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Egypt Summary 9 May 2019

President Abdel Fattah El-Sisi (2014-present) wins a constitutional referendum overturning term limits and enshrining military role in civilian life, amid claims of vote rigging and intimidation. Newly-appointed World Bank Group head David Malpass praises Egypt's Benban solar project as proof of commitment to the private sector. United States-based Moody's Investors Service raise Egypt's long-term foreign and local currency issuer ratings to B2 from B3 and changes its outlook from stable to positive amid signs of economic growth.

Sisi wins controversial constitutional referendum

President **Abdel Fattah El Sisi** (2014-present) claimed victory on 23 April in a national referendum on a series of constitutional amendments that will see term limits lifted, allowing him to potentially stay in power until 2030, expand presidential control over the judiciary, and enshrine the military's role in politics (see *ARC Briefing Egypt February 2019*).¹ The results, which overhaul the 2014 constitution, saw 88% of voters agreeing to the changes. The **National Election Authority (NEA)** reported a turnout of 44% in the referendum.²

While NEA officials praised the fairness of the referendum, those not in favour of a "yes" vote were arrested and harassed.³ Journalists noted that voters had been bussed in to polling stations from poor neighbourhoods and offered cash and food incentives to vote in favour of the amendments.⁴ Videos circulated online of police pushing people inside polling stations and threatening them if they did not vote yes.⁵

While Sisi thanked **Egyptians** for their "*dazzling participation*", Egyptians raised scepticism online about the speed with which the government counted millions of votes – fewer than four days – in order to make an early announcement on the result, and about voter turnout, which was only 2% lower than the 2012 election that saw enthusiastic participation, with voters waiting in line for hours to cast their ballots.⁶

*"The context in which this referendum took place was rigged from the outset. Virtually all local media outlets offered one-sided positive descriptions of the proposed amendments."*⁷

Following the referendum vote, Sisi was quick to renew a state of emergency for a further three months, which critics pointed to as further evidence of a permanent slide back toward

¹ The Guardian, 23 Apr 2019.

² Associated Press, 22 Apr 2019.

³ Mada Masr, 22 Apr 2019.

⁴ Associated Press, 22 Apr 2019.

⁵ The Guardian, 23 Apr 2019.

⁶ The Washington Post, 27 Apr 2019.

⁷ Timothy Kaldas, quoted in The Guardian.

authoritarian leadership that saw former president **Hosni Mubarak** (1981-2011) keep the country under emergency rule for over 30 years.⁸

In an op-ed for the **United States (US)**-based **Washington Post**, former opposition leader **Ayman Noor** wrote:

“Since taking office by force and fraud, Sisi has frequently fallen back on the emergency law and accusations of ‘terrorism’ to silence dissent. Unsatisfied with the power he already wields as president, he invokes ‘stability’ or ‘threats against the nation’ to excuse his latest criminal act. Now, having made himself a de facto ruler for life by forcing through constitutional change, he grants himself emergency power to consolidate his victory.”⁹

While economic watchers have praised the reform programme the government has undertaken since 2016, there is still concern about Egypt’s political and social stability in the medium to long term. Sources are concerned that Sisi, emboldened by this recent victory, is further concentrating political and economic power in the military, which has increasingly been a source of frustration for the private sector since he came to power. There is also concern about the likelihood of Egypt now proceeding with plans to take part in the controversial **Israel-Palestine** peace plan, devised by US presidential adviser **Jared Kushner**, which could see Egypt cede territory to accommodate Palestinians living in **Gaza**. The plan has been quietly decried in establishment circles in **Cairo** and heavily criticised by **Middle East** watchers since its inception. There continues to be nervousness about the Sisi government on all fronts, from human rights to the economy. Members of the business community frequently refer to the government as a “*failed dictatorship*” that continues to impede what they say is the potentially enormous economic, civic and social growth of the region’s largest nation.

World Bank praises Benban solar project

Incoming **World Bank Group** president **David Malpass** has praised Egypt’s largest solar project, saying that the project demonstrates Egypt’s commitment to supporting the private sector.¹⁰ The 1.6 GW solar power park in **Benban** has drawn funding support from the World Bank and has so far garnered over \$2 billion in investment. It is expected to be fully operational in late 2019.¹¹ The government’s aim is that by 2025 Egypt will get 42% of its electricity from renewable sources.¹²

The Benban complex will be operated by a combination of heavyweight domestic and international energy companies. It will consist of 30 separate solar plants, the first of which commenced operations in late 2018, and will eventually employ 4,000 workers.¹³

Praise for the project comes as the **Arab Petroleum Investments Corporation (Apicorp)** noted in its **2019 MENA Annual Energy Investment Outlook** that the **Middle East and North Africa (MENA)** region is collectively investing nearly \$1 trillion in energy from 2019 to 2023, the majority of which is being channeled toward the power sector.¹⁴

⁸ The Washington Post, 27 Apr 2019.

