

AFRICA RISK CONSULTING

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Egypt Summary 16 November 2020

The Central Bank of Egypt forces Commercial International Bank (CIB) chairman Hisham Ezz al-Arab to step down after accusing him of 'financial crimes'. Schools mandate the wearing of masks and prime minister Mostafa Madbouly calls for Egyptians to take precautions as the country braces for a second wave of Covid-19. Praising Egypt's response to the Covid downturn, the World Bank says Egypt is on track to be the only Middle East and North African (MENA) country to see sustained growth in the coming period.

CBE intervention makes waves

Commercial International Bank (CIB) chairman **Hisham Ezz al-Arab** stepped down on 23 October under orders from the **Central Bank of Egypt (CBE)**, which cited financial irregularities. CIB is **Egypt's** largest listed bank, with substantial holdings abroad, while Al Arab is one of the country's most prominent bankers and a well-known figure in finance across the **Arab** world. The news sent shockwaves through the finance community with wild rumours and concern about what had ended the career of Al Arab who is credited for taking an unknown bank and turning it to a multibillion dollar institution. A local daily business news edition called it "*One of Egypt's most intense (if shortest) corporate dramas*".¹

The bank's CEO, **Hussein Abaza**, received written notice that the CBE was "*discharging Al Arab, following an audit*". The CIB's board convened for an emergency meeting and had talks with CBE head **Tarek Amer**, a controversial figure with close ties to the security services. Amer's wife is a former investment minister who runs **Eagle Capital**, the investment outfit of **General Intelligence**. Al Arab resigned as chairman 24 hours later.

A leaked copy of the letter, circulated on social media, said the CBE had found "*gross violations*". The audit found "*severe weaknesses in regulating the issuing and monitoring of credit*" as well as "*serious shortcomings in the bank's internal regulatory environment*" that had represented a financial cost to the bank. The letter described the violations as "*financial crimes*". Some findings "*put the safety and reputation of the entire banking sector at risk*". However, in a private call with investors Hussein Abaza was adamant that there was no financial wrongdoing.²

A number of sources see Al Arab's removal as disturbing, but also a natural progression, given the vast integration of the security apparatus into business over the past five years and the abrupt expulsion of anyone who might object.

*"It feels like there is something more at play here... It's not the first time the CBE meddles and interferes with business. Whatever is going on, nobody thinks Hisham is involved in financial wrongdoing. Rather he's pushed back... as has been the case with others who find themselves out of the good graces of the powers that be. It's one thing to have a man like him removed, it's quite another to call him a thief – to call into question his character and his legacy...it is telling of the Egypt we find ourselves in, I worry about where this country is going. When the options keep being narrowed, sometimes it seems the only ones to remain are death or exile."*³

¹ Enterprise, 23 Oct 2020.

² Source, investor, Cairo

³ Source, former banker, Cairo

Al Arab announced his resignation in a **Facebook** post, explaining that he had planned to step down in 2019, but had been asked to stay for another year. He also used the post to hit back at the claims of impropriety being levelled against him:

*"I view my role in helping create an icon of the financial industry and of the **Egyptian Exchange** as part of my service to our great nation, and I leave office today secure in the knowledge that I have always lived in accordance with my values, including honesty and decency."*⁴

The announcement of Al Arab's replacement, **Sherif Samy**, a familiar face in government circles, saw the central bank switch to a more reassuring tone:

*"With the appointment of a new CIB chairman and the existing board, the bank should be well-placed to work on addressing regulatory, compliance and governance concerns that have been communicated to CIB on several prior occasions."*⁵

Egypt's stock exchange had suspended the bank's shares from trading after a request from the **Financial Regulatory Authority (FRA)**. Following the news, the bank's global depository receipts in **London (United Kingdom)** fell as much as 41% on 24 October.⁶

Covid-19 update

Egypt's official **Covid-19** infection tally has reached 110,095, with 6,417 deaths as of 12 November.⁷ Responding to an increase in infections and visibly frustrated, prime minister **Mostafa Madbouly** said the government may be forced to take "*difficult decisions*" if people continue to ignore safety measures aimed at stemming the spread of the coronavirus.⁸ Madbouly told cabinet that there appears to be a "*lack of commitment*" by some in terms of following safety measures.⁹ Despite his protests that authorities must enforce the rules, Egypt has not seen significant change in how people are responding to the virus. Face masks are worn by government officials at official events, but are not worn commonly by most Egyptians. Large weddings, parties and events are also continuing as normal. **Mohamed Salah**, Egypt's most famous soccer player, tested positive after attending his brother's wedding in Cairo where no one was wearing masks at a crowded indoor venue.¹⁰ A number of Egyptian actors also contracted the virus at the recent **Gouna Film Festival**. Officials at the festival, which is a personal project of billionaire **Naguib Sawaris**, quietly noted that there were hundreds of positive Covid tests during the week-long event. Even as the official recorded tally for the whole county has remained mostly below 200 cases daily for months now.

