

AFRICA RISK CONSULTING

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Egypt Summary 13 February 2019

Amid a widening crackdown on dissent, President Abdel Fattah El Sisi's (2014-present) government proposes sweeping changes to the constitution, including changes to term limits. Egypt improves its standing in Transparency International's annual Corruption Perceptions Index from 117th out of 180 countries in 2017, to 105th place in 2018. The African Development Bank approves of Egypt's ongoing programme of economic reforms, predicting positive growth.

Sisi pushes ahead with moves to change constitution and extend term in office

Egypt's parliament has begun the process of initiating constitutional amendments that would allow President **Abdel-Fattah Al Sisi** (2014-present) to stay in office, potentially up to 2034, well past the end of his current and last term, set to end in 2022.¹ The move to extend presidential terms comes amid concerns that Egypt is descending back into authoritarianism, eight years after a pro-democracy uprising ended former president **Hosni Mubarak's** (1981-2011) nearly three-decade rule. Sisi was elected following a coup that saw the ouster of Egypt's first democratically elected president, **Mohamed Morsi** (2012-2013), and after a long career in the military intelligence and as former defence minister.² **Abdel Hadi Kasabi**, head of the **Support Egypt** coalition, claimed the proposed amendments reflect "*a desire for continued stability and completion of development plans*".³

A small block of opposition members of parliament (MPs) denounced the proposed changes, suggesting that such actions by the government bypass the spirit of the constitution, which was written to enshrine power sharing and prevent a return to autocracy.⁴ One MP said that, if implemented, these changes would herald an official return to the Mubarak era:

*"All that we rejected on January 25 [2011 – the start of the Egyptian Revolution] is coming back, everything that we rejected on June 30 [2013 – when mass protests marked the one-year anniversary of Morsi's inauguration as president] is coming back."*⁵

While commentators had predicted that lifting presidential term limits was high on the government's agenda, they are concerned at the pace that these changes are being put into motion. Some commentators suggest that constitutional changes are just the beginning of more worrying measures the government is taking, including heavy cyber surveillance, forced disappearance and extra-judicial killings to maintain its hold on power. The proposed constitutional changes come against the background of the government fighting with **United States (US)**-based ride-sharing company **Uber**, for which Egypt is one of its fastest growing markets, over access to Egyptian users' trip data in real time, as well as insisting the company store all its user data on Egyptian soil.⁶

"We are seeing a government, and a president, that is emboldened, that has removed all opposition, one by one, even from within its closet ranks. Should these measures go through and I believe they will, we are going to find ourselves as a nation with no means of accountability, and

¹ Al Watan, 3 Feb 2019.

² Al Bawaba, 4 Feb 2019.

³ Al Bawaba, 4 Feb 2019.

⁴ Mada Masr, 5 Feb 2019.

⁵ Al Bawaba, 4 Feb 2019.

⁶ Mada Masr, 30 Jan 2019.

no way out. The potential of Egypt's youth is being wiped out by a government for whom violence and the suppression of public protests are the only metrics.”⁷

On a recent visit to Egypt, **France’s** President **Emmanuel Macron** (2017-present) warned that the repression taking place in the country was a threat to ongoing stability.⁸ In response, Sisi told reporters,

“Egypt does not advance through bloggers. It advances through the work, effort and perseverance of its sons.”⁹

Pointing to economic challenges and regional political turbulence, Sisi added that Egypt’s “*unique situation*” means that the country should have its own tailored definition of human rights.¹⁰

For business and those considering investment in Egypt, ongoing political repression and the potential for upheaval remains of concern. The current climate makes assessing future risk difficult. The political winds of Egypt remain volatile and those considering large-scale investment need to consider the risks of regime change as well ongoing changes in key government and security roles that can alter the regulatory landscape with little warning.

