

MENA: Egypt Election Preview & Key Risks In 2018

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Egypt Election Preview

El-Sisi Win In The Bag

- President Abdel Fattah el-Sisi is highly likely to secure a second term in Egypt’s March 26-28 presidential election.
- El-Sisi faces little opposition after several other candidates were pressured to step down. Only Mousa Mostafa Mousa, the head of the little known Ghad party is running against him. Anecdotal evidence suggests Mousa is a supporter of the president, encouraged to run to give the appearance of a competitive election.
- We believe that the president enjoys some popular support, particularly in Cairo and other urban areas where the benefits of previous economic reforms are likely to be felt most substantially.

El-Sisi Faces Little Opposition

Egypt – Candidates For March Presidential Election, Confirmed and Withdrawn

Candidate	Position	Status
Abdel Fattah el-Sisi	Incumbent	Confirmed
Mousa Mostafa Mousa	Head of Ghad party	Confirmed
Ahmed Shafiq	Former air force commander, former prime minister (2011)	Withdrawn, reportedly threatened with legal proceedings over alleged corruption
Sami Anan	Former military chief of staff	Withdrawn after reportedly being charged with incitement, breaching of the military code and forgery
Ahmed Konsowa	Colonel	Withdrawn, convicted of breaching military regulations
Khaled Ali	Human rights lawyer	Withdrawn, citing lack of fair competition, concerns over authorities' targeting of supporters
Mohammed Anwar Sadat	Former lawmaker	Withdrawn, citing lack of fair competition

Source: Local news sources, BMI
bmiresearch.com

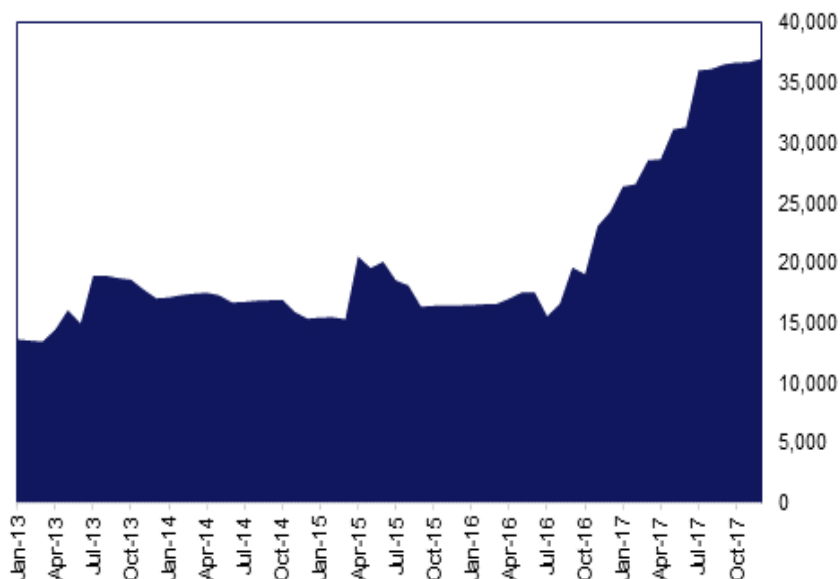
Egypt Election Preview

Victory A Boon For Policymaking & Growth

- Another term for el-Sisi bodes well for further progress on Egypt’s reform drive and for business sentiment.
- While many of the most painful (and important) reforms have already been completed, el-Sisi’s re-election will likely open the door for modest fiscal consolidation, including cuts to fuel subsidies.
- Egypt will be an economic outperformer in the Middle East region in 2018. Private consumption is set to benefit from cooling inflation and gradual improvements in job creation, and investment will be buoyant on the back of continued reform progress.