In October, health minister **Hala Zayed** said Egypt will not be reinstating a nationwide lockdown if coronavirus infections surge again, but instead will be responding to surges in cases within localised population clusters.¹¹ Egypt staged a gradual reopening of its economy in June, easing restrictions, including lifting an evening curfew, reopening restaurants and mosques, and resuming regular international flights as part of its plans to coexist with the virus. Although the reported infection rate has been low since August, the government has repeatedly urged caution to avoid a potential second wave of infections, particularly with the advent of winter and the return of children to school.

World Bank predicts growth for Egypt amid pandemic woes

The **United States**-based **World Bank** in a recent report noted that it expects Egypt to achieve positive economic growth amid the ongoing pandemic. In a recent **Middle East and North Africa (MENA)** update, the bank said it sees gross domestic product (GDP) growing at 2.3% this fiscal year. It

⁴ Via Facebook, 23 Oct 2020.

⁵ Press release, 24 Oct 2020

⁶ Al Ahram, 23 Oct 2020.

⁷ Press release, 12 Nov 2020.

⁸ Al Bawaba, 14 Nov 2020.

⁹ Al Masry Al Youm, 14 Nov 2020.

¹⁰ Al Ahram, 13 Nov 2020

¹¹ Al Masry Al Youm, 13 Oct 2020.

predicted that Egypt would rebound to pre-pandemic levels in 2021-2022, seeing a predicted growth rate of 5.8%.¹²

In the absence of Covid, the economy would have expanded by 5.5% in 2019-2020 and 5.9% in 2020-2021, according to forecasts the bank made before the pandemic. Despite an almost 50% downturn, the slowdown was less sharp than that of the overall MENA region economy, which is expected to contract 5.2% this year and grow at 1.9% in 2021.¹³

The **International Monetary Fund (IMF)** in May made available more than \$2 billion in emergency funding to help Egypt combat the fallout from Covid, which saw massive capital outflows, threatened remittances, and tourism at a standstill.¹⁴ However, the report noted the heavy impact on Egypt's most vulnerable, with the percentage of people making less than \$3 a day set to rise to 30.5% by the end of 2020, up 6.4 % from estimates before the pandemic.¹⁵ The report, however, praised the government's ongoing efforts to hedge against further downturn including tapping debt markets with more Eurobond issuances, as well as its stimulus package and cash handout programmes.

The government statistics agency, **Center for Public Mobilization and Statistics (CAPMAS)**, also released new data showing that Egypt's unemployment rate has returned to pre-pandemic levels, falling to 7.3% after the easing of lockdown restrictions in June. A 50-point rate cut made by the CBE on 12 November was praised as a good indicator that would provide a boost to corporate borrowing and job creation in 2021.¹⁶

Planner

2019-2020 **Cairo (Egypt)** *Al Mal*. Government-led initial public offering programme;

December 2020 **Cairo (Egypt)** Egypt Economic Summit;

5 Dec 2020 **Cairo (Egypt)** *Arab Finance*. A court will hold a postponed hearing to look into an appeal by **Syria's Anataradous** against an arbitration ruling in favour of **Amer Group** and **Amer Syria**;

7 Dec 2020 **Cairo (Egypt)** *Al Borsa* Former civil aviation minister **Ahmed Shafik** faces trial over embezzlement allegation;

20 Dec 2020 **Cairo (Egypt)** *Al Mal*. **International Monetary Fund (IMF)** delegation visits Egypt in first of two reviews ahead of disbursement of second tranche of \$5.2 billion;

24 Dec 2020 **Cairo (Egypt)** *Al Ahram*. **Central Bank of Egypt's** Monetary Policy Committee will meet to review interest rates;

31 Dec 2020 **Cairo (Egypt)** *Enterprise*. Egypt-UK post-Brexit trade agreement to take effect.

Chronology

15 Nov 2020 **Cairo (Egypt)** *Al Masry Al Youm*. Egypt's unemployment dropped to 7.3% in July-September;

15 Nov 2020 **Cairo (Egypt)** *Press release*. The **Central Bank of Egypt (CBE)** cuts interest rates by 50 basis points for the second consecutive time to support economic recovery from the **Covid-induced slump**;

15 Nov 2020 **Cairo (Egypt)** *Egypt Independent*. Egypt to bar children without face masks from entering schools;

¹² World Bank report, Nov 2020.

¹³ World Bank report, Nov 2020.

¹⁴ Reuters, 14 May 2020.

¹⁵ World Bank report, November 2020.

¹⁶ Reuters, 12 Nov 2020.