⁹ Ayman Noor quoted in The Washington Post, 27 Apr 2019.

¹⁰ Egypt Today, 4 May 2019.

¹¹ Egypt Today, 4 May 2019.

¹² Los Angeles Times, 30 Jul 2018.

¹³ Enterprise, 5 May 2019.

¹⁴ MENA Annual Energy Investment Outlook 2019.

“The surge in planned investments signals a healthier investment climate supported by robust macroeconomic growth and reconstruction needs. It also reinforces the commitment of many countries to push through ambitious visions and medium-to long-term energy sector strategies.”¹⁵

Investment in solar comes as Egypt pushes toward its goal of becoming a regional energy hub in the **Eastern Mediterranean**.¹⁶ The government is expected to prioritise investments in upstream gas and power to meet rising demand, while the general trend in the region will see *“a greater transition towards gas, downstream and petrochemicals sector, and significant renewable energy additions”*.¹⁷

The Apicorp report also highlighted the need for more reform and unifying of policy by governments in order to support continued growth of the energy sector.¹⁸ This is a salient point for Egypt, whose prohibitive policies have previously driven away investors from feed-in tariff projects.¹⁹ These policies included demands that any arbitration over project disagreements take place domestically, as well as large costs for foreign firms.

“Substantial output is required from the private sector to support the development of the energy sector, which finds itself competing with government’s multiple priorities.”²⁰

Industry sources say that while challenges remain, progress had been made since 2014, following the energy crisis that culminated in the ouster of President **Mohamed Morsi** (2012-2013):

“When we look at the energy framework in Egypt right now, we are seeing positive steps to address the concerns of investors. Notably the deregulation of the gas market, the repayment of previous arrears to gas companies, better terms for international companies undertaking exploration, and a notable push toward recognising the importance of renewables in a country with huge population growth, that has historically been so dependent on fossil fuels to meet energy demand.”²¹

The Apicorp report noted that private sector investment in Egypt has risen to account for 28% of total investment in the country’s energy sector. This figure is behind those of **Tunisia** and **Morocco**, which rank the highest with the private sector accounting for 68% of total planned and committed energy investments, followed by **Jordan** at 46%.²²

Moodys praises Egypt’s economic outlook with upgrade

US-based **Moody’s Investors Service** upgraded the long-term foreign and local currency issuer ratings of Egypt to B2 from B3 on 17 April and changed the outlook from stable to positive.²³ Moody’s noted in its report that with Egypt’s continued commitment to reform, GDP growth will be 5.5% in 2019. The comments come as Egypt is set to undergo its last review by the **International Monetary Fund (IMF)** in May, in order to receive the remaining \$2 billion of a bailout loan granted in 2016. Moody’s expects Egypt to stick to its *“fiscal*

¹⁵ MENA Annual Energy Investment Outlook 2019.

¹⁶ Press release, Jan 2019.

¹⁷ MENA Annual Energy Investment Outlook 2019.

¹⁸ MENA Annual Energy Investment Outlook 2019.

¹⁹ American Chamber of Commerce report, September 2017.

²⁰ MENA Annual Energy Investment Outlook 2019.

²¹ Source, Energy company CEO, Cairo.

²² MENA Annual Energy Investment Outlook 2019.

²³ Moody’s Investor report, Apr 2019.

discipline” after the expiry of the IMF programme, including the complete removal of fuel subsidies by mid-July 2019.

