EGYPT:

DESPITE SECURITY CONCERNS, THE OVERALL RISK OUTLOOK IS REMARKABLY OPTIMISTIC

The terrorism threat to Egypt is being overstated due to sporadic and relatively low capability, yet high-profile, attacks on foreign tourists. The country’s overall risk outlook is remarkably positive as a result of enhanced political stability, IMF-mandated fiscal prudence, and cheap loans from the Gulf, as well as a boom in gas export revenues. Once the IMF programme terminates later this year, concerns over inflation and Egypt’s debt sustainability will have subsided.

On 19 May, a rudimentary improvised explosive device (IED) containing nails and pieces of metal was detonated remotely on the perimeter of the Grand Egyptian Museum that is being built close to the Giza pyramids. The explosion targeted a tourist bus and injured at least 12 people, mostly South African tourists. Four Egyptians in a nearby car were also injured by broken glass. The location of the attack is not far from the site of a roadside blast that hit another tourist bus in December.

The following day, Egyptian security forces killed 12 suspected Islamist militants in the 6th of October and Al Shorouk districts of Egypt’s capital Cairo. The targets...
of the operation were reportedly members of the militant group Hasm, which the government claims is a wing of the outlawed Muslim Brotherhood, and were planning a series of attacks in the country. However, there has been no confirmation that these individuals were behind the attack in Gizah.

This type of counter-terrorism operations usually follows high-profile militant attacks. For example, in December 2018, a day after the deadly bombing of a Vietnamese tourist bus in Gizah, authorities announced that its forces had killed 40 people in three separate incidents. There is often no correlation between the terrorist acts and the subsequent military actions, which local activists claim are extrajudicial killings.

Country terrorism profile

The bus attack targeting South African tourists, which happened a few kilometres from the pyramids, on the outskirts of Cairo, is the second deadly attack against foreign tourists in Egypt so far this year, after the January attack on the Vietnamese bus. Before then, the last deadly attack on foreign tourists in Egypt was in July 2017, when two Germans were stabbed to death in the Red Sea resort of Hurghada. It is still too early to speculate on whether there is a definite increase in the terrorism threat in Gizah for several reasons.

Local sources in the security sector report that the Egyptian branch of the Islamic State – Wilayat Sinai – is widely seen as most likely to be behind the attack on the Vietnamese tour bus. Here the IED used was far more sophisticated than the latest device used in the attack on the South African bus. This opens speculation that the latest incident might be a crude copy-cat style attack, although there is no evidence to support this theory.

It also appears that the threat posed by Wilayat Sinai in both Cairo and throughout Egypt may be at its lowest. In addition to several of the group’s leaders being neutralised or detained, factionalism has also emerged within the movement, with a breakaway faction of Wilayat Sinai pledging their fidelity to al-Qaeda and establishing operations in Egypt’s Western Desert region. However, the most damaging development to the trajectory of Wilayat Sinai’s insurgent operations in Egypt has undoubtedly been the launch of Comprehensive Operation – Sinai 2018, was initiated in February 2018 as a broad-based military operation to neutralise all terrorist elements operating in Egypt. While predominantly focusing on Wilayat Sinai’s operational strongholds in the Sinai Peninsula, counterterrorism operations were also launched in the country’s Nile Valley and Western Desert regions.

Regardless, the series of bus attacks is indicative of the heightened threat of terrorism in Egypt and specifically that targeting the country’s tourism sector. The bomb attacks have also demonstrated the
operational capacity of the Wilayat Sinai organisation and highlighted the group’s capabilities to execute mass casualty attacks outside of its base in Egypt’s North Sinai governorate. Nevertheless, it is important not to overexaggerate the extent of the terror threat in Egypt and its commercial implications, especially for the tourism sector, as we assessed following the last Gizah attack in January (See EGYPT: TERRORISM IS NOT ‘DYING’ AS COUNTER-INSURGENCY OPERATIONS ARE WITHDRAWN).

Still, the suspension of Comprehensive Operation – Sinai 2018 last year and a withdrawal of security assets from terrorism-embattled regions could provide Islamist militants groups such as Wilayat Sinai a chance to recuperate and recalibrate their armed insurgency. This is mostly due to areas outside of Egypt’s jurisdiction – notably the Gaza Strip – providing enduring safe havens and a resource pool for Egyptian extremists. The Gizah bus attack is indicative of a resurgent terrorism threat in Egypt. It also demonstrates the intent by Egyptian militant groups to stage bold attacks in order to curb the country’s crucial tourism sector.

Although the Islamic State’s presence remains highest in north Sinai, the group will likely continue to extend its operations in “mainland” Egypt in the six-month outlook, either by providing logistical and tactical support to existing militant groups or by establishing its own cells. In this scenario, assassinations, sophisticated attacks with vehicle borne IEDs (VBIEDs), and suicide bombers would target government buildings, foreign targets, police posts, major hotels, and assets or personnel associated with countries that are part of the military coalition against the Islamic State. In Sinai, tourist resorts in the south of the peninsula, such as Sharm el-Sheikh and Taba, remain aspirational targets for the group. While major hotels are likely to be well-protected, public areas where tourists congregate, or smaller hotels along the southern coast, are more vulnerable to IED attacks.

