

AFRICA RISK CONSULTING

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Egypt Summary 27 August 2018

The United States' Donald Trump (2017-present) administration releases military aid to Egypt that it froze in 2017 amid concerns about human rights and Egypt's ties to North Korea. Egyptian security forces arrest former diplomat Maasoum Marzouk after his calls for a referendum on the leadership of President Abdel Fattah El Sisi (2014-present). The Central Bank of Egypt (CBE) announces that Egypt's debt levels are up by 10% in less than a year.

US releases \$195m in military aid to Egypt

The **United States (US)** government has released \$195m in military aid to **Egypt** that it froze last year, amid what it said were concerns over human rights.¹ The **US State Department** said that the decision to unfreeze the funds follows steps Egypt has taken in response to specific US concerns, and stronger ties between both countries in security and counterterrorism.² Publicly the US had blamed the freeze on human rights, but sources and analysts said that the freeze was more likely due to Egypt's longtime ties to the **North Korean** military that were said to have annoyed the administration of President **Donald Trump** (2017-present).

As the political climate continues to deteriorate in **Cairo**, foreign media and a number of rights groups were quick to denounce the decision, accusing current US Secretary of State **Mike Pompeo** of following a previously problematic pattern of trading US concerns over human rights for warm relationships with dictators.³ They claim the US has given President **Abdel Fattah El Sisi** (2014-present) a blank cheque to continue an increasingly brutal programme of state oppression.

Several sources echoed these comments and noted that withholding aid in the past had proven effective. They cited a retrial ordered by Egyptian authorities on the foreign funding case, which saw 43 employees of foreign non-governmental organisations (NGOs) sentenced to up to five years in jail.⁴

*"Trump's lack of any coherent foreign policy is a serious threat to the stability of the **Middle East** and the world, when regimes like this one feel that they can act with impunity, that no one will say or do anything of consequence. It's dangerous. We are in a very precarious moment in Egypt."⁵*

The Egyptian foreign ministry celebrated the aid release, saying the move comes "in light of Washington's recognition of the importance of the Egyptian role in promoting the stability of

¹ Associated Press, 25 Jul 2018.

² Press release, 26 Jul 2018.

³ Press release, 27 Jul 2018.

⁴ Source, journalist, Cairo

⁵ Former diplomat, Cairo

the Middle East".⁶ The ministry also added that US aid to Egypt was the highlight of foreign minister **Samir Shoukry**'s recent meeting with US national security adviser **John Bolton** in **Washington DC** (US).⁷ Shoukry stressed to Bolton the importance of US aid, whether military or otherwise, in Egypt's fight against terrorism. Sources suggested that Egypt's participation in a potential peace deal with **Israel** and **Palestine** would be tied to the continued delivery of aid.⁸

Sources are generally unsurprised that the US released the aid, given the Trump administration's warm ties with Sisi's government. However, they are worried that the continuing climate of repression will worsen without dissent from key allies like the US. Ongoing repression poses a long-term risk to the stability of Egypt's economy. The more citizens feel that Sisi is failing not only to improve economic conditions for them, but also that they are unprotected from a resurgent police state, the greater the likelihood that civil unrest can occur.

Former diplomat arrested after calling for referendum on Sisi's leadership

Maasoum Marzouk, a former diplomat and assistant minister of foreign affairs who once served in the military, was arrested at his home in Cairo on 24 August, following calls he made for a referendum on President Abdel Fattah el Sisi's leadership.⁹ Marzouk is well known for his criticism of the Sisi government. On 5 August, Marzouk called for a public referendum to answer one question: "*Do you accept that the current regime stays in power?*"¹⁰ In the same statement, Marzouk went into detail critiquing a number of social and economic policy decisions made by the government. Marzouk said if Sisi rejected the referendum, opposition groups would convene a "*popular conference*" at **Tahrir Square** on 31 August.¹¹

Marzouk has not been formally charged but remains in detention. Members of his recently founded **People's Democratic Party**¹² have demanded his release, along with that of **Raied Salama**, an economist from Marzouk's group, and **Yehia al-Qazzaz**, a geology professor who recently called for el-Sisi's ouster on his **Facebook** page, writing "*resistance is the solution.*"¹³

Sources say the government is extremely paranoid about any potential for protests and increasingly intolerant to any forms of dissent. The **United Kingdom (UK) Foreign and Commonwealth Office** recently warned tourists that criticising the Egyptian government could land them in jail.¹⁴

Opposition politicians have expressed concern at Marzouk's arrest. **Mohammed Anwar Sadat**, nephew of Egypt's late president, **Anwar Sadat** (1970-1981), said in a press conference that "*it is time for a genuine political reform... for the president and the state to listen to the opposition*".¹⁵ Opposition leader **Hamdeen Sabbahi** echoed their concerns:

⁶ Press release, 28 Jul 2018.