Egypt improves in Transparency International Corruption Index

Egypt’s rating in **Transparency International’s 2018 Corruption Perceptions Index** inched up to 35 points this year from 32.¹¹ The index, which is designed to give a sense of public sector corruption, rates countries on a scale of zero (highly corrupt) to 100 (very clean). This year’s index covers 180 countries and territories. Egypt is ranked 105 out of the 180 countries surveyed this year, an improvement from its position of 117 in 2017.¹² Egypt recorded its third best corruption perception score since 2011.¹³ However, some analysts who focus on corruption and political risk say that the **Berlin (Germany)**-based group’s assessment of corruption, especially in countries like Egypt whose government and financial dealings remain opaque, is not a reliable gauge for charting actual corruption.

Although rooting out corruption was heavily touted as one of President Sisi’s key election promises in his first campaign for office,¹⁴ in reality corruption remains a significant issue for anyone investing or doing business in Egypt. Rather than dramatically cleaning up government institutions, the current government has merely altered who benefits from monopolies and what form corruption takes place. When **Hisham Geneina**, a respected lawyer and the top auditor at Egypt’s anti-corruption body, the **Central Auditing Agency**, wrote a report in 2016 that detailed the ways in which Egypt was losing money from various corrupt practices, he was promptly fired, threatened and then jailed.¹⁵ Despite once being a staunch supporter of Sisi, he remains in prison awaiting trial on a host of what have been called politically motivated charges.¹⁶

Furthermore, the government uses arrests of public officials and others on corruption as a way of settling political scores or as a way to appear to be cracking down on perceived corruption within its own ranks. On 1 February, 26 state officials were arrested for their alleged involvement in the “seizure” of public funds.¹⁷ Days later, the public prosecutor’s office ordered the detention of three state officials for 15 days pending investigations into charges of graft.¹⁸

⁷ Source, policy expert, Cairo

⁸ The Independent, 28 Jan 2019.

⁹ Al Masry Al Youm, 28 Jan 2019.

¹⁰ Al Masry Al Youm, 28 Jan 2019.

¹¹ Transparency International Corruption Perceptions Index

¹² Transparency International Corruption Perceptions Index

¹³ Egypt Today, 30 Jan 2019.

¹⁴ The National, 13 Sep 2015.

¹⁵ The New York Times, 6 Jun 2016.

¹⁶ The New York Times, 6 Jun 2016.

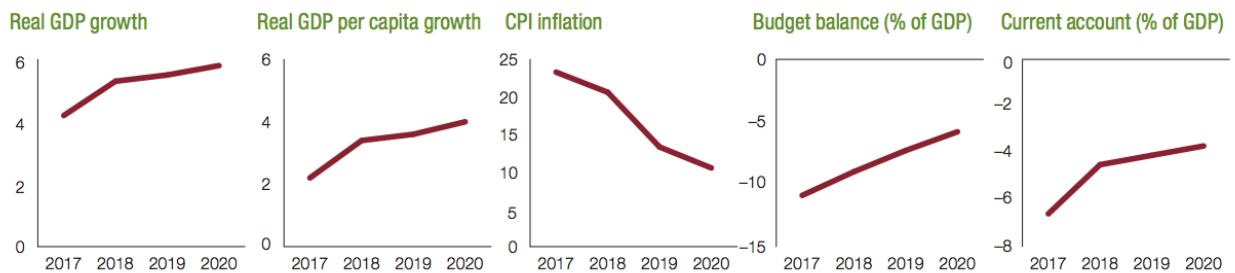
¹⁷ Al Ahram, 2 Feb 2019.

¹⁸ Ahram Gate, 4 Feb 2019.

African Development Bank sights positive improvements to Egypt's economy

The **African Development Bank's (AfDB) Economic Outlook Report** for 2019 has highlighted Egypt's performance as positive and notes the impact of ongoing government reform, which has led to recovery in foreign domestic investment and overall market confidence. The AfDB noted that the continent's general economic performance continues to improve. **Africa's** GDP growth is projected to accelerate to 4% in 2019 and 4.1% in 2020.¹⁹ The AfDB report noted Egypt's estimated real GDP growth of 5.3% in 2018, the highest in a decade.²⁰

Unemployment decreased from 12% in 2017 to 10% in 2018.²¹ However, private household consumption weakened to inflation.²²



Note: Data are in fiscal years, so 2016 data refer to the 2015/16 fiscal year.