- 13 Nov 2020 **Cairo (Egypt)** *CNN*. Seven **Multinational Force (MFO)** soldiers stationed in **Sinai** as part of **Camp David** agreement between **Egypt** and **Israel** are killed in a helicopter crash;
- 12 Nov 2020 **Cairo (Egypt)** *Reuters*. **France** dispatches foreign minister **Jean Yves Le-Drian** to Cairo as anger grows in the **Arab** world over the country's response to latest prophet cartoon debacle;
- 12 Nov 2020 **Cairo (Egypt)** *Al Ahram*. Top government auditing agency employee sets himself on fire in Cairo's **Tahrir Square** as he decries corruption;
- 10 Nov 2020 **Cairo (Egypt)** *Enterprise*. A planned minimum wage will not be introduced to the private sector; the economic fallout from the pandemic makes a legally binding pay rise unfeasible given the losses suffered by factories earlier this year;
- 5 Nov 2020 **Cairo (Egypt)** *Press release*. **Egyptian, Ethiopian** and **Sudanese** irrigation ministers fail to reach agreement on how to proceed with negotiations over the **Grand Ethiopian Renaissance Dam** following a week of talks;
- 2 Nov 2020 **Cairo (Egypt)** *Al Ahram*. Prime **minister Mostafa Madbully** warns of repercussions if citizens don't comply with **Covid-19** measures;
- 28 Oct 2020 **Cairo (Egypt)** *Reuters*. **Reuters** poll of economists say Egypt's economy will grow at 3.3% during the current fiscal year;
- 28 Oct 2020 **Cairo (Egypt)** *Al Monitor*. National carrier **EgyptAir** signs a memorandum of understanding with **Ghana's** government to create a Ghanaian national aviation company with joint Egyptian-Ghanaian investment;
- 27 Oct 2020 **Cairo (Egypt)** *Egyptian Streets*. Social media users in **Egypt** and across the **Middle East** call for the boycott of **French** brands in response to comments made by France's President **Emmanuel Macron** regarding extremism in **Muslim** communities;
- 26 Oct 2020 **Cairo (Egypt)** *Daily Sabah*. Polls close after the first phase of parliamentary elections in which candidates loyal to President **Abdel Fattah el-Sisi** are expected to sweep to victory;
- 26 Oct 2020 **Cairo (Egypt)** *Egypt Independent*. President **Abdel Fattah al-Sisi** issues a decree for renewing a years-long state of emergency for three more months starting 26 October ;
- 25 Oct 2020 **Washington D.C. (United States)** **United States** president **Donald Trump** suggests Egypt could order a military strike on the **Grand Ethiopian Renaissance Dam (GERD)** if it is unable to reach an agreement with **Ethiopia**;
- 24 Oct 2020 **Addis Ababa (Ethiopia)** *Associated Press*. **Ethiopia** says it will not cave in to 'aggression' in **Grand Ethiopian Renaissance Dam (GERD)** dispute with **Egypt**;
- 22 Oct 2020 **Cairo (Egypt)** *MEMO*. Official document reveals government has allocated almost \$35 billion to repay debt and loan instalments during the 2020/2021 fiscal year which started in July;
- 22 Oct 2020 **Cairo (Egypt)** *Reuters*. Egypt concerned about rising **coronavirus** cases in neighbouring countries;
- 21 Oct 2020 **Cairo (Egypt)** *France24*. **Egyptians** go to the polls this weekend to elect a new parliament, which critics say will just replicate a "rubber-stamp" body in place since 2015 under hardline president **Abdel Fattah al-Sisi**;
- 19 Oct 2020 **Cairo (Egypt)** *Al Monitor*. More than 50 **United States** politicians call on President **Abdel Fattah el-Sisi** to release activists, journalists, lawyers and prisoners of conscience;
- 18 Oct 2020 **Cairo (Egypt)** *Enterprise*. The **Dabaa** nuclear power plant is expected to generate

returns worth four times the amount spent on its construction;

18 Oct 2020 **Cairo (Egypt)** *Press release*. Egypt's five-year sovereign green bonds are listed on the **London Stock Exchange (LSE)**; the \$750m issuance, the first of its kind in the **MENA** region, was almost five times oversubscribed, fetching more than \$3.8 billion in bids for the bonds, which carry a 5.2% yield;

15 Oct 2020 **Cairo (Egypt)** *Al Mal*. **K.I Angel** founder **Khaled Ismail** and three other investors will launch a new \$35m **Grow in Africa (GIAF)** investment fund targeting companies in **Nile Basin** and **Common Market for Eastern and Southern African (COMESA)** countries in March 2021;

15 Oct 2020 **Cairo (Egypt)** *Daily Sabah*. **Libyan** rival governments agree to hold a second round of **United Nations**-mediated talks in Egypt after a positive first round;

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Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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