⁷ Press release, 28 Jul 2018.

⁸ Al Ahram, 5 Aug 2018.

⁹ Mada Masr, 6 Aug 2018.

¹⁰ CNN, 24 Aug 2018.

¹¹ New York Times, 23 Aug 2018.

¹² CNN, 24 Aug 2018.

¹³ Press release, Cairo, 27 Aug 2018.

¹⁴ The Independent, 27 Jul 2018.

¹⁵ Press release, Cairo, 27 Aug 2018

“We believe that this regime must be changed. This is a failed power. This is a repressive power ... which violated and insulted the constitution.”¹⁶

The arrest of a member of the political establishment, who also is considered a national hero having served in the 1973 war against Israel, is foreboding to analysts and to members of the business and political elite in Egypt. It cements the current feeling that no one is safe and that the government will not tolerate any criticism of its increasingly unpopular policies. Sisi has faced increasing criticism in recent months over austerity measures and a climate of fear that security forces have perpetuated under him. His failure to engage with opposition forces and the country’s youth is increasingly touted as a reason he should be removed from office.

Egypt’s debt rises 10%

The **Central Bank of Egypt (CBE)** announced in early August that foreign debt has climbed more than 10% in less than a year, reaching \$88.2 billion in March.¹⁷ This is despite a raft of unpopular austerity measures aimed at cutting government spending.¹⁸ Egypt’s foreign debt is 11.6% higher than in June of last year, but the CBE said the debt to GDP ratio is still within “safe limits according to international standards,” at 36.8%.¹⁹ The Egyptian government has also said that foreign reserves have increased to \$44 billion as of May, the highest level since before the 2011 uprising.²⁰

Egypt secured a \$12 billion loan from the **International Monetary Fund (IMF)** in 2016 for an economic reform plan that included cutting fuel and electricity subsidies, imposing a value-added tax and floating the currency. Foreign debt stood at \$67.3 billion in December 2016.²¹ In May, then finance minister **Amr El Garhy** commented on concerns about rising debt and shared plans to cut debt levels from their current 106% to 80% by 2020.²²

Analysts have, however, been encouraged by Egypt’s GDP, which grew 5.3% in 2017-18 – its highest rate in a decade – while the budget deficit fell to a six-year low of 9.8% of GDP.²³ The government’s announcements that they intend to pay \$ 6.3 billion of foreign debt obligations in 2018, out of a total \$12 billion in debt the government had said it intends to retire this year, have also been encouraging.²⁴

While officials have previously stated that the Egypt would seek to borrow \$6-7 billion in international bond offerings in 2018-19, the government has decided against this for now. The government stated that as a result of higher interest rates in the US, “*it would be inappropriate for us to issue foreign-denominated bonds.*” Egypt has seen several billion in outflows from its debt market as a result of the broader emerging market selloff, but this is part of a more general trend among investors in emerging markets and not specific to Egypt.²⁵

Despite some ongoing nervousness related to debt in emerging markets, Egypt’s outlook remains relatively stable with improving economic indicators linked to IMF-backed economic

¹⁶ Press release, Cairo, 27 Aug 2018

¹⁷ Press release, 5 Aug 2018.

¹⁸ Associated Press, 6 Aug 2018.

¹⁹ Press release, 5 Aug 2018.

²⁰ Press release, 5 Aug 2018.

²¹ Al Masry Al Youm, 6 Aug 2018.

²² Associated Press, 6 Aug 2018

²³ Enterprise, 31 Jul 2018.

²⁴ Al Mal, 30 Jul 2018.

