

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing July 2022

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#### Egypt Summary 18 July 2022

*United States president Joseph Biden (2021-present) meets leaders from Gulf countries in Jeddah (Saudi Arabia) as he puts aside concerns of human rights, seeking a larger foothold in the region as the threat of rising Russian and Chinese influence looms. Activity in Egypt's non-oil private sector saw its worst performance in two years in June, contracting at a faster pace as demand dropped amid rising inflation and devaluation of the Egyptian pound. Egypt announces re-opening of isolation hospitals due to a surge in Covid-19 infections in the wake of the 10-day Eid holiday period.*

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#### Biden meets Middle East leaders

United States (US) president **Joseph Biden** (2021-present) met **Gulf** countries leaders on 16 July in the **Saudi Arabian** port city of **Jeddah**, declaring that the US would not cede the **Middle East** to **China** or **Russia**.<sup>1</sup> Biden met with nine Arab leaders during his first visit to the Middle East since taking office, amid escalating geopolitical competition for the region. Biden told members of the **Gulf Cooperation Council** that the US would not “walk away and leave a vacuum to be filled by China, Russia or Iran”.<sup>2</sup> The meeting comes as the Arab nations have made historic moves toward **Israel**, in an attempt to counter the regional influence of Iran and as the cost of oil has surged in recent months, giving rise to challenging economic conditions globally, and especially in the US where Biden's approval ratings are in the low thirties.<sup>3</sup>

In the weeks ahead of his visit to Saudi Arabia, Biden insisted he would not meet with **Mohamed Bin Salman**, or **MBS**, as the crown prince of Saudi Arabia is known. However, their encounter happened minutes after the president arrived in the **Red Sea** city.<sup>4</sup> Biden's meeting was not without controversy, given his description during the 2020 US presidential election campaign of Saudi Arabia as a “pariah” state, after Saudi Arabian government operatives murdered Saudi **Washington Post** columnist **Jamal Khashoggi** after luring him to the Saudi consulate in **Istanbul (Turkey)**. Biden insisted that his dealings with countries like Egypt would be different from those of his predecessor, **Donald Trump** (2017-2021), who called Egypt's President **Abdel Fattah el-Sisi** (2014-present) his “favourite dictator” (see *ARC Briefing Egypt Sep 2019*).<sup>5</sup>

The meeting with the leaders of Saudi Arabia, **Kuwait**, **Bahrain**, **Qatar**, **Oman**, the **United Arab Emirates**, Egypt, **Iraq** and **Jordan** came after Biden met separately with Sisi, who was said to have raised Egypt's efforts to secure a legally binding agreement over the operation of the **Grand Ethiopian Renaissance Dam (GERD)**.<sup>6</sup> The meeting comes as Egypt faces significant financial pressure with global price hikes in commodities that have been exacerbated by Russia's invasion of **Ukraine**. Although preceded by the release of several dissidents, the meeting also comes as Sisi continues to wage what is often cited as the most brutal crackdown on dissent in Egypt's modern history.

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<sup>1</sup> The New York Times, 16 Jul 2022.

<sup>2</sup> The New York Times, 17 Jul 2022.

<sup>3</sup> The New York Times, 11 Jul 2022.

<sup>4</sup> Politico, 16 Jul 2022.

<sup>5</sup> Politico, 16 Jul 2022.

<sup>6</sup> Press release, 17 Jul 2022.