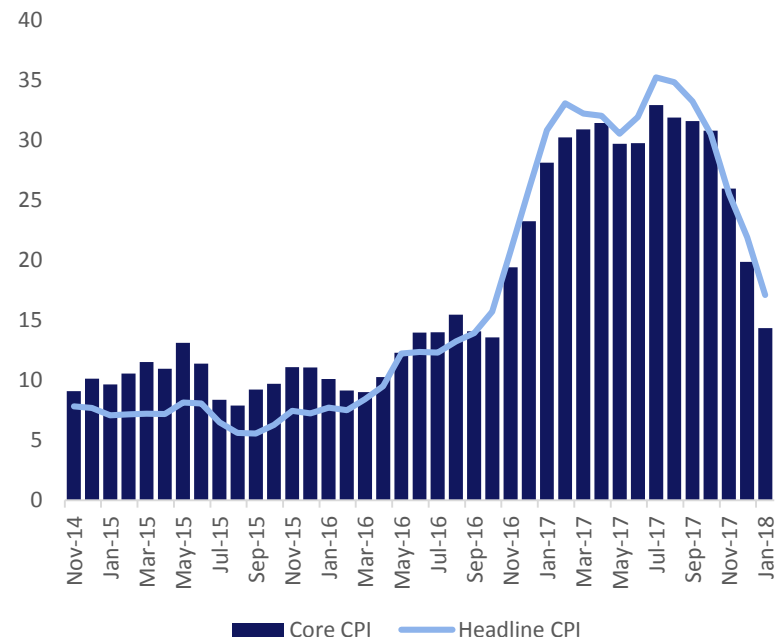
El Sisi Win To Reinforce Macroeconomic Stability

Egypt – Foreign Reserves, USDmn



Cooling Inflation Will Offer Growth Tailwinds

Egypt – Inflation, % y-o-y

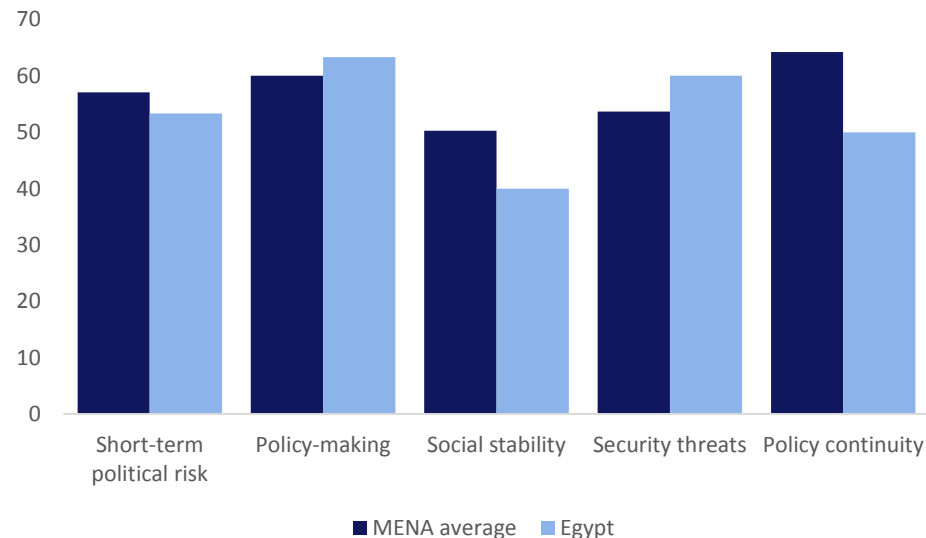


Egypt Election Preview

Risks To Political Stability Will Persist

- Our core view is that Egypt will see limited unrest following the election, but we cannot rule out the risk of greater instability over a multi-quarter time frame.
- Attempted entry into the presidential election by two different senior military officials suggests some level of tension which could bubble to the surface if perceptions of el-Sisi’s ability to serve military interests weakens.
- At the same time, popular discontent with the relatively limited political freedoms granted by the government could fuel discontent, especially if growth disappoints.

Political Stability Still A Risk
Short-Term Political Risk Indices, Out Of 100



Key Risks In 2018

Overview

- Our core view is for the economic backdrop to improve in MENA over 2018, but the region remains highly vulnerable to political and economic shocks.
- The MENA team has identified six key risks. While these scenarios are all unlikely in our view, should they play out the impact would be significant.