²⁵ Reuters, 12 Jul 2018.

reforms, and confidence that the finance ministry will continue to lead its reform programme steadily through till the end of 2019.

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;
 27 Sep 2018 **Cairo (Egypt)** **Central Bank of Egypt** Monetary Policy Committee meeting
 Sep 2018 President **Abdel Fattah El Sisi** to visit **Beijing** to attend the **Forum on China-Africa Cooperation**
 15 Nov 2018 **Cairo (Egypt)** **Central Bank of Egypt** Monetary Policy Committee meeting
 27 Dec 2018 **Cairo (Egypt)** **Central Bank of Egypt** Monetary Policy Committee meeting

Chronology

29 Aug 2018 **Cairo (Egypt)** *Enterprise*. **Moody's** upgrades outlook on Egypt to "positive";
 27 Aug 2018 **Cairo (Egypt)** *Enterprise*. Electricity ministry to tender EGP 6 billion (\$335.3m) hydro power plants next year;
 26 Aug 2018 **Cairo (Egypt)** *Al Mal*. The electricity ministry plans to begin work on a power interconnection project with **Nicosia** in December;
 23 Aug 2018 **Cairo (Egypt)** *FT*. Authorities arrest retired diplomat **Masoum Marzouk** for calling for a popular referendum against President **Abdel Fattah al-Sisi**;
 22 Aug 2018 **Cairo (Egypt)** *Reuters*. Planning minister **Hala al-Saeed** states the government plans to attract \$11 billion in foreign direct investment in 2018, up from \$7.9 billion in 2017;
 22 Aug 2018 **Cairo (Egypt)** **Apache** plans to raise Egypt investments to \$1 billion a year;
 17 Aug 2018 **Cairo (Egypt)** *Reuters*. **Central Bank of Egypt** leaves interest rates unchanged.
 16 Aug 2018 **Cairo (Egypt)** *Enterprise*. Egypt is expected to make its first foreign sales of natural gas since before 25 January 2011
 14 Aug 2018 **Cairo (Egypt)** *Enterprise*. The **Egyptian Stock Exchange (EGX)** is expected to see four to five initial public offerings (IPOs) over the coming eight months;
 14 Aug 2018 **Cairo (Egypt)** *Haaretz*. **El Sisi** and **Netanyahu** meet in secret to hammer out **Gaza** ceasefire agreement;
 14 Aug 2018 **Cairo (Egypt)** *Enterprise*. **Turkey's** lira continues to drop against the **United States** dollar, "rattling other emerging markets" as it ended the day 6.6% lower;
 14 Aug 2018 **Cairo (Egypt)** *Reuters* **Elon Musk** confirms that **Saudi Arabia's Public Investment Fund** is interested in funding Musk's attempts to take **Tesla** private;
 14 Aug 2018 **Cairo (Egypt)** *Masaa DMC*. Security forces launch three separate raids on a militant hideout;
 14 Aug 2018 **Cairo (Egypt)** *Enterprise*. **Germany**-based **Business Avenue Group (BAG)** to invest €70m (\$81.9 m) on manufacturing projects at **East Port Said** industrial zone;
 14 Aug 2018 **Cairo (Egypt)** *Enterprise*. Seven **Indian** companies are in advanced talks with the government to set up an Indian industrial area;