**Shoring up political authority**

The supposedly high security threat also serves as a reason for the security forces to establish greater authority over the state. A vote in parliament on 16 April backed a constitutional change to allow Egypt’s President Abdel Fattah el Sisi, a former Field Marshal and 2013 military coup leader, to stay in power until 2030, while extending powers to the country’s military. The constitutional amendment process was engineered by the president’s son, Mahmoud, who occupies a high-level position in the powerful General Intelligence Service (GIS), or Mukhabarat. Other close confidants of Sisi have also been involved in the constitutional amendment planning, including GIS head General Abbas Kamel, who previously served as the director of Sisi’s office at the presidency, and the
current chief presidential aide General Mohsen Abdel Naby.

By drawing in the GIS, Sisi has sought to make the presidency more independent of the Supreme Council of the Armed Forces (SCAF), which remains the post-coup military junta centre of power in Egypt. However, by uniting the various pro-Sisi political parties into the Nation's Future Party, Sisi has also centralised presidential influence over parliament. Sisi's eldest son, Mustafa, is a senior official in the Administrative Control Authority, which oversees state institutions and government ministries. Therefore, Sisi has also shored up his authority over Egypt's massive public service.

A crucial aspect of the political consolidation is integrating the security services into the planned megaprojects that are underway in the country. Senior generals and SCAF officers have benefitted from the massive industrialisation projects engaged by the government, military affiliated companies, such as the Armed Forces Engineering Authority and the Arab Organisation for Industrialisation, are favoured in tender processes and retain interests in infrastructure projects. These include the construction of the new capital Wadian, as well as major industrial construction projects in the Cairo conurbation of Badr City and the southern city of Beni Suef.

The involvement of Egypt’s influential military-industrial complex in economic development is key to retaining political stability, while also ensuring that the security sector remains capable to deal with security threats, such as unrest and terrorism. Since Sisi came to power, military spending has risen 215 percent. The Egyptian government has also increased collaboration with militaries from Gulf Arab states, particularly Saudi Arabia, which has provided much of the financing for the megaprojects over past years. Meanwhile, Egypt is purchasing new military hardware and advanced weapons systems from multiple sources including the United States, France, Germany, and Russia. The government is now purchasing USD 6.6 billion in arms, making Egypt the third-largest arms importer in the world.

**INSIGHT**

There have been concerns that an increased spate of attacks on tourists would curb the sector's revenues and drag down growth projections. The sector has been recovering after tourist numbers dropped in the wake of a 2011 uprising and the 2015 bombing of a Russian passenger jet. Despite the fresh attacks on tourists, the economic outlook for Egypt remains bright. Real GDP growth has averaged more than 5 percent since mid-2017 and is set to rise further in coming years as a result of increased natural gas production, the recovery of the tourism sector, and continued heavy investment in construction.

There are several other concerns that have been overstated in regards to Egypt's economic outlook, namely debt sustainability and inflation. Much of Egypt’s recent growth is due to debt-financed infrastructure and industrialisation mega-projects. Foreign debt levels have doubled to more than USD 92 billion since 2015, which has raised further
Concerns over debt servicing and debt sustainability. Gross government debt now amounts to more than 77 percent of GDP. With the disbursement of the final tranche of the International Monetary Fund (IMF) loan this year, Egypt’s external debt will rise above USD 100 billion, equivalent to roughly 35 percent of GDP. However, the IMF’s disbursements are set to cease by the end of 2019, while many other loans are set to mature. Egypt is set to repay some USD 17.6 billion in loans from Gulf Arab partners this year alone. Such repayments should improve the country’s debt sustainability.

Loan repayment is being facilitated by rising revenues from the extractive sector, particularly gas exports from the Zohr field which is due to reach its long-term plateau production level of 3.2 billion cubic feet a day in the second half of 2019. Egypt is also due to receive the first gas supplies from Israel’s Tamar field via the East Mediterranean Gas pipeline. Further fields are being explored and developed, while multinational firms like Italy’s Eni seem willing to inject further capital investments into the liquefied natural gas (LNG) sector. The expansion of Egypt’s naval forces is meant to protect the offshore gas assets, as well as the crucial Suez Canal and Red Sea shipping route.

Even when the USD 12 billion programme with the IMF ends in November, global bond investors who have flocked to Egypt’s capital markets in recent years will insist on fiscal prudence and tight monetary policy. This will become crucial as the government considers loosening fiscal and monetary policy once the current account deficit shrinks to below 2 percent next year due to a halt to imports of LNG and the steady recovery of the tourism sector – unless another high profile mass casualty attack takes place, as in 2015.

Because of the higher energy prices, the target of a primary fiscal surplus of 2 percent of GDP is likely to be met this year. Moreover, other economic indicators are also improving. Annual inflation is set to fall below 10 percent next year, from a high of 23 percent in 2017. The positive inflation outlook is a key indicator of improving political stability as the prospect of civil unrest and industrial action also subsides. Therefore, despite continuing threats of terrorism and concerns over political authoritarianism, Egypt’s political and economic outlook looks remarkably optimistic for the next few years.