Key Risks To MENA In 2018

Risk	Countries Affected	Trigger
Renewed slump in oil prices	Oil Exporters - Bahrain, Iraq, Oman particularly at risk	Unravelling of OPEC deals, greater-than-expected shale production, lower global demand
Breakdown of the GCC	Saudi Arabia, the UAE, Bahrain, Oman, Kuwait, Qatar	Saudi Arabia and the UAE, convinced that Qatar will refuse to fall in line with their foreign policies, move to change or pull out of the GCC.
Large-scale terrorist attack on region's safe havens	UAE, Qatar	IS encouraging militants to carry out attacks against region's safe havens
Collapse of Iran nuclear deal	Iran	US withdrawal from deal, European disengagement on the back of aggressive Iranian military expansion
Challenging Succession in Oman	Oman	Sultan Qaboos passing away
Maliki returns to power	Iraq	Iran stepping up support for Maliki, in order to further expand influence in Iraq at the expense of Abadi

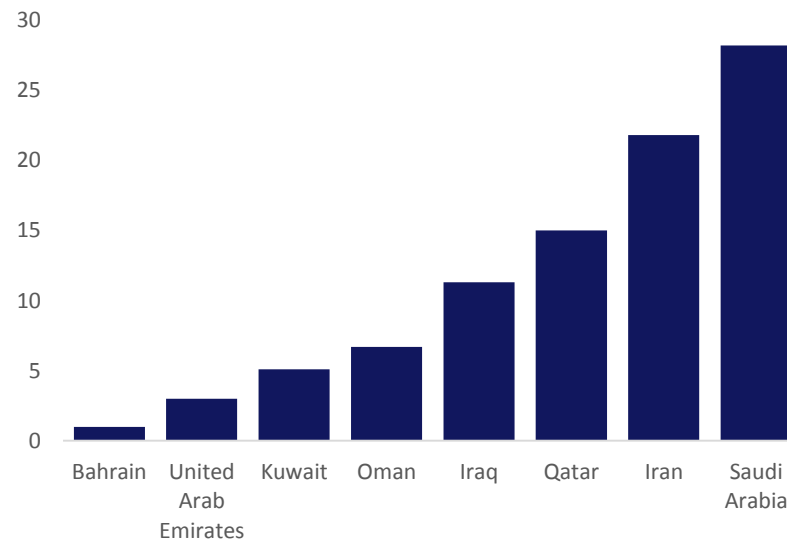
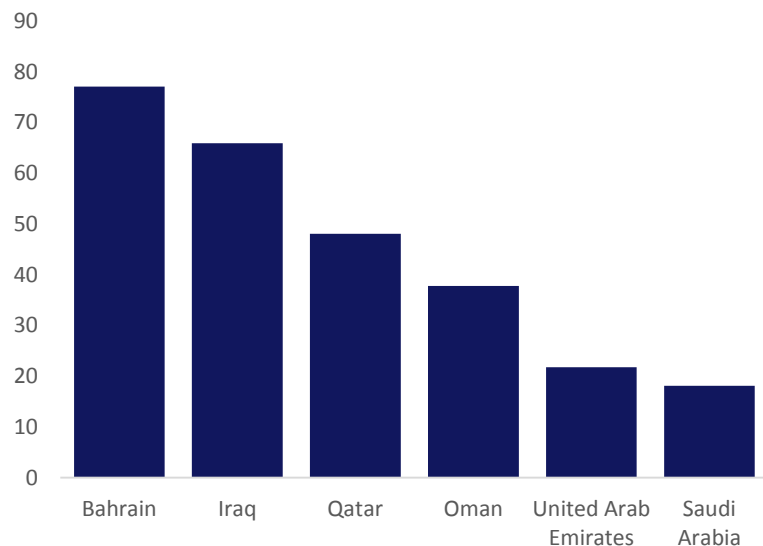
Key Risk 1

