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Egypt Summary 12 June 2018

The cabinet resigns in preparation for a shuffle following the swearing in of incumbent President Abdel-Fattah el-Sisi (2014-present) for his second term in office. Egypt and Ethiopia announce they have broken a deadlock over the operation of the Grand Ethiopian Renaissance Dam, promising joint leadership on the issue going forward. The planning ministry discusses plans for Egypt's new sovereign wealth fund.

Sisi orders cabinet reshuffle

Egypt's prime minister, **Sherif Ismail**, submitted the procedural resignation of his cabinet following the swearing in for his second term in office of President **Abdel-Fattah el-Sisi** (2014-present) on 2 June.¹ Sisi had appointed Ismail, the former petroleum minister, as prime minister in September 2015.² Sisi thanked the outgoing cabinet for having endured "*Egypt's cruellest times in modern history*".³ He added that the cabinet re shuffle was taking place in order to "*give change a chance*".⁴ Commenting on the shuffle in a speech, Sisi said that Egypt has witnessed huge challenges, and Egyptians cooperated to fight against those who tried to harm the country.⁵

Sisi appointed **Mostafa Madbouly** to form a new government on 7 June, giving the current government caretaker status until a new government can be formed.⁶ Madbouly served as housing minister from 2014 in both the **Ibrahim Mahlab** and Ismail cabinets, and also filled in for Ismail while he was abroad seeking treatment for an unspecified illness over the past year.⁷ Madbouly is known for his work in land devolvment, where he was considered a capable and well-liked project manager.⁸ He was also the architect of the government-led land development projects currently taking place across the country in the form of projects such as **New Giza** and **New Mansoura**.⁹ There is talk that he can bring discipline to a sometimes-erratic cabinet that has been criticised for making quick decisions without considering long-term impacts.¹⁰

Madbouly is presently forming his council of ministers. There is wide speculation that the new cabinet may be more focused, with 24 ministers instead of the 33 in the outgoing Ismail cabinet.¹¹ Sources close to the new prime minister say he has concluded his meetings with potential ministerial candidates and will imminently send a list to the president.¹² Key sovereign portfolios including the foreign ministry, justice, interior and defence are tipped to remain unchanged.¹³ Replacements are

¹ Enterprise, 6 June 2018.

² Al Ahram, 19 Sep 2015.

³ Egypt Today, 11 June 2018.

⁴ Egypt Today, 11 June 2018.

⁵ DMC TV, Monday June 11, 2016.

⁶ Egypt Today, 11 June 2018.

⁷ Egypt Today, 7 June 2018.

⁸ Source, venture capital manager, Cairo

⁹ Source, venture capital manager, Cairo

¹⁰ Source, news columnist, Cairo

¹¹ Enterprise 11 June 2018.

¹² Source, journalist, Cairo

¹³ Al Ahram, 10 June 2018.

expected in the housing, health, environment, manpower, trade, youth, finance and local development ministries. Sisi is expected to swear in the new ministers before Eid, which commences on 15 June.¹⁴

An ARC source mentioned that **Sahar Nasr**, reportedly one of Sisi's favoured ministers, had also been considered for the role of prime minister.¹⁵ Nasr's tenure has been divisive at times.¹⁶ There was significant in-fighting when she replaced **Dalia Korshid** as investment minister.¹⁷ Sources say there will be a larger contingent of women in the new cabinet, making up six to ten of the posts.¹⁸

As appointments to the new cabinet remain pending, the discussion remains fixed on how they will handle ongoing economic reforms, which are set to include the slashing of public sector jobs from 7 to 3 million.¹⁹ The implications of the shuffle are fluid, as they largely depend on Madbouly's and his ministers' ability to sell reforms to the public, as well as the offsetting of austerity policies with compensation and job creation. While Egypt has been receiving large sums in aid and investment, that money, at least in the short to medium term, is not aiding increasingly difficult living conditions for the majority of Egyptians who feel they are suffering as a result of the economic mismanagement of the current government. Anger continues to increase on the street over what citizens are calling government greed and incompetence.

