



The war against Islamic State

Caliphate at bay

MOSUL

The Iraqi army is on the brink of defeating Islamic State. But the government must move fast if it is not to squander its victory

IN A series of lightning advances over the past few days, Iraq's army has seized control of most of western Mosul, the last redoubt of Islamic State (IS) in the country. On March 7th, a day that may have marked a turning point, army units took Mosul's main government complex, as well as the city's famous antiquities museum and about half of the old city. The airport had fallen a week or so earlier, and all roads in and out of the city in which the leader of IS, Abu Bakr al-Baghdadi, declared his "caliphate" in June 2014 are firmly in government hands.

In the command centre responsible for the eastern half of the city, which was liberated in December, Brigadier Qais Yaaqoub was jubilant. "They are in full collapse now," he said. "When an army breaks it happens very quickly. Within a week or two, this will all be over." He may be speaking prematurely, but probably not by much. The liberation of west Mosul, which started only last month, has proceeded much faster than expected. That said, the last of the fighting could be a lot more difficult. IS clings on in the oldest parts of the city, where streets are narrow, making it hard to manoeuvre vehicles and increasing the risk of ambushes and civilian casualties. However, tens of thousands have been able to make their way to safety.

American officers working closely with the Iraqi army estimate that as few as 500 IS fighters now remain in the city, the others having fled or been killed in a devastating campaign of well-targeted air strikes. The evidence is clear from a tour of east Mosul, on the left bank of the Tigris river, which has split the city in two since IS blew up all its five bridges as it fell back.

Residents point out building after wrecked building that had been used by jihadists, only to be knocked out from above. "This was a shopping centre, but Daesh [IS] took it over," says Muammer Yunnis, an English teacher. "Then the planes destroyed it." The liberation, he reckons, "could not have been handled better. Some have died. That happens in a war. But the government and the Americans have been careful."

Driving is out of the city may come to be seen as the straightforward part, however. Judging by what has happened in east Mosul, rebuilding will be a slow process. Three months after their liberation, east Mosulites are getting fed up. They are still without running water, and the only electricity comes from private generators.

"We have security now, but no services at all," complains Muhammad Ahmed, a pharmacist. "There is no government here." The provincial governor lives in Er-

bil, a couple of hours' drive away, partly along roads ploughed up by IS that show no sign of being repaired. No international agencies are to be seen in the recaptured city, bar a few clinics and some empty school satchels donated by UNICEF. The central government has failed to provide it with an emergency civilian administration, leaving it either to the army, which is otherwise occupied, or to the local government, which barely functions.

Mr Ahmed probably speaks for many when he recalls that in the days immediately after IS took control of Mosul, the jihadists were rather popular. The previous elected authorities had been corrupt and incompetent, and unable to deliver the basics. Electricity, he recalls, was available for just three hours a day. Under the caliphate the lights stayed on, at least until coalition air strikes began and then, shortly before losing control of east Mosul, IS blew up the city's main power station and its water-pumping station.

At least they kept the lights on

If squabbling and corruption on the part of the politicians hinder the provision of services, citizens will once again consider supporting alternative groups. "What can we do?" laments the brigadier. "The government does not have the resources to fix all this. It will take 12 years or more. We need a lot of help from outside."

Many will blame the inaction on insecurity. But this is overblown. Although the chatter of machineguns and the crump of mortar rounds can be heard from across the Tigris, east Mosul already looks and feels reasonably safe. The Shia militias have been kept out of the city to avoid sectarian killings, as have the Kurdish pesh-

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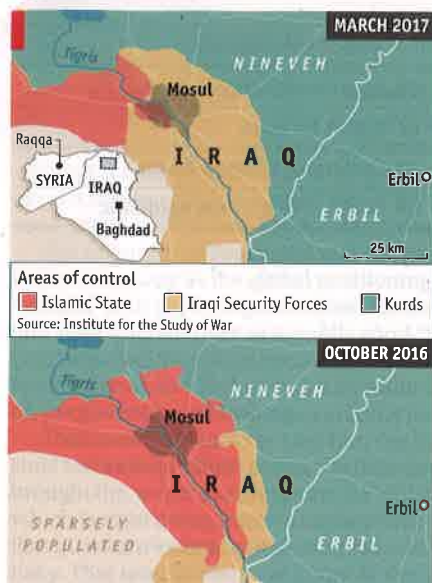
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merga fighters. There is no curfew; policemen guard many street corners, and the "sleepers" that some warn of seem to be soundly asleep, if indeed they exist. The last incident in the city was a month ago, when a terrorist blew himself up in a restaurant, killing three people.

Children are back at school, to the delight of parents who had kept them at home after the city fell to IS rather than send them off to be indoctrinated by homicidal zealots. But even though restaurants and shops are open, business is slow. Muhammad Attar, who runs a falafel restaurant, says this is because no one has any money. Iraq's economy is dominated by the state and most people with regular jobs work for the government. Amazingly, it kept paying salaries for about a year after IS conquered Mosul. But even so, most of the city's workers have not been paid for more than a year. Pensions, somehow, are still getting through, and families are managing on those and on debt.