Oil Price Plunge

- **Core View:** Following strong gains through H217 and early 2018, we hold a bullish view on oil prices for 2018 as a whole, forecasting Brent crude to average USD65.0 per barrel (USD/bbl), up from USD54.7/bbl in 2017.
- **Risk Catalyst:** Significantly weaker demand in major markets (potentially as a result of recessionary or near recessionary growth) or more significant gains in US shale production could drive prices down, potentially to USD45.0/bbl.
- **Implications:** Oil returning to its previous lows would compel MENA governments to re-introduce fiscal austerity measures, weighing on growth and diversification efforts. Fiscal risks for the most vulnerable countries (like Bahrain and Iraq) would increase significantly if they failed to adjust quickly to the low price environment.

Bahrain And Iraq Vulnerable To Renewed Oil Slump

Selected MENA Oil Exporters – Government Debt, % of GDP (LHS) & Import Cover (RHS)



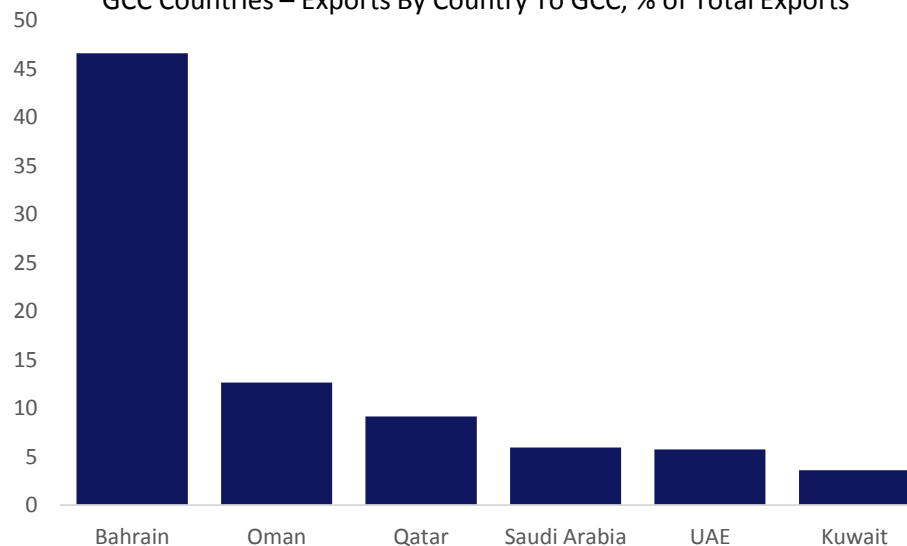
Key Risk 2

Breakdown Of The GCC

- **Core View:** The GCC will continue to exist despite the Qatar crisis, albeit with minimal economic or political influence. Security considerations, both by GCC members and the US, as well as socio-historic ties will limit appetite to formally dissolve the institution.
- **Risk Catalyst:** Increased support from the US to take a harder stance against Qatar could see it ousted or lead to the dissolution of the body. A change in leadership within one of the GCC countries (for example, Oman) and its subsequent withdrawal from the body could be a catalyst for the GCC to be dissolved and reconstituted with different membership.
- **Implications:** Immediate economic ramifications would be relatively limited. While the GCC common market and customs union would cease to exist, intra-regional trade is relatively low. Political ramifications would be more significant, with the dissolution of the bloc potentially a harbinger of a realignment of long-standing political alliances across MENA.