The series of almost daily arrests over the last month, as well as the recent introduction of further draconian laws to limit personal social media use and media outlets, reflect the government's nervousness about the implementation of further cuts and price hikes over the summer. Sisi has been in frequent contact with his **Jordanian** counterpart, **King Abdullah** (1999-present), over the recent protests in **Amman** over austerity measures.²⁰ Sources say MPs have also been closely watching events unfold, and have quietly commented on the Jordanian experience as a warning to Egypt not to underestimate economic anger of the citizenry.²¹

Egypt and Ethiopia move towards resolving the GERD dispute

Egypt and **Ethiopia** have agreed on adopting "*a joint vision*" on the construction of **Grand Ethiopian Renaissance Dam (GERD)** "*based on mutual respect to the interests and development rights of the other*".²² The two countries reached a compromise during a three-day visit to **Cairo** by the newly appointed Ethiopian prime minister, **Abiy Ahmed** (2018-present), in what is being touted as a historic summit on an issue that had soured relations since 2011.²³

There has been a deadlock in discussions over the past year related to the filling of the dam and its effect on Egypt's water supply. While Ethiopia insisted on a three-year timetable for filling the dam, Egypt wanted a longer time frame.²⁴ The recent talks have seen Ethiopia agree to a time frame of possibly seven to ten years, in exchange for economic cooperation with Egypt.²⁵ This includes an agreement to set up a fund for infrastructure development, an Egyptian industrial zone in Ethiopia, imports of Ethiopian meat, as well as cooperating in areas including agriculture, livestock, and health.²⁶ Further incentives for Ethiopia included the release of 32 prisoners held in Egypt, and a

¹⁴ Enterprise, 11 June 2018.

¹⁵ Source, banker, Cairo

¹⁶ Source, banker, Cairo

¹⁷ Source, banker, Cairo

¹⁸ Source, Arabic journalist, Cairo

¹⁹ Al Dostour, 12 June 2018.

²⁰ Press Release, 4 June 2018.

²¹ Source, journalist, Cairo

²² Press Release, June 10, 2018.

²³ Enterprise 11 June 2018

²⁴ Enterprise 11 June 2018.

²⁵ Enterprise 11 June 2018.

²⁶ Quartz, 11 June 2018.

promise by Egypt to help recover the bodies of 38 Ethiopian workers killed in **Libya** in 2015 by the **Islamic State**.²⁷

The local press, quoting an Arab diplomatic source, said the intervention of several **Gulf States**, including **Kuwait**, the **United Arab Emirates** and **Saudi Arabia**, pushed Ethiopia to resolve its deadlock with Egypt.²⁸ The extent of their involvement is unknown, but it was reported that pledges to increase Gulf investment in Ethiopia were made.²⁹

The agreement represents a major breakthrough for Egypt as the dam issue is one of the key challenges of Sisi's second term. The lack of a resolution represented a major problem for Sisi who has repeatedly called the **Nile** "the lifeblood" of the country.³⁰ Dozens of meetings held across the **African** continent with a handful of nations had ended at an impasse. There was quiet speculation that Sisi might launch military action if Ethiopia went ahead and filled the dam without Egypt's agreement, potentially spurring a war. Tensions were already high with **Sudan**, which refused to take Egypt's side in the dispute.³¹ The failed talks saw Sisi reaching out to **Eritrea**, Ethiopia's arch enemy,³² with speculation that Egypt might build a base in the country. Onlookers have suggested this could trigger an arms race in the region, as Egypt has already made considerable military hardware purchases over the past four years.³³ The agreement comes as a relief to the business community, which views the dam issue as potentially very damaging to Egypt's stability.

Egypt plans to launch sovereign wealth fund

Acting planning minister **Hala Al-Saeed** has discussed with reporters Egypt's plans to launch its first sovereign wealth fund by the end of the year.³⁴ The fund will be called the "Egypt Fund" and a promotional tour to draw private investments for it will take place in the first half of 2019.³⁵ Al-Saeed said the fund will have an authorised capital of EGP 200 billion (\$11.34 billion) and will start with a paid-up capital of EGP 5 billion (\$279m), 20% of which will be injected by the government when it is set up.³⁶ The fund will seek to attract domestic and foreign investments through partnering with the private sector. The government is already in talks with regional and **European** institutions to take part in forming the fund's sector-specific units.³⁷

