

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing October 2019

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#### Egypt Summary 25 October 2019

***A rattled parliament vents anger at prime minister Moustafa Madbouly's economic reform programme in the wake of unprecedented street protests calling for the ouster of President Abdel Fattah El Sisi (2014-present). As the International Monetary Fund's (IMF) loan programme comes to an end, the bank cautiously praises Egypt, while calling for more reform and strengthening of the private sector. A landmark gas deal with Israel is amended, seeing a 34% increase in gas exports to Egypt, totalling \$19 billion.***

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#### MPs lambast government's economic polices in rare outburst

**Egypt's** parliament attacked prime minister **Moustafa Madbouly** on October 8 after he gave a speech defending his economic record, in the wake of unprecedented street protests. The protests are widely attributed to the harsh austerity measures being imposed on Egyptians in the wake of a 2016 bailout loan from the **International Monetary Fund (IMF)** amid a climate of extreme political repression. As Madbouly attempted to list his economic achievements, members of parliament (MPs) accused the government's imposition of the IMF-backed economic reform programme of plunging ordinary Egyptians into further economic hardship.<sup>1</sup>

The show of anger is somewhat unique as parliament is notorious for being stacked with members handpicked by the government and security services.<sup>2</sup> The parliamentary outburst could signal a shift in loyalties as MPs contemplate the potential personal fallout should there be any changes in the current leadership. MPs specifically sighted the recent decision of the supply ministry to strip many citizens of subsidy ration cards.<sup>3</sup> Speaker of the House **Ali Abdel-Aal**, known for his fierce support of President **Abdel Fattah El Sisi** (2014-present), said the slogan of parliament's final session will be "*Serving Ordinary Citizens*":

*"My message to this government, including cabinet ministers and provincial governors, please do not export problems to the president of the republic and to parliament, be up to your responsibilities, and take all measures necessary to improve the living of ordinary citizens."*<sup>4</sup>

Abdel-Al's words added to already circling rumours that there will be a cabinet reshuffle. **Diaaeddin Dawoud**, a left-leaning MP, said:

*"Egypt needs clear air at this stage and that policies should change to mainly serve poor citizens."*<sup>5</sup>

MPs also cited inflation, unemployment, the poor state of health infrastructure, the minimum wage, and rising living costs as concerns:<sup>6</sup>

*"The prime minister's statement that we heard makes it seem as if the people live in prosperity, which is not true. Citizens are facing more than they can bear and do not feel any benefits from the economic reforms."*<sup>7</sup>

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<sup>1</sup> Al Ahram, 9 Oct 2019.

<sup>2</sup> Mada Masr, 14 Mar 2016.

<sup>3</sup> Nile TV, 8 Oct 2019.

<sup>4</sup> Al Ahram, 9 Oct 2019.

<sup>5</sup> Nile TV, 8 Oct 2019.

<sup>6</sup> Nile TV, 8 Oct 2019.

<sup>7</sup> Al Ahram, 1 Oct 2019.

Economists and the business community have expressed concern since the protests that the government may respond by backtracking on the financial reforms it has overseen as part of the IMF programme, particularly after the subsidy ministry decided to restore to subsidy rolls almost 2 million people who had previously been disqualified for earning too much.<sup>8</sup> With MPs now demanding the government take action on wages and cash subsidy programmes, investors will be watching for the government's steadfastness in the face of a rising public backlash in the wake of a series of recent viral videos accusing the government of widespread fiscal corruption.<sup>9</sup> **Farouk Soussa**, senior economist with **Goldman Sachs**, said:

*"Investors are wary of the risk of fiscal slippage through the reversal of subsidy reforms or raising spending on public sector wages or cash transfers. The main risk is that any fiscal slippage could reduce the likelihood of Egypt coming to an agreement with the IMF over a new deal after the current one expires in November."<sup>10</sup>*

### IMF says private sector growth needed to sustain Egypt's reform programme

IMF managing director **David Lipton**, in an interview with popular Egyptian talk show host **Lamees el Hadidi** on 21 October, emphasised the need for private sector growth in Egypt.<sup>11</sup> Finance minister **Mohamed Maait**, in an interview with **Bloomberg** on 3 October, also addressed the need for job creation, which he said can only happen with a productive private sector. Maait acknowledged that while Egypt's 5.6% growth is positive, the country needs sustainable growth rates of as high as 8% to create jobs for the 2.5 million people entering the workforce every year.<sup>12</sup> Maait added that he would like the private sector growth to account for 70% of Egypt's Gross Domestic Product (GDP) within five to seven years, and that he would consider offering more incentives to meet this target.<sup>13</sup> Maait said he was hopeful that Egypt will reach a non-loan agreement with the IMF in the coming months. While his comments reflect the general positive sentiment toward Egypt's economic programme, a recent government report noted that at least a third of Egyptians are currently under the poverty line.<sup>14</sup>

IMF mission chief for Egypt **Subir Lall** said, however, that there needs to be more improvement by the government with further reform that would support private sector development and job creation.

