

RESEARCHED IN WASHINGTON | January 08, 2015

## IMF report, elections key for Cairo to secure new loans

**SIGNIFICANCE:** Though financing commitments from Gulf countries have remained stable so far, the current environment of low oil prices adds pressure on Egypt to secure new funds from investors and donors in other regions at an investment conference in March. Key to securing investment will be an upcoming IMF Article IV Consultation report and smooth parliamentary elections later this year.

### IMPACTS

**SOCIAL:** Pushing growth to 5 percent by 2018, the end of Sisi's first term, will be a boon to the Egyptian president if he seeks reelection.

**POLITICAL:** Recent IMF support and the conclusion of parliamentary elections in 2015 will be key to securing investment from outside the Persian Gulf.

**BUSINESS:** Egypt needs \$60 billion in direct investment to achieve 5 percent growth by 2018. It is looking to the US, Europe, and Japan for new funds.

### FULL BRIEFING

**As the Egyptian government gears up for a widely touted investor conference this March, its allies in the Persian Gulf are looking to the event for new sources of financing Egypt needs to more than double its current modest growth rate by the end of President Abdel Fattah al-Sisi's term in 2018.**

Key to securing investments and loans from countries beyond the Gulf region will be the presentation of an Article IV Consultation report on Egypt by the executive board of the International Monetary Fund towards the end of this month. Another key milestone for potential lenders will be the conclusion of long-awaited parliamentary elections to be held at an as-yet-unspecified date this year.

"The Gulf countries have been wanting for some time to pass responsibility for Egypt to a broader group of donors. They hope [the investor conference] will catalyze private sector investment and are looking for the Europeans, the US, and Japan to step up," says Simon Kitchen, strategist at EFG Hermes investment bank in Cairo. "The election of a parliament is [also] a milestone that ... will allow some of the investor countries to lend a bit more money to Egypt."

Mr. Sisi's administration has sought to cultivate Gulf aid with a slew of new taxes and subsidy cuts (<http://www.monitorglobaloutlook.com/Briefings/2014/06/egypts-new-president-to-reassure-investors>) intended to boost funding for health and education measures. The government has also drafted a controversial new investment law (<http://www.monitorglobaloutlook.com/Briefings/2014/04/new-investment-law-a-nod-to-business-egypt-fm-told-mgo>) preventing third parties from appealing government contracts as a way to reassure potential foreign investors.

To date, Saudi Arabia, Kuwait, and the United Arab Emirates have helped Egypt finance two multibillion economic stimulus plans (<http://www.csmonitor.com/World/2014/0213/Egypt-makes-big-economic-push-as-leader-in-waiting-Sisi-courts-Russia>) with almost \$30 billion in grants, fuel aid,

### ON THE GROUND

*"The Gulf countries have been wanting for some time to pass responsibility for Egypt to a broader group of donors. They hope it will catalyze private sector investment and are looking for the Europeans, the US and Japan to step up."*

– Simon Kitchen, EFG Hermes in Cairo



Achieving 5 percent growth over the next three years would help Egyptian President Abdel Fattah al-Sisi's chances of reelection in 2018.

Photo: Charles Platiau/Reuters

### OTHER IMPACTS

#### INDUSTRIES

- Finance and Insurance

#### RISKS

- Riots / Protests

and interest-free loans. In spite of the steep drop in the price of crude, which has put a dent in Saudi, Kuwaiti and Emirati oil earnings, Mr. Kitchen tells MGO financing to Cairo has, for the time being, remained stable.

Egyptian stocks outperformed ([http://www.msci.com/resources/factsheets/index\\_fact\\_sheet/msci-egypt-index-usd-gross.pdf](http://www.msci.com/resources/factsheets/index_fact_sheet/msci-egypt-index-usd-gross.pdf)) both the MSCI Emerging Markets index and the MSCI ACWI benchmark for global equities in 2014, producing a total return – including share price hikes and dividends – of almost 30 percent. However, in order to substantially boost GDP growth from last year's 2.2 percent to an average five percent by 2018, Egypt needs at least \$60 billion in total investments, according to findings (<http://www.consultancy.uk/news/608/strategy-and-lazard-advise-egypt-on-economic-reform>) by US consultancy Strategy& and investment bank Lazard. On top of that, Cairo needs another \$60 billion to shore up its foreign exchange holdings, according to Strategy& and Lazard.

#### **Low oil prices should increase Egypt's attractiveness to foreign investors**

The current environment of low oil prices should help Egypt attract investors by boosting growth, lifting pressure on the country's current account and currency, and making it easier for the government to implement much-needed fiscal reforms such as reining in energy subsidies.

Indeed, as oil prices continue to hit record lows of around \$50 per barrel, public spending on fuel subsidies, budgeted at \$14 billion in the second half of the current fiscal year, will fall by an additional \$4 billion, says Robin Mills, head of consulting at Dubai-based Manaar Energy.

Cairo has already cut fuel subsidies (<http://www.monitorglobaloutlook.com/Briefings/2014/07/why-egypt-can-survive-its-sweeping-energy-subsidy-cuts>) by 20 percent effective July 2014.

"The drop in oil prices ... reduces the pressure on the current account deficit (and) currency from the imports of oil products," says Mr. Mill.

Since Egypt is a net energy importer, the decline in spending on fuel will also mitigate pressure on Cairo's foreign exchange reserves, currently hovering at a low of \$15.3 billion.

"On balance, a fall in oil prices... is good for Egypt," Mr. Kitchen tells MGO. "I think we will continue to see a recovery."

The IMF endorsed the Egyptian government's reforms in November, concluding an Article IV mission with a projection that Egypt would achieve 3.8 percent growth in 2015. Such support from the IMF, long deemed by both foreign investors and donors as a bellwether for sustained macroeconomic stability, gives Cairo a much-needed surge in confidence as it prepares for its long-awaited investor conference.

"The economy has begun to recover after four years of slow activity," Chris Jarvis, the IMF Misson chief for Egypt, said (<https://www.imf.org/external/np/sec/pr/2014/pr14538.htm>) in November.

"Policies implemented so far, along with a return of confidence, are starting to produce a turnaround in economic activity and investment."