While praising the government’s debt reduction strategy, Moody’s flagged Egypt’s debt burden as an ongoing concern:

*“Egypt’s high interest bill at about 9% of GDP and the short average maturity of its domestic debt stock (two to three years) result in annual gross financing needs worth 30%-40% of GDP over the next few years. These elevated financing requirements expose the governments to shocks in borrowing costs which would rapidly feed adverse debt dynamics.”*²⁴

Citing unemployment and inflation as issues of concern, the report noted that job creation, particularly for women, is integral for Egypt to sustain more inclusive growth and to allow the country to *“absorb the large number of new labour market entrants”*.²⁵

Moody’s comments come as the **United Kingdom**-headquartered **European Bank for Reconstruction and Development (EBRD)** cited on 8 May lack of foreign investment and strengthening of the Egyptian pound as risks to further growth:²⁶

*“The strengthening currency and current inflation rate are making the economy less competitive, [but] the government’s economic reforms go some way to mitigate the negative effects.”*²⁷

The EBRD noted that growth in Egypt will still overtake its regional neighbours in 2019:²⁸

	Actual		Forecast (May 2019)		Change from Nov 2018 REP
	2017	2018	2019	2020	2019
Southern and Eastern Mediterranean	3.8	4.4	4.6	5.1	-0.1
Egypt	4.2	5.3	5.5	5.9	0.0
Jordan	2.1	1.9	2.2	2.4	-0.2
Lebanon	0.6	0.2	1.3	2.0	-0.2
Morocco	4.1	3.1	3.2	3.8	-0.3
Tunisia	1.9	2.5	2.7	4.1	-0.3

Planning minister **Hala El Said** announced on 8 May that Egypt’s GDP growth accelerated to 5.6% in Q3 of 2018-19, up from 5.5% in Q2 of 2018-19 and 5.4% in Q3 of 2017-18.²⁹ Finance minister **Mohamed Maait** said the budget deficit for 2018-19 shrank to 5.3% of GDP, compared to 6.2% in the same period last year.³⁰

Despite these improvements, Egyptians continue to say that reforms have so far failed to trickle through. Inflation and cost of living pressures continue to bear down on those least

²⁴ Moody’s Investor report, Apr 2019.

²⁵ Moody’s Investor report, Apr 2019.

²⁶ European Bank for Reconstruction and Development, 8 May 2019.

²⁷ European Bank for Reconstruction and Development, 8 May 2019.

²⁸ European Bank for Reconstruction and Development, 8 May 2019.

²⁹ Finance Ministry press release, May 2019

³⁰ Finance Ministry press release, May 2019

able to afford them. In a recent television interview, the **Arab Academy of Science and Innovation's** visiting professor of management, **Sherif Delawar**, argued that the business community tended to view the economy in isolation. To ensure long term prosperity, the government should instead be more attuned to monitoring "*all aspects of citizen welfare*".³¹ Moody's indicated the same in its report, adding that while social unrest was unlikely in the short term, it could present challenges in the medium to long term.³²

Planner

23 May 2019 **Cairo (Egypt)** *Enterprise*. **Central Bank of Egypt's** monetary policy committee will meet to review interest rates;

May 2019 **Cairo (Egypt)** *Al Borsa*. 50 Egyptian companies are set to visit **Libya** to discuss trade, investment and reconstruction;

May 2019 **Cairo (Egypt)** *Al Mal*. **International Monetary Fund (IMF)** to do final review of government's reform programme, ahead of disbursement of fifth and final tranche of Egypt's \$12 billion loan;

2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

Chronology

9 May 2019 **New York (US)** *Enterprise*. Ratings agency **Moody's** sees **Egypt's** long-term economic growth outperforming B-rated peers;

9 May 2019 **Cairo (Egypt)** *Reuters*. Egypt court fines ex-interior minister **Habib al-Adly** 500 Egyptian pounds (\$29) for abuse of public funds;

8 May 2019 **Cairo (Egypt)** *Press release*. The **Central Bank of Egypt** announces that Egypt's annual core inflation dipped to 8.1% in April;

6 May 2019 **Cairo (Egypt)** *Times of London*. An **Italian** newspaper has reported that **Cambridge (UK)** student and Italian newspaper **Guilio Regeni** was tortured and killed after Egyptian police suspected him to be a "*British spy*";

6 May 2019 **Cairo (Egypt)** *Enterprise*. **Thailand-based PTT Energy Resources** files a \$1 billion lawsuit against Egypt alleging that Egypt failed to meet gas deliveries to **Egyptian Mediterranean Gas (EMG)** after 2011;

5 May 2019 **Cairo (Egypt)** *Ahram Online*. President **Abdel Fattah El-Sisi** says the army's role in major development projects is only supervisory;

5 May 2019 **Cairo (Egypt)** *Reuters*. The **Emirates NBD Egypt Purchasing Managers' Index** shows that **Egypt's** non-oil private sector expanded in April, the first expansion in eight months;

5 May 2019 **Cairo (Egypt)** *Yahoo Finance*. The investment ministry says the \$2 billion 1.6 gigawatt **Benban** solar park should be at full operational capacity in 2019;

³¹ DMC TV, 16 Apr 2019.