*"It needs to strengthen governance and competition, better integrate women and youth in the labour market, improve access to land, and limit the role of the state in the economy."<sup>15</sup>*

What Maait and the IMF left out is that the private sector and investors remain crowded out by the military, who continue to infiltrate all areas of Egypt's economy. There are no official numbers available on the military economy, which, alongside no civilian oversight on its budget or activities, does not pay tax, even though it benefits from the use free conscript labour in its business activities.<sup>16</sup> Sources in the business community frequently vent their anger on the increasing role of the armed forces in all areas of the economy from construction (where they dominate) down to foodstuffs, furniture, electrical goods and more recently their moves into the service industry, with the military now being responsible for overseeing things like electricity and water meter readings where such services were previously under the purview of the state and private companies.<sup>17</sup>

<sup>8</sup> Al Mal, 6 Oct 2019.

<sup>9</sup> The New York Times, 23 Oct 2019.

<sup>10</sup> Reuters, 23 Sep 2019.

<sup>11</sup> Al Kahera, 21 Oct 2019.

<sup>12</sup> Bloomberg TV, 3 Oct 2019

<sup>13</sup> Bloomberg TV, 3 Oct 2019

<sup>14</sup> CAPMAS Report

<sup>15</sup> Reuters, 3 Oct 2019.

<sup>16</sup> Wall Street Journal, 21 May 2019.

<sup>17</sup> Source, CEO, Cairo, Egypt.

## Landmark gas deal with Israel amended to increase gas exports to Egypt by 34 %

Egypt-based **Dolphinus Holdings** and the operators of **Israel's** offshore natural gas fields, Israel-based **Delek Drilling** and **Texas (United States)**-based **Noble Energy**, have agreed to increase the supply of natural gas to Egypt by 34% to 85.3 billion cubic metres under amendments to the original deal made in 2018.<sup>18</sup> Amendments to the original agreement signed in February 2018, which was set to see Israel exporting \$15 billion worth of gas to Egypt beginning in 2019, **Reuters** estimates to have increased the value of the deal to \$19 billion.<sup>19</sup> Following a series of delays cited as being caused by security concerns in the **Sinai Peninsula**, Egypt should begin to receive gas imports in early 2020 and continue until 2034.

*"This transaction will open the door for further investments in the regional energy market, providing cheaper and cleaner energy to the citizens of the region."*<sup>20</sup>

Israel's **Tel Aviv Stock Exchange** oil and gas index was up 4.8% on 1 October while Delek Drilling shares rose 8.7% on news of the deal. Noble and Delek Drilling have also partnered with **Egyptian East Gas Co** in a venture called **EMED**, which last year struck a deal to buy into the subsea pipeline that will carry the gas. The deal, signed in 2018, was the last step for gas exports to Egypt to be feasible, and received final approval from the Israeli antitrust regulator this week.<sup>21</sup>

### Planner

2018-2019 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;  
 Oct-Nov 2019 **Cairo (Egypt)** *Al Akhbar*. **Cairo Criminal Court** "stock market manipulation" trial of **Gamal** and **Alaa Mubarak**;  
 November 2019 *Enterprise*. **Russia** state nuclear energy authority **Rosatom** and the **Nuclear Power Plants Authority** will organise a forum to introduce local suppliers and contractors to the **Dabaa** nuclear plant.