*"Egypt has a wealth of assets and companies that have not been properly used and [have been] mismanaged over many years, and we are ready to start a real partnership with the private sector to render them productive and more advanced."*³⁸

The sovereign wealth fund appears to be an attempt to woo back the private sector, which has increasingly complained of being left out of opportunities as a result of the government's opaque business dealings with the armed forces.³⁹ Recent media coverage has focused on the issue, asserting the military's growing role in the economy under Sisi.⁴⁰ The government has in turn made a number of overtures to the private sector in the press, including a recent sit down with reporters by military production minister **Mohamed Al Assar** in which he insisted the private sector is not at odds with the military's economic activities:

²⁷ Twitter, quoted on Ethiopian Chief of Staff's account, 11 June 2018

²⁸ Al Shorouk, 11 June 2018.

²⁹ Al Shorouk, 11 June 2018.

³⁰ Associated Press, October 2017.

³¹ Reuters, 29 May 2018.

³² Egypt Today, 9 Jan 2018.

³³ Sudan Tribune, 18 Apr 2017.

³⁴ Bloomberg, 7 June 2018.

³⁵ Bloomberg, 7 June 2018.

³⁶ Bloomberg, 7 June 2018.

³⁷ Bloomberg, 7 June 2018.

³⁸ Al-Saeed quoted in Bloomberg, 7 June 2018.

³⁹ Wall Street Journal, 21 May 2018.

⁴⁰ Reuters, 16 May 2018.

"The backbone of the Egyptian industry... the huge projects we accomplish are based on the success of the state, the private sector and international cooperation."⁴¹

Al Assar was also at pains to say that the military complies with all laws related to tax and customs payments.⁴² However, businessmen, including billionaire **Naguib Sawiris**, who were quoted in media reports complained about the advantages granted to military-run businesses.⁴³

Styled after similar emerging market funds in **India** and **Malaysia**, Egypt's investment fund will seek to generate wealth from under-utilised state assets rather than investing surplus energy revenues as Gulf countries do.⁴⁴ This has led some analysts to describe it as a "*sovereign holding company*" rather than a typical fund of capital, asserting that assets involve liability.⁴⁵

There are also some concerns about the fund's timing. While some assert this could be a good move to assist with inflationary pressure, others say that the start-up funds would be better used to fund more immediate concerns such as health, education and infrastructure as important gestures to the population of which a large segment remains on the poverty line.⁴⁶

Planner

2018-2019 **Cairo Al Mal**. Government-led initial public offering programme;

June 2018 **Cairo (Egypt) Finance Ministry**. Government expects next \$2 billion installment of IMF loan, following IMF review in May;

28 June **Cairo (Egypt) Enterprise**. CBE's Monetary Policy Committee meeting;

1 July *Reuters*. **Tel Aviv (Israel) Shareholders** in Israel's **Delek Group** will vote on investing \$200m to buy the rights to use a subsea pipeline that would allow the company to export natural gas to Egypt

Chronology

11 June 2018 **Cairo (Egypt) Enterprise**. **EFG Hermes** and **Belton Financial** tell clients they expect the **Central Bank of Egypt** to hold interest rates when it meets this month;

11 June 2018 **Cairo (Egypt) CAPMAS**. Inflation rose in May at its slowest pace in two years; annual headline inflation rate cooled to 11.4% in May from 13.1% in April;

11 June 2018 **Cairo (Egypt) Enterprise**. Public enterprise ministry announces bulk of state privatisation programme will take place this year, including companies launching an IPO and those looking to list additional shares;

11 June 2018 **Cairo (Egypt) Enterprise**. **House of Representatives** gives preliminary approval to part two of the **Press and Media Act**;

7 June 2018 **Cairo (Egypt) Enterprise**. **Egypt** was the top destination for FDI in **Africa** last year (outpacing **Ethiopia, Nigeria, Ghana** and **Morocco**), but still fell 8.8% y-o-y to \$7.4 billion;

7 June 2018 **Cairo (Egypt) Al Sharouk**. President **El Fattah el-sisi's** second term in office officially begins;

6 June 2018 **Cairo (Egypt) Enterprise**. Prime minister **Sherif Ismail** submits his cabinet's resignation to President **Abdel-Fattah el-Sisi**;

⁴¹ Al-Assar quoted in Al Ahram, 23 May 2018.