With Mosul recaptured, the rout of IS in Iraq will be complete. Undoubtedly, though, some of its surviving fighters will revert to suicide-bomb attacks. And, for a while, the group will live on in Syria. But there too it is surrounded and shrinking back to its "capital", Raqqa. The caliphate's short, brutal life is drawing to a close.

In the longer term, huge problems remain for Mosul. Many of its people undoubtedly collaborated with the occupiers, and scores will be settled. Sunnis will want to be sure that they are given a full share of power in the city and its surrounding province of Nineveh, even though it is a Shia-dominated army that liberated them. The Kurds will want some sort of reward for their part in beating IS back. Much of the city will need to be rebuilt. Getting the power back on and the water running as the roasting Iraqi summer approaches would be a good place to start. ■

Egypt's economy

Green shoots

CAIRO

Some good signs for Egypt's beleaguered economy

AT TIMES last year it looked as if Abdel-Fattah al-Sisi, Egypt's authoritarian president, was losing his grip. Faced with a faltering economy, he told Egyptians that they needed to sacrifice—by not eating or sleeping, if necessary. Perhaps they could send him their spare change too, he said.

Rummaging behind the cushions hardly seemed enough to turn around an economy plagued by political instability, and by terrorism that had scared off tourists and foreign investors. Moreover, while exhorting his countrymen to tighten their belts, Mr Sisi was squandering billions of dollars of aid from Gulf states on wasteful subsidies and on defending Egypt's overvalued currency. The futility of these policies can be seen in a handful of figures: a gaping fiscal deficit that hit 12% of GDP last year; ballooning public debt (101% of GDP) and high unemployment (over 12%).

Yet there are signs that Mr Sisi is starting to put Egypt back on a more sensible economic track. In order to obtain a \$12bn loan from the IMF last year, his government has raised the price of subsidised fuel and electricity, brought in new taxes and allowed the Egyptian pound to float.

The currency float was promptly followed by a sickening lurch in which it lost 50% of its value. It bounced back sharply in February, then retreated again (see chart). Though the medicine was bitter, it seems to have been just what was needed to lure foreign investors back into the Egyptian market. A sale of \$4bn-worth of government bonds in January was more than three times oversubscribed, and foreign purchases of Egyptian treasury notes doubled in the same month. This appetite for investing in Egypt partly reflects a broader demand for emerging-market debt. But it is also a clear sign of growing confidence in the Egyptian economy.

That change in mood is also felt by Egyptians working abroad. Remittances, which accounted for as much as 7% of GDP in 2012, slumped by a fifth last year as people held onto foreign currency rather than send it home to be converted into overvalued pounds. Since the currency has floated, remittances are rising once more.

A weaker currency is also spurring growth, albeit gradual, in trade and tourism. Non-petroleum exports increased by 25% in January compared with the year before. Earnings from exports, along with new loans from the IMF and other sources, are plumping up the country's foreign-cur-

rency reserves. In February they hit their highest level since 2011, promising to ease a shortage of dollars that has hindered Egyptian business. To be sure, businessmen gripe that it is still difficult to get the dollars that they need, and the government is still clearing a backlog of payments to oil firms and other multinationals.

Yet even as exporters celebrate, firms serving the domestic market are struggling. One measure of the health of the domestic economy comes from a purchasing managers' index (PMI) compiled by Emirates NBD, a bank. Its figures suggest that private, non-oil economic activity has contracted for 17 consecutive months, even though official figures show that the economy as a whole (including oil and the state) has been growing. One reason is that the government's efforts to cut subsidies mean Egyptians are spending more of their income on fuel and electricity, and have less left over for other things. A weaker currency has also led to higher prices for imports and fuelled consumer inflation. Red tape continues to tie firms in knots, although the government has promised to make it easier to do business, for example by smoothing the process for getting licences and permits to open factories.

The struggles of Juhayna, a big juice and dairy producer, are typical. Its profits declined by 34% in the third quarter of 2016 compared with the same period in 2015. Now it plans to raise prices and cut investment. Seif El Din Thabet, its CEO, blames its troubles on "the recession and low consumer purchasing power".

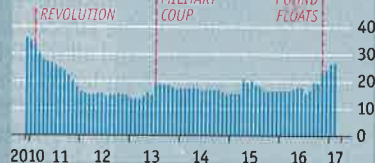
Yet there are signs that a broader recovery

A river of troubles

Egypt

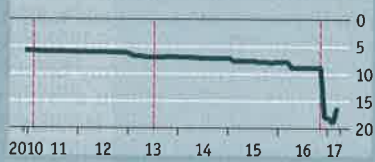
Foreign reserves

\$bn



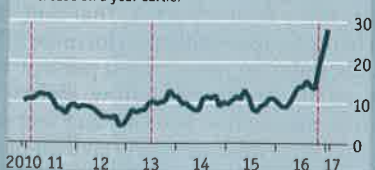
Egyptian pounds per \$

Inverted scale



Consumer prices

% increase on a year earlier



Sources: Haver Analytics; Thomson Reuters