Source: Data from domestic authorities; figures for 2018 are estimates; figures for 2019 and 2020 are projections by the African Economic Outlook team.

The report also noted improvements in the energy sector, including streamlining legislation and procedure as well as efforts by the government to reform the electricity grid and integrate renewable energy. To that end, energy and mining contributed 25% of total growth in 2Q2018-19.²³

While the AfDB praised Egypt as being a model for how countries should attract and use international funding, it made no mention of the much-discussed claims that the **Central Bank of Egypt** is using the banking system to indirectly intervene and keep the Egyptian pound stable.²⁴

The report cited a number of points of concern including poverty, issues with water, overpopulation and debt. It noted that the debt to GDP ratio decreased from 103% in 2017 to 92.5% in 2018. The figure, however, is debatable; some sources are still using the 103% figure from 2018,²⁵ while in December the Egyptian government said the figure is closer to 98%.²⁶

US-based ratings agency **Moody's** reiterated concern on 21 January about emerging market debt given overall market volatility, saying that "*Weaker emerging and frontier market countries face the greatest risks.*"²⁷ US-based ratings agency **Standard and Poor's** flagged **Argentina, Brazil, Egypt, Lebanon, and Pakistan** on 21 in its list of countries with unsustainable debt piles.²⁸ The **World Economic Forum** also cited Egypt as one of the countries with the highest ratio of government debt to GDP, ranking it 15th out of 221 countries in the chart below.

¹⁹ Africa Economic Outlook Report 2019

²⁰ Africa Economic Outlook Report 2019

²¹ Africa Economic Outlook Report 2019

²² Africa Economic Outlook Report 2019

²³ Enterprise, 31 Jan 2019.