- 14 Aug 2018 **Cairo (Egypt)** *Reuters*. **United Arab Emirates (UAE)** banks to raise \$500m syndicated loan for state-owned **Telecom Egypt**;
- 14 Aug 2018 **Cairo (Egypt)** *Enterprise*. Renewable energy companies might pay 2% of their output for land rights;
- 13 Aug 2018 **Cairo (Egypt)** *Reuters*. **Kuwait-based Agility and Centerbridge** team up in **Abraaj** acquisition bid;
- 13 Aug 2018 **Cairo (Egypt)** *Al Masry Al Youm*. President El Sisi stresses importance of **Yemen's** stability to **Middle East** following threats in **Bab el Mandeeb Strait**;
- 7 August 14, 2018 **Cairo (Egypt)** *Haartz*. Egypt and Israel are reportedly coordinating a ceasefire agreement with **Hamas**;
- 6 Aug 2018 **Cairo (Egypt)** *Associated Press*. Foreign debt has increased by 10%;
- 5 Aug 2018 **Cairo (Egypt)** *Associated Press*. **Italian** foreign minister **Enzo Moavero Milanese** meets with foreign minister **Sameh Shoukry** in Cairo in the first visit by a high-ranking Italian official since Italian student **Giulio Regeni's** murder in 2016;
- 3 Aug 2018 **Cairo (Egypt)** Egypt's GDP grew 5.3% in FY2017-18 – its highest rate in a decade – while the budget deficit fell to a six-year low to 9.8% of GDP;
- 3 Aug 2018 **Cairo (Egypt)** *Enterprise*. Finance ministry to shelve short-term borrowing and an international bond issuance in favour of long-term institutional loans;
- 1 Aug 2018 **Cairo (Egypt)** *Enterprise*. **Hassan Allam Construction** announces it could issue IPO by 2018 and debunks news on size of offering and valuation;
- 30 Jul 2018 **Cairo (Egypt)** *Cyprus Mail*. Battle over **Aphrodite** field concession agreement threatens timeline on exports to Egypt;
- 30 Jul 2018 **Cairo (Egypt)** *Energy Digital*. **Denmark-based Make Consulting** analysts forecast that renewable energy growth in **Africa** will be led by **Egypt, Morocco, and South Africa**;
- 30 Jul 2018 **Cairo (Egypt)** *Al Mal*. Egypt will repay \$6.3 billion of its foreign debt obligations in 2018, out of a total \$12 billion in debt the government had said it intends to retire this year;
- 31 Jul 2018 **Cairo (Egypt)** *Enterprise*. Egypt dropped 18 places to rank 67th on the **World Bank's 2018 Logistics Performance Index** that ranks 160 countries based on their trade logistics performance, including infrastructure, quality of service, shipment reliability, and border clearance efficiency;
- 31 Jul 2018 **Cairo (Egypt)** Egypt should receive the fifth tranche of its \$12 billion extended fund facility from the IMF in early 2019;
- 31 Jul 2018 **Cairo (Egypt)** *Enterprise*. **France's** President **Emmanuel Macron** will visit Egypt in November or December with trade delegation;
- 31 Jul 2018 **Cairo (Egypt)** *Enterprise*. **Sarwa Capital** to list up to 40% of shares in September, with **EFG Hermes** tapped to advise;
- 31 Jul 2018 **Cairo (Egypt)** *Associated Press*. **Grand Ethiopian Renaissance Dam (GERD)** project manager **Simegnew Bekele** found shot dead in his car, stirring reports of assassination;

- 31 Jul 2018 **Cairo (Egypt)** *Reuters*. President Abdel Fattah El Sisi ratifies a law that shields senior military officials from prosecution;
- 31 Jul 2018 **Cairo (Egypt)** *Enterprise*. President El Sisi to visit **Beijing** in September to attend the **Forum on China-Africa Cooperation**;
- 26 Jul 2018 **Cairo, (Egypt)** *Al Masry Al Youm*. Preliminary government figures show Egypt's GDP growth rose to 5.3% in FY2017-18;
- 26 Jul 2018 **Cairo (Egypt)** *Al Mal*. **United States** releases \$195m in military aid to Egypt;
- 26 July, 2018 **Cairo (Egypt)** *Enterprise*. **Saudi Arabia**-based **Rajhi Group** plans to invest over EGP 2.5 billion (\$139.7) to reclaim 17,000 feddans of land in **Toshka** project;
- 24 Jul 2018 **Cairo (Egypt)** *Enterprise*. **Hassan Allam Utilities** to form joint venture with global solar energy developer **Lightsource BP** that will fund, develop and operate solar energy projects;
- 24 Jul 2018 **Cairo (Egypt)** *Press Release*. Investment bank **EFG Hermes** acquires 100% of **Nigerian** brokerage firm **Primera Africa**;
- 24 Jul 2018 **Cairo (Egypt)** *Al Mal*. **International Finance Committee (IFC)** pledges \$2 billion in funding to Egypt's private sector through to 2019;
- 17 Jul 2018 **Cairo (Egypt)** *Enterprise*. **France**-based **Volitalia** plans to invest as much as \$800m in Egypt's renewable energy sector over the next five years.

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