm7*. House approves legislation amendments that will allow for private sector involvement in maintenance and oversight of metro;
 16 Apr 2018 **(Egypt)** *Al Bawaba*. Government pledges EGP 275 billion for **Sinai** development over four years;
 15 Apr 2018 **(Egypt)** *Youm 7*. The House General Assembly approves extending the state of emergency for an additional three months;
 12 Apr 2018 **(Egypt)** *Enterprise*. Cabinet signs off on EGP 200 billion sovereign wealth fund;
 12 Apr 2018 **(Egypt)** *Al Masry Al Youm*. Flights resume to **Moscow** for the first time in two years;

12 Apr 2018 **(Egypt)** *Enterprise*. Egypt to issue more bonds by end of 2018;

11 Apr 2018 **(Egypt)** *CAMPAS*. Annual headline inflation rates dropped to 13.1% in March from 14.4% a month earlier;

10 Apr 2018 **(Egypt)** *Enterprise*. **Centamin's** production from **Sukari** gold mine rises 14% y-o-y in 1Q2018;

9 Apr 2018 **(Egypt)** *Reuters*. Egypt successfully closes a €2 billion (\$2.3 billion) Eurobond sale;