Limited Trade Ties Would Blunt Economic Impact

GCC Countries – Exports By Country To GCC, % of Total Exports



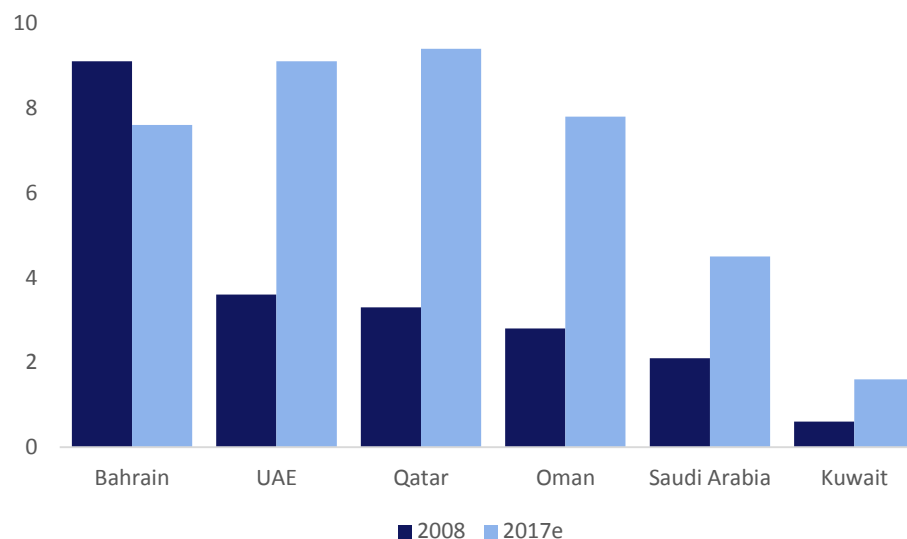
Key Risk 3

Large-Scale Terrorist Attack On The Region's Safe Havens

- **Core View:** Many of the major hubs have been spared from high profile terrorist attacks in recent years, and we believe that the strong security presence will limit scope for successful attacks.
- **Risk Catalyst:** Following the defeat of IS in Iraq and Syria, the militant organisation could encourage lone individuals to carry out attacks on the region's safe havens, such as Dubai, Abu Dhabi, or Doha. In a more extreme case, the organisation would manage to organise a large-scale attack in a highly-frequented public place (shopping mall, sports event, etc.), resulting in mass casualties.
- **Implications:** The immediate impact on perceptions of safety in the region would deter tourists and weigh on growth. We could also see governments crack down on perceived Islamist extremism, reducing political freedoms in these countries.