⁴² Al-Assar quoted in Al Ahram, 23 May 2018.

⁴³ Wall Street Journal, 21 May 2018.

⁴⁴ Bloomberg, 7 June 2018.

⁴⁵ Global Finance, 11 June 2018

⁴⁶ Global Finance, 11 June 2018.

- 5 June 2018 **Cairo (Egypt)** *Reuters*. House of Representatives signs off on 2018-19 Budget;
- 5 June 2018 **Cairo (Egypt)** *Al Mal*. Parliament's General Assembly gives final approval to the **Cyber Crimes Act**;
- 5 June 2018 **Cairo (Egypt)** *EFG Hermes*. Egypt's new budget can sustain global oil prices as high as \$80/bbl;
- 5 June 2018 **Cairo (Egypt)** *Press Release*. Net foreign currency reserves were broadly stable at \$44.14 billion in May compared with \$44.03 billion in April;
- 4 June 2018 **Cairo (Egypt)** *Press Release*. Egypt's total FDI inflows dropped to \$3.48 billion in 2017-18, down from \$3.98 billion in the same quarter last year;
- 4 June 2018 **Cairo (Egypt)** *Press Release*. Egypt's non-oil exports rose 16% in 2018 to \$8.6 billion;
- 3 June 2018 **Cairo (Egypt)** *Press Release* The 2017-18 budget targets a deficit of 10.2%, up from the 9.8% initially forecast;
- 27 May 2018 **Cairo (Egypt)** *Reuters*. Court of Cessation orders one-month ban on **YouTube**, in final ruling over **2012 Prophet Mohammed** video;
- 27 May 2018 **Cairo (Egypt)** *Press Release*. **United States** vice president **Mike Pence** raises concerns about the arrest of activists and journalists in a call with President **Abdel-Fattah el-Sisi**;
- 27 May 2018 **Cairo (Egypt)** *Mada Masr*. Egypt detains **University of Washington** PhD student on terrorism charges following his research on the judiciary;
- 26 May 2018 **Doha (Qatar)** *Bloomberg*. **Qatar** bans sale of food and other goods from **Egypt, Saudi Arabia**, the **UAE**, and **Bahrain**, amidst one-year anniversary of the **Arab Quartet** severing diplomatic ties;
- 24 May 2018 **Cairo (Egypt)** *Enterprise*. Cabinet devises timetable for state-owned companies to start paying overdue energy bills and will channel funds to energy companies;
- 24 May 2018 **Cairo (Egypt)** *Enterprise*. Egypt and **Russia** sign contracts for \$7 billion **Russian Industrial Zone**;
- 23 May 2018 **Cairo (Egypt)** *Enterprise*. Real estate investment company **SODIC** plans to invest up to EGP 1 billion to grow its land bank this year;
- 23 May 2018 **Cairo (Egypt)** *Al Masry Al Youm*. Egypt is planning to reach petroleum and diesel self-sufficiency within the coming three years;
- 22 May 2018 **Cairo (Egypt)** *Press Release*. Egypt's e-commerce market has grown 30% year-over-year for the past three years;
- 22 May 2018 **Cairo (Egypt)** *Al Mal*. Oil ministry will hold two international bid rounds for oil and gas exploration this year;
- 21 May 2018 **Cairo (Egypt)** *Press Release*. The **International Monetary Fund (IMF)** should issue its progress report on Egypt's economic reform program in two weeks' time;
- 20 May 2018 **Cairo (Egypt)** *Press Release*. IMF and Egypt reach staff-level agreement to disburse \$2 billion loan tranche;
- 20 May 2018 **Cairo (Egypt)** *Press Release*. **Supreme Media Council** issues directive to media banning use of anonymous sources;
- 14 May 2018 **Cairo (Egypt)** *Press Release*. Railway ticket prices to rise 30-45% after Ramadan;
- 14 May 2018 **2018 Cairo (Egypt)** *Al Masry Al Youm*. The electricity ministry is to increase the minimum local component requirement in future contracts for renewable energy projects;