### Chronology

24 Oct 2019 **Cairo (Egypt)** *Egypt Today*. Egypt deems **Ethiopian** threats of aggression as unacceptable;  
 24 Oct 2019 **Cairo (Egypt)** *Al Ahram*. **Russia** may mediate the dispute between Egypt and **Ethiopia** over the **Grand Ethiopian Renaissance Dam** as Egypt seeks international intervention;  
 22 Oct 2019 **Cairo (Egypt)** *CNBC Arabia*. **Egyptian** state-owned **Misr Insurance** company could launch an IPO by 2021;  
 21 Oct 2019 **Cairo (Egypt)** *Al Mal*. Egypt contemplates privatisating bus companies;  
 21 Oct 2019 **Cairo (Egypt)** *Reuters*. **NI Capital** says **Saudi Arabia's** state-owned oil company **Aramco's** IPO could be reason to postpone the government's stake-sale programme;  
 20 Oct 2019 **Cairo (Egypt)** *Reuters*. The **Egyptian** government presses for an outside mediator in the **Grand Ethiopian Renaissance Dam** dispute;  
 16 Oct 2019 **Cairo (Egypt)** *Enterprise*. The **International Monetary Fund (IMF)** downgrades 2019 global growth outlook to 3%, but Egypt looks set to hit 5.9%;

<sup>18</sup> Press release, Oct 2019.

<sup>19</sup> Reuters, 3 Oct 2019.

<sup>20</sup> Press release

<sup>21</sup> Reuters, 1 Oct 2019

14 Oct 2019 **Cairo (Egypt)** *Al Mal*. **Financial Regulatory Authority's (FRA)** board of directors has approved a proposal to slash regulatory fees on stock market transactions;

13 Oct 2019 **Cairo (Egypt)** *Al Borsa*. The **International Monetary Fund (IMF)** publishes final review of Egypt's reform programme;

13 Oct 2019 **Cairo (Egypt)** *Enterprise*. The **World Bank** forecasts Egypt's economy to grow at 5.8% this fiscal year;

13 Oct 2019 **Cairo (Egypt)** *CAPMAS*. Annual headline inflation rate dropped for the fourth consecutive month to 4.3% in September from 7.5% in August, its lowest recording in nearly seven years;

10 Oct 2019 **Cairo (Egypt)** *Al Masry Al Youm*. Prime minister **Moustafa Madbouly** and foreign minister **Sameh Shoukry** accuse **Ethiopia** of violating bilateral agreements for pushing ahead with the construction of the **Grand Ethiopian Renaissance Dam**;

10 Oct 2019 **Cairo (Egypt)** *Gulf News*. **Arab League** to meet in Cairo as **Turkey** invades **Syria**;

10 Oct 2019 **Cairo (Egypt)** *Al Ahram*. **Russia** state nuclear energy authority **Rosatom** will break ground on Egypt's **Dabaa Nuclear** plant by mid-2020;

9 Oct 2019 **Cairo (Egypt)** *Enterprise*. Finance ministry is planning to introduce amendments to the tax code that would make it harder for foreign companies to sidestep Egyptian taxes;

9 Oct 2019 **Cairo (Egypt)** *World Bank*. Closer public-private sector collaboration could send entrepreneurship in **MENA** skyrocketing;

8 Oct 2019 **Cairo (Egypt)** *Recharge News*. The **European Bank for Reconstruction and Development (EBRD)** says Egypt is not fulfilling its renewable energy potential due to public sector inefficiency;

7 Oct 2019 **Cairo (Egypt)** *Global Construction Outlook report*. Construction in Egypt is set to expand by an average of 11.3% each year between 2019 and 2023;

3 Oct 2019 **Cairo (Egypt)** *Enterprise*. Finance minister **Mohamed Maait** says a non-loan **International Monetary Fund (IMF)** programme is still under consideration but nothing conclusive yet;

2 Oct 2019 **Cairo (Egypt)** *Press release*. **Israel** will boost gas supply to Egypt by 34% in amendments made to landmark 2018 deal;

2 Oct 2019 **Cairo (Egypt)** *DMC Masaa*. The supply ministry re-adds 1.8 million Egyptians who were removed from the subsidy programme in the wake of protests;

1 Oct 2019 **Cairo (Egypt)** *Press release*. **Dubai**-based venture capital firm **Beco Capital** closes its second startup fund at \$100m, exceeding its initial \$80m target;

30 Sep 2019 **Cairo (Egypt)** *Enterprise*. The **Egyptian Stock Exchange (EGX30)** extends its rally after the **Central Bank of Egypt (CBE)** loosens monetary policy;

30 Sep 2019 **Cairo (Egypt)** *Associated Press*. The government detains noted activist **Alaa Abdel Fattah** in the wake of protests with trumped up charges of "spreading lies" against the state;

24 Sep 2019 **Cairo (Egypt)** *Enterprise*. Shares on the **Egyptian Stock Exchange (EGX30)** slide for second day in a row following protests;

23 Sep 2019 **Cairo (Egypt)** *Netblocks.com*. Egyptian authorities block access to **BBC Arabic** and disrupt access to social media sites;

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