³² Moody's Investor report, Apr 2019.

2 May 2019 **Cairo (Egypt)** *Egypt Independent*. Economists forecast Egypt's economy to grow 5.5% in 2018/2019 fiscal year which ends in June, despite the struggling economy;

4 May 2019 **Cairo (Egypt)** *Middle East Eye*. Egypt and the **European Union** warn **Turkey** against drilling for oil and gas in **Cypriot** waters;

4 May 2019 **Cairo (Egypt)** *Egypt Independent*. Parliament extends the state of emergency for three months;

2 May 2019 **Cairo (Egypt)** *Enterprise*. Egypt-based private sector **Commercial International Bank (CIB)** eyes expansion into **Kenya, Ethiopia, Tanzania** and **Uganda**;

30 Apr 2019 **Cairo (Egypt)** *Al Jazeera*. The **Supreme State Security Emergency Court** sentences seven **Muslim Brotherhood** members to life in prison for harming the economy and funding a terrorist group;

30 Apr 2019 **Cairo (Egypt)** *Al Monitor*. The **Nuclear and Radiological Regulatory Authority** approves the **al-Dabaa** site as the future location of a nuclear power station;

30 Apr 2019 **Washington (United States)** *New York Times*. **United States** President **Donald Trump** pushes to designate the **Muslim Brotherhood** a terrorist group;

29 Apr 2019 **Cairo (Egypt)** *Egypt Independent*. Housing minister **Asem al-Gassar** signs an agreement to build an \$834m business park in the **New Administrative Capital** with several **China**-based banks;

24 Apr 2019 **Cairo (Egypt)** *Disrupt Africa*. Egypt-based venture capital firm **Sawari Ventures** will deploy \$70m across **North Africa** over four years;

24 Apr 2019 **Cairo (Egypt)** *MENA Annual Energy Investment Outlook*. **MENA** region is collectively investing \$1 trillion in energy from 2019-23;

23 Apr 2019 **Cairo (Egypt)** *The Guardian*. President **Abdel Fattah El-Sisi** wins a snap referendum amid vote-buying claims, allowing him to stay in power until 2030;

22 Apr 2019 **Cairo (Egypt)** *Reuters*. The government will borrow \$48 billion in 2019/2020 to meet its fiscal needs, a 26% year-on-year increase;

21 Apr 2019 **Cairo (Egypt)** *Al Mal*. The Egyptian pound continues to strengthen against the **United States** dollar;

21 Apr 2019 **Cairo (Egypt)** *Enterprise*. Cairo-headquartered full service bank **Banque du Caire** seeks to raise up to \$400m in an initial public offering;

21 Apr 2019 **Cairo (Egypt)** *Enterprise*. Ride-sharing company **Uber** will get a 15% break on its purchase of Egypt-based ride-sharing company **Careem** if local regulators reject the merger;

20 April 2019 **Cairo (Egypt)** *Enterprise*. **India**-based energy utilities giant **NTPC** is exploring investment opportunities in the Egyptian solar energy market;

18 Apr 2019 **Cairo (Egypt)** *Egypt Independent*. **United States**-based ratings agency **Moody's** upgrades **Egypt's** local and foreign long debt issuance to B2 due to expected financial and economic reforms;

18 Apr 2019 **Cairo (Egypt)** *Al Jazeera*. Opposition parties urge Egyptians to reject proposed constitutional amendments that could extend President **Abdel Fattah el-Sisi**'s rule;

17 Apr 2019 **Cairo (Egypt)** *Al Jazeera*. The **National Election Authority** schedules a three-day referendum on proposed constitutional changes for 20-22 April;

17 Apr 2019 **Cairo (Egypt)** *Middle East Monitor*. The finance ministry plans to cut fuel subsidies by 40.5% and electricity subsidies during the 2019/2020 financial year, though parliamentary approval is still required;

16 Apr 2019 **Cairo (Egypt)** *Middle East Monitor*. Parliament passes constitutional amendments that could allow President **Abdel Fattah el-Sisi** to extend his rule past his second term;

15 Apr 2019 **Cairo (Egypt)** *Reuters*. The finance ministry imposes temporary import fees of 15% on iron billets and 25% on steel rebar for 180 days to protect national industry against unfair competition;

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