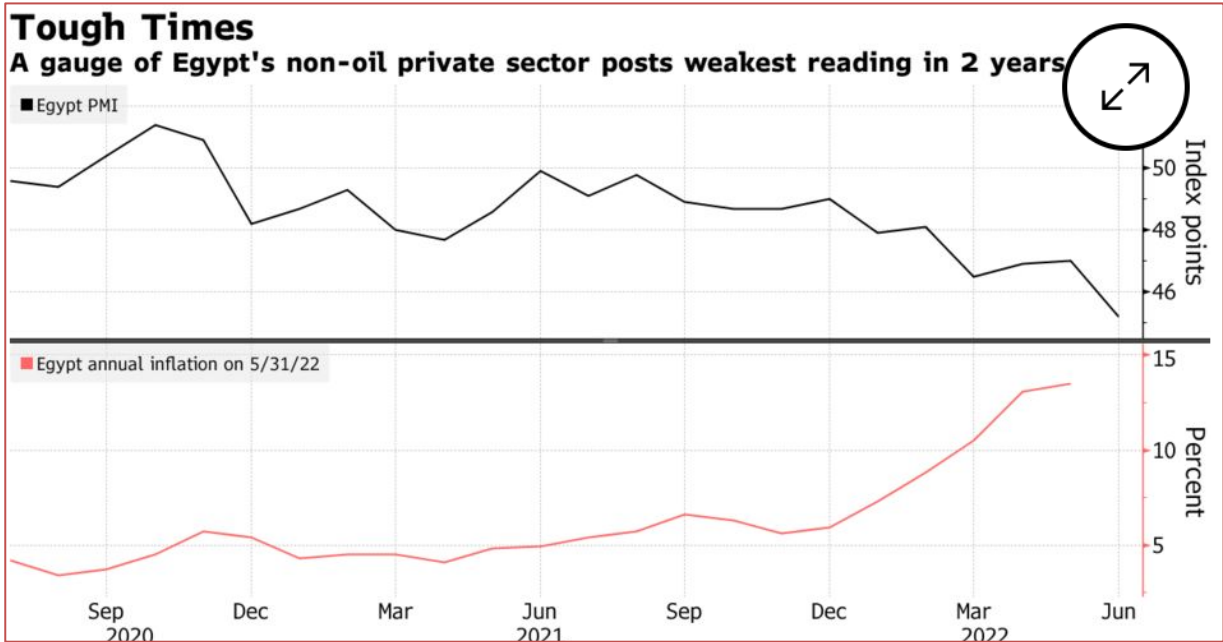
Biden’s trip and the forced embrace of leaders he has previously criticised underscored the complex combination of regional and global power dynamics. Both Saudi Arabia and Egypt, historically drivers of regional events, including energy prices and as mediators of conflict, have in recent years forged greater military and economic ties with Russia and China, which offer benefits without lectures or conditions. Egypt, which has positioned itself as a future energy powerhouse in the **Eastern Mediterranean**, has signed a deal with Russia, which has committed to financing 85% of the cost of the **Dabaa** nuclear power project through a \$25 billion loan over a 22-year period to build and operate Egypt’s first nuclear power station.<sup>7</sup> Seeing a partner in Russia, Egypt has refused to cave in to pressure from US and **European** allies to condemn the Russian war in Ukraine, choosing to remain neutral. For its part, Saudi Arabia has capitalised on the western denouncement of Russia and subsequent push by the US and its European allies to abandon the use of Russian fossil fuels, snapping up Russian energy at discounted prices.<sup>8</sup>

While Biden told reporters that “the United States is invested in building a positive future in the region in partnership with all of you, and ... is not going anywhere”,<sup>9</sup> the message in the region, according to sources close to the meetings, was:

*“Ignore us at your own peril, and that peril will be getting left behind in an era where American power is increasingly viewed as on the decline.”<sup>10</sup>*

**Egypt sees worst private sector slump since 2020 ...**

Activity in Egypt’s non-oil private sector saw its worst performance in two years in June, contracting at a faster pace as demand dropped after a sharp spike in prices, rising inflation and the devaluation of the Egyptian pound. The **S&P Global Egypt Purchasing Managers' Index (PMI)** weakened to 45.2 from 47.0 in May, well below the 50.0 threshold that separates growth from contraction. June was the PMI’s 19<sup>th</sup> month of contraction.



Source: CAPMAS

Higher borrowing costs and attempts to contain price hikes are leaving Egyptian businesses facing an extended downturn. The **Central Bank of Egypt (CBE)** allowed the pound to weaken sharply in March and raised interest rates as the economy came under pressure from a surge in global food and

<sup>7</sup> Egypt Today, 29 Jun 2022  
<sup>8</sup> The New York Times, 17 Jul 2022  
<sup>9</sup> CBS, 17 Jul 2022.  
<sup>10</sup> Source, former diplomat, Cairo

fuel prices.<sup>11</sup> However, the CBE **Monetary Policy Committee (MPC)** left the lending rate unchanged at 12.25% and its deposit rate at 11.25% at its June meeting, stating its intention to tolerate elevated inflation for six months.<sup>12</sup> **S&P Market Intelligence** global economist **David Owen** said the sharp downturn in new business in June reflected the strongest deterioration in economic conditions since **Covid-19** measures were introduced in March 2020:

*“The sharp drop-off in demand came from rising inflation and tightening monetary policy.”<sup>13</sup>*