Attack Would Hit Region Hard After Ramp-Up In Arrivals

GCC – International Tourist Receipts, % of Total Exports



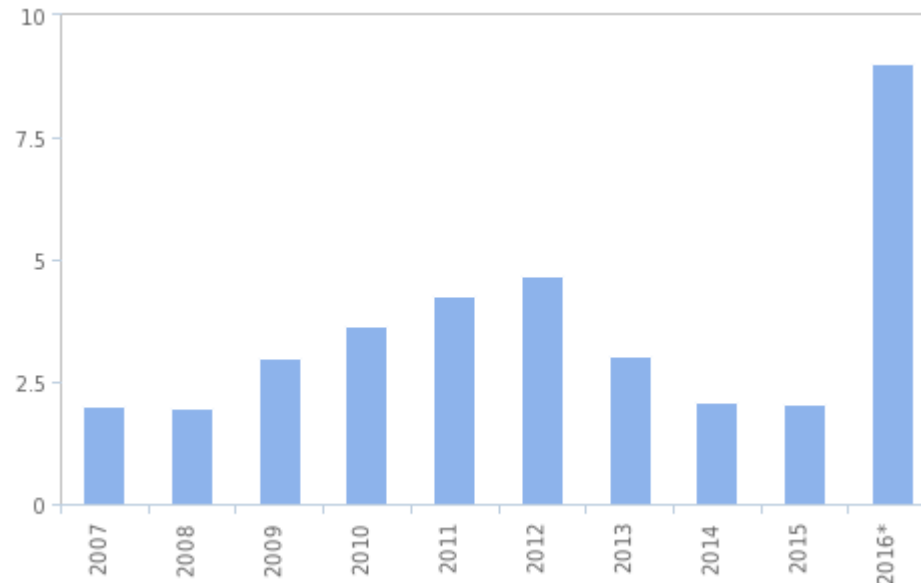
Key Risk 4

Breakdown of Iran Nuclear Deal

- **Core View:** Our core view remains for Iran’s nuclear deal with the P5+1 powers (the US, the UK, France, Germany, Russia and China) to hold.
- **Risk Catalyst:** A failure to reach a US-European agreement to address the deal’s sunset provisions, and/or contain Iran’s long-range missile development could see the US withdraw. This would significantly increase the risks to its survival.
- **Implications:** Western investment and trade with Iran would be hard-hit. The Iranian rial would likely sell off, putting upward pressure on inflation. Popular discontent with moderate President Hassan Rouhani could grow, enabling the already-dominant hardline elite to expand its role.

FDI Would Be Hard Hit By Deal Breakdown

Iran – FDI



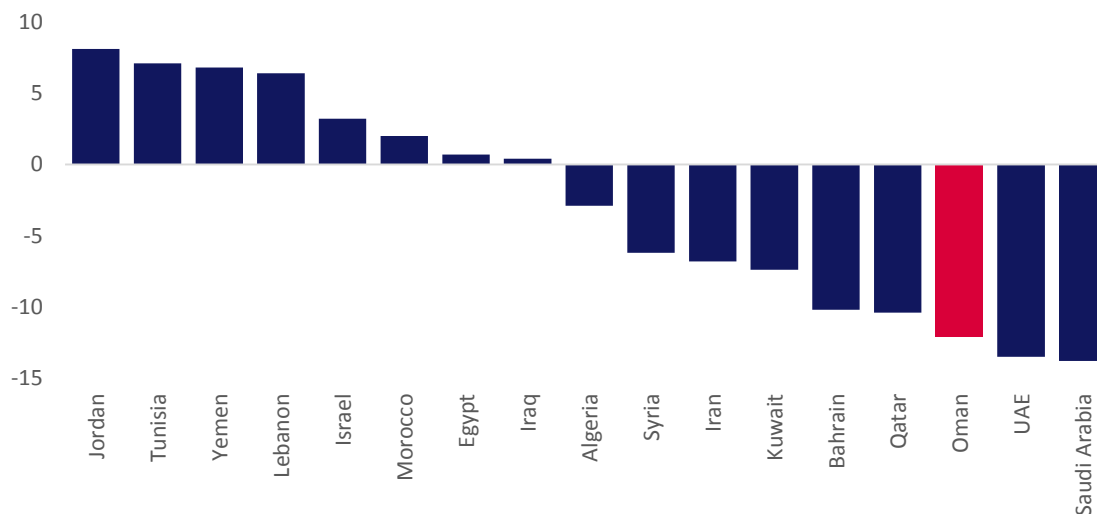
Key Risk 5

Challenging Succession In Oman

- **Core View:** While Sultan Qaboos will eventually leave office, it is by no means guaranteed he will do so in the near term, such that we are not factoring in the potential unrest from the eventual succession.
- **Risk Catalyst:** If Sultan Qaboos were to leave office, likely due to his passing, we would expect a period of elevated uncertainty. His monopoly on power means that very few members of the royal family have popular legitimacy. In a worst case scenario, the succession process could result in infighting between members of the royal family.
- **Implications:** At the very least we would expect delays in policymaking. We could also see a turn to substantial expansionary fiscal policy in an attempt by Qaboos' successor to boost his legitimacy. In a worse case scenario prolonged infighting and jockeying for power could see no one take the reins for a prolonged timeframe, leading to increased political instability.