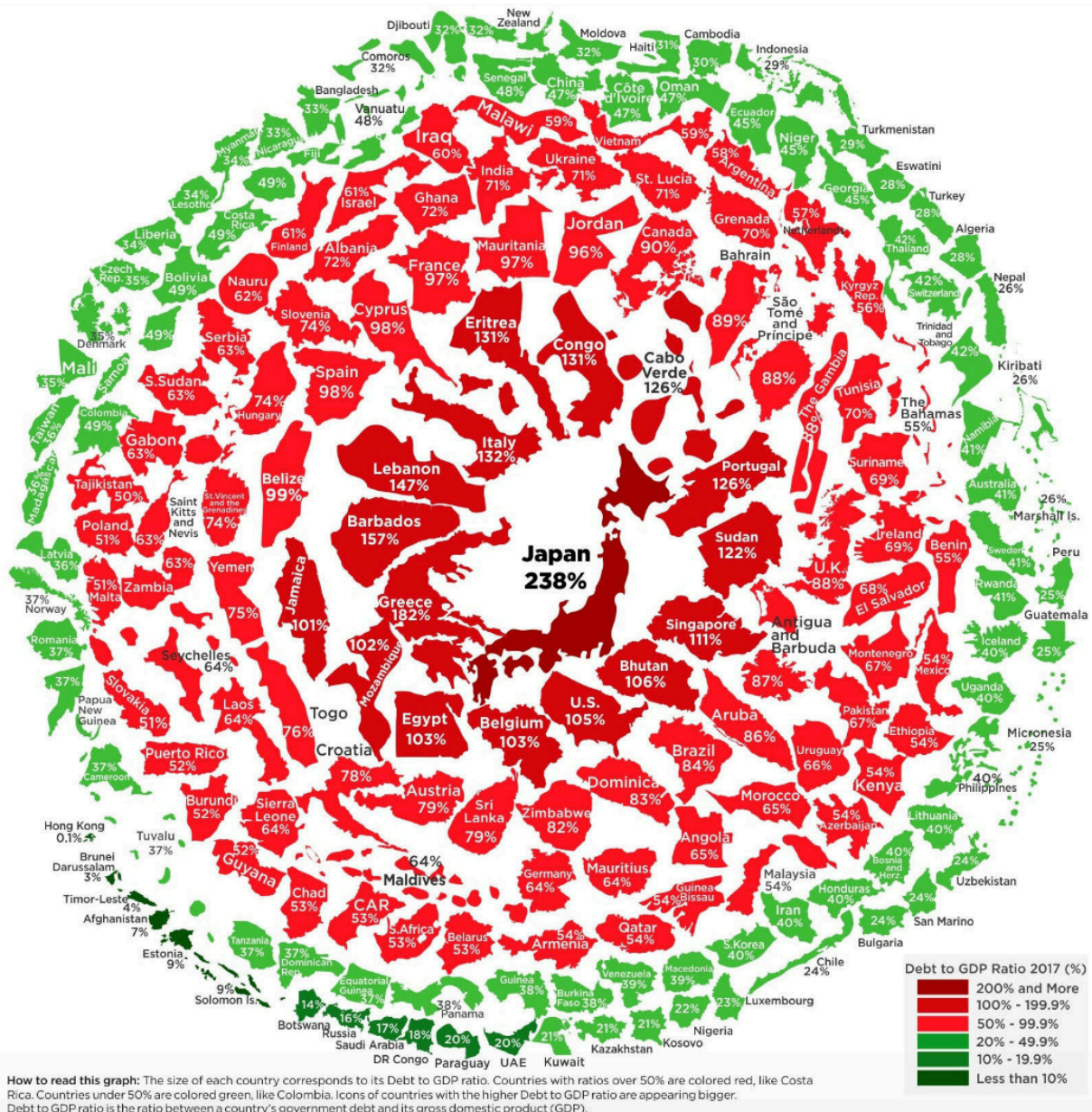
²⁴ Mubasher, 24 Jan 2019.

²⁵ <https://www.weforum.org/agenda/2019/01/visualizing-the-snowball-of-government-debt>

²⁶ Enterprise, 3 Dec 2018.

²⁷ Reuters, 21 Jan 2019.

²⁸ Reuters, 21 Jan 2019.



Source: World Economic Forum

Meanwhile, a recent report produced by the **United Nations (UN)** titled “2019 World Economic Situation and Prospects” said Egypt’s GDP growth rate will slow slightly over the next two years, hitting 5.2% in 2019 before falling to 4.7% in 2020.²⁹ The **International Monetary Fund (IMF)** and the AfDB both predicted growth to be around 5.8% by 2020.³⁰ Prominent Egyptian economist **Amr Adly** in January used an op-ed for US-based financial, software, data, and media company **Bloomberg** to question some of the current assumptions underlying economic policy in Egypt. Adly argued that reforms alone may not be enough to wean Egypt off the IMF as the government’s economic reform programme will not address Egypt’s underlying economic imbalance. Adly said Egypt lacks a manufacturing base and still relies heavily on imports, leaving it continually vulnerable.³¹

²⁹ 2019 World Economic Situation and Prospects Report

³⁰ 2019 World Economic Situation and Prospects Report

³¹ Bloomberg, 29 Jan 2019.

Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;
Feb 2019 **Israel's** energy minister will visit Egypt in February for high-level talks;

Chronology

13 Feb 2019 **Cairo (Egypt)** The government expects to announce the list of companies for its privatisation programme within two weeks;

12 Feb 2019 **Cairo (Egypt)** *Press release*. **KarmSolar** signs a \$90m power supply agreement with **Cairo3A Poultry**;

10 Feb 2019 **Addis Ababa (Ethiopia)** *Enterprise*. **Egypt** assumes rotating presidency of the **African Union**;

10 Feb 2019 **Cairo (Egypt)** *Enterprise*. The finance ministry will present its debt control strategy to President **Abdel-Fattah Al Sisi** in March;

6 Feb 2019 **Cairo (Egypt)** *Emirates NBD*. Egypt's non-oil business activity hits its lowest levels in more than a year;

5 Feb 2019 **Cairo (Egypt)** *Reuters* Egyptian lawmakers begin to pave the way for President **Abdel-Fattah Al Sisi** to stay in power until 2034;

5 Feb 2019 **Cairo (Egypt)** *Al Mal*. **Italy**-based oil company **Eni** is seeking to invest up to \$1 billion in solar power projects in Egypt;

5 Feb 2019 **Cairo (Egypt)** *Al Mal*. Transportation network **Uber** drivers threaten to strike;

5 Feb 2019 **Cairo (Egypt)** *IMF Press release*. Egypt is to receive the fifth tranche of its \$12 billion **International Monetary Fund (IMF)** loan;

4 Feb 2019 **Cairo (Egypt)** *Press statement*. Egypt wants to be included in **United States (US)**-based investment banking company **JPMorgan's** emerging-market bond indexes;

3 Feb 2019 **Cairo (Egypt)** *Enterprise*. Egypt's exchange-traded funds (ETFs) are among the best performers in emerging markets;

3 Feb 2019 **Cairo (Egypt)** *Press release*. The **Organisation for Economic Co-operation and Development (OECD)** raises Egypt's rating as investment-friendly destination;

31 Jan 2019 **Cairo (Egypt)** *Al Borsa*. A **Eurobond** issuance will take place within the next two months;

30 Jan 2019 **Cairo (Egypt)** *Mada Masr*. The **Uber** ride-hailing app is not working in Egypt, presumably after the **United States**-based company refuses to share users' data;

30 Jan 2019 **Cairo (Egypt)** *Reuters*. 100% of Egyptian five-year bonds subscribed to in auction;

29 Jan 2019 **Cairo (Egypt)** *Al Borsa*. Egypt will sell \$2-3 billion and EUR 1-2 billion in Eurobonds;

29 Jan 2019 **Cairo (Egypt)** *Transparency International*. Egypt ranks improves in **Transparency International's 2018 Corruption Perceptions Index** to 105 out of 180 countries from 117th position in 2017;

29 Jan 2019 **Cairo (Egypt)** *Enterprise*. Egypt and **France** sign 40 agreements worth 1.6 billion euros (\$1.8 billion);

29 Jan 2019 **Cairo (Egypt)** **Beltone Financial Holdings** confirms it wants to settle with the financial regulatory body;

27 Jan 2019 **Cairo (Egypt)** *Reuters*. **France's** President **Emmanuel Macron** visits Egypt and says repression is worse than it was under former president **Hosni Mubarak** and is a *"threat to stability"*;

24 Jan 2019 **Cairo (Egypt)** *Enterprise*. **United Arab Emirates**-based **Dana Gas** will invest \$5 billion in Egypt in the coming few years;

21 Jan 2019 **Cairo (Egypt)** *Press release*. Egypt's budget deficit shrank to 3.6% of GDP in 1H2018-19, down from 4.2% the previous year;

21 Jan 2019 **Cairo (Egypt)** *Press release*. **Germany**-based vehicle manufacturer **Mercedes-Benz** resumes production in Egypt;

20 Jan 2019 **Cairo (Egypt)** *Asharq Al Awsat*. The prosecutor general orders the confiscation of **Cyprus**-based funds belonging to **Alaa** and **Gamal Mubarak**;

20 Jan 2019 **Cairo (Egypt)** *Press release*. The **United Kingdom's London Stock Exchange** names eight Egyptian companies to its list of **Companies to Inspire Africa 2019**;

About Africa Risk Consulting:

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