Egypt's annual urban consumer inflation slowed to 13.2% year-on-year in June from 13.5% in May, due to a slight drop in food costs<sup>14</sup> but surveyed companies nevertheless reported a rise in operating costs. Wages are also exerting pressure, with increases hitting an eight-month high.<sup>15</sup> Companies raised prices at the fastest rate since February 2017, with the month-on-month uptick in inflation “*the largest seen*” since the survey began in April 2011.<sup>16</sup> The US **Federal Reserve**'s latest rate rise of 75 basis points adds to these concerns.<sup>17</sup>

Egypt's manufacturing, wholesale and retail sectors were particularly badly hit.<sup>18</sup> However, business conditions in the construction sector stabilised in June, with new orders growing, even if only slightly. Firms continued to cut staff, but at the slowest pace since March. Sources have suggested that a resurgent US dollar is likely to keep costs high for Egypt, which remains a net importer of many key goods, as the Egyptian pound (EGX) fell to its lowest level since November 2016 on 5 July.<sup>19</sup>

### ... amid sixth wave of Covid infections

Egypt is in the midst of a surge in Covid-19 cases, which has further increased in the wake of the 10-day **Eid** holiday period. The health ministry announced on 16 July that it had re-designated three hospitals for isolation in **Cairo** due to the increase in Covid-19 infections.<sup>20</sup> The official case count is approximately 35 new cases and five Covid-related deaths each day.<sup>21</sup> Acting health and population minister **Khaled Abdel-Ghaffar** said on 15 July that 70% of the current coronavirus infections recorded in Egypt are of the **BA.5** variant, a sub-type of the **Omicron** variant.<sup>22</sup>

However, the official case count underestimates the true number of cases, as it only captures data from government labs. Presidential health and preventive affairs adviser **Mohamed Awad Taj Al-Din** announced on television on 16 July that the situation is “*under control*” and most cases have been placed under the classification of minor colds and flus, calling on citizens to adhere to precautionary measures:

*“Commitment to masks and social distancing is very important at this stage, and the **Coronavirus Crisis Management Committee** is in an ongoing session.”<sup>23</sup>*

Taj Al-Din noted the state's efforts to provide vaccines, aiming to vaccinate 70% of Egypt's population of 104 million against Covid-19 by the second quarter of 2022.<sup>24</sup> The government announced in response to the surge in infections the availability of fourth booster shots to anyone with pre-existing health conditions and to those over the age of 65.

<sup>11</sup> Bloomberg, 6 Jul 2022.

<sup>12</sup> Bloomberg, 23 Jun 2022

<sup>13</sup> S&P Private Managers' Index.

<sup>14</sup> CAPMAS, Jul 2022.

<sup>15</sup> S&P Private Managers' Index.

<sup>16</sup> S&P Private Managers' Index.

<sup>17</sup> The Wall Street Journal, 16 Jun 2022.

<sup>18</sup> S&P Private Managers' Index.

<sup>19</sup> Enterprise, 5 Jul 2022.

<sup>20</sup> Daily News, 16 Jul 2022.

<sup>21</sup> Daily News Egypt, 17 Jul 2022.

<sup>22</sup> Al Ahram, 15 Jul 2022.

<sup>23</sup> Salhet Tahrir, 17 Jul 2022.

<sup>24</sup> Youm7, 17 Jul 2022.

## Planner

Jul 2022 **Cairo (Egypt)** *Press statement*. Officials from Egypt, the **UAE** and **Jordan** will hold talks in Cairo later this month to discuss the new industrial partnership agreed in May; **Abu Dhabi** sovereign wealth fund **ADQ** will invest \$10 billion in industrial projects under the initiative, which will see the three countries collaborate to boost manufacturing and exports;

7-9 Sep 2022 **Cairo (Egypt)** *Press release*. **African** finance ministers to meet in Cairo to coordinate an African-led position during **COP27**;

26–27 Sep 2022 **Cairo (Egypt)** *Enterprise*. **Africa Women Innovation and Entrepreneurship Forum (AWIEF)**;

Sep 2022 **Cairo (Egypt)** *Enterprise*. A delegation from **Germany**-headquartered discount supermarket chain **Aldi** will visit Egypt to look at potential investments;

Sep 2022 **Cairo (Egypt)** *Press statement*. Egyptian government will resume privatisation programme;

Sep 2022 **Cairo (Egypt)** *Enterprise*. **Naval Power**, Egypt's first naval defence expo;

10-16 Oct 2022 **Washington D.C (United States)** *World Bank*. **Central Bank of Egypt** governor **Tarek Amer** to chair **World Bank** and International Monetary Fund (**IMF**) annual