Succession A Looming Threat

MENA – LTPRI Minus STPRI



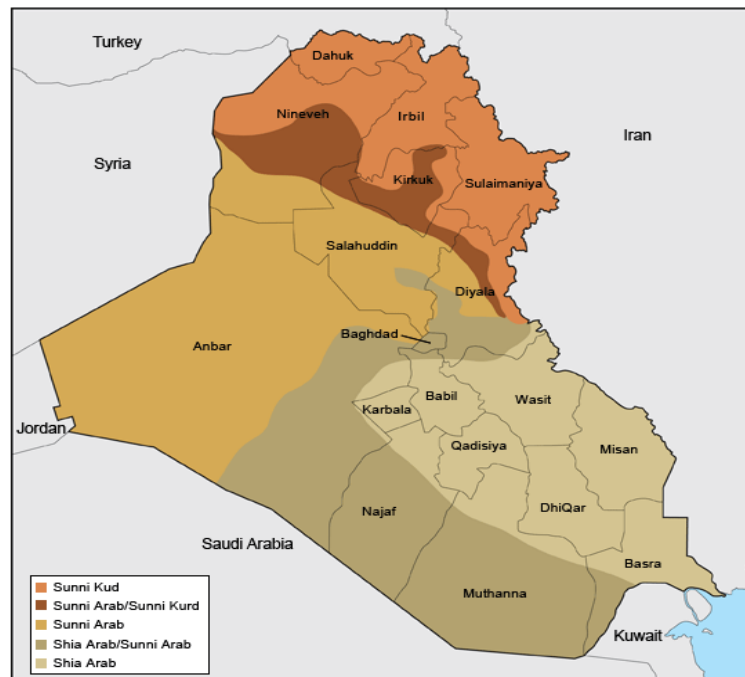
Key Risk 6

Maliki Returns To Power In Iraq

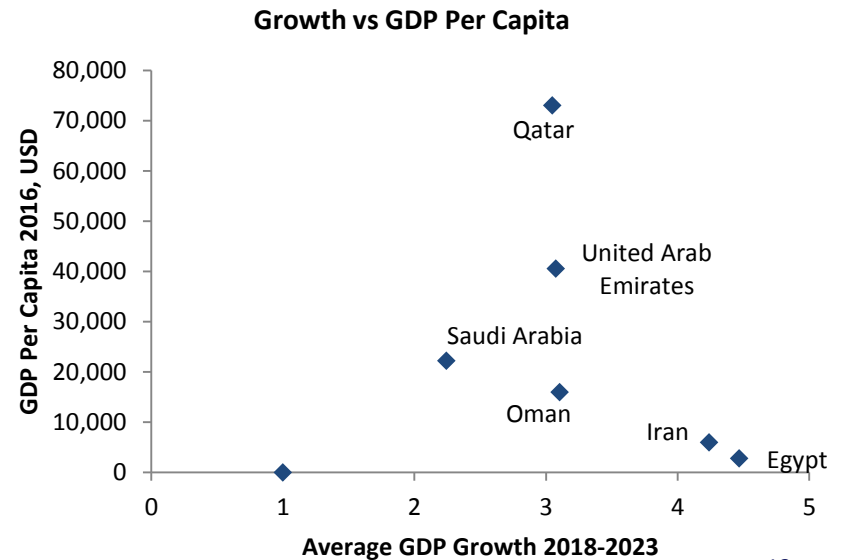
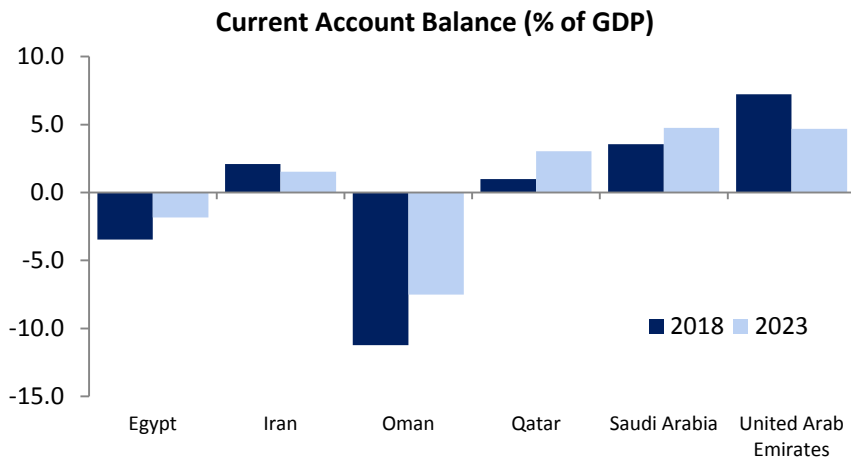
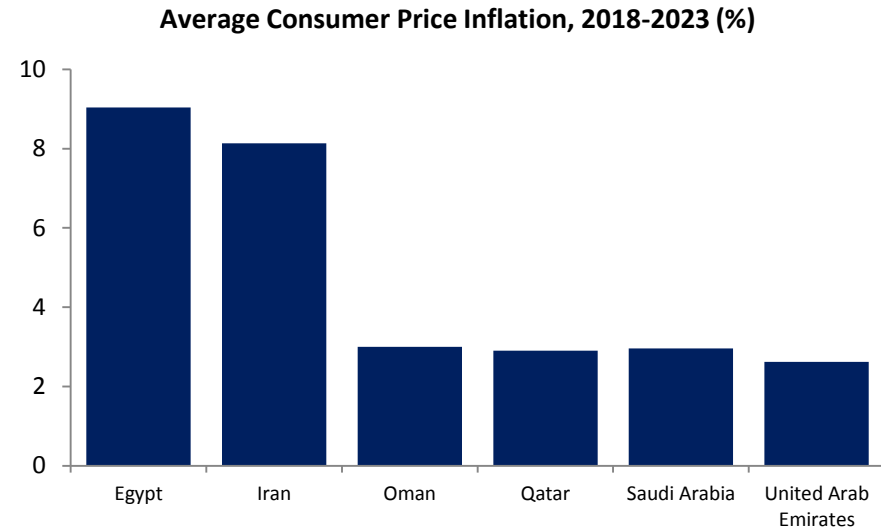
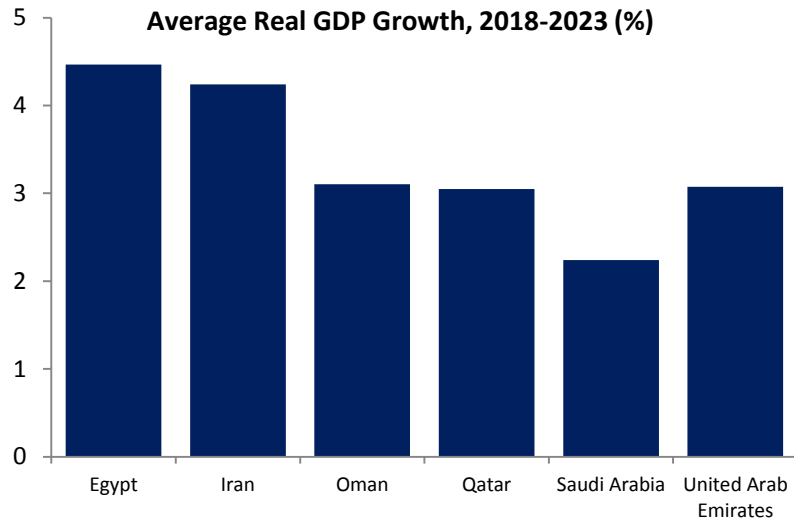
- **Core View:** Our core scenario is for current Prime Minister Haider al-Abadi to secure a second term in the parliamentary election scheduled for May 2018, benefiting from the support of diverse ethnic and political groups.
- **Risk Catalyst:** Former President Nouri al-Maliki has been staging a slow comeback for some time. An intensification of the proxy conflict between Saudi Arabia and Iran could encourage Iran to step up support for Maliki on the ground, impacting the outcome of the election.
- **Implications:** Maliki's return to the premiership would have highly destabilising consequences, including exacerbating Sunni concerns about political exclusion. As Iran's preferred candidate, his return would also heighten the proxy war between Iran and Saudi Arabia, with potential implications for stability and security in Iraq.

Maliki's Comeback Would Further Ethnic Divisions

Iraq – Ethnic Groups



Data Pack



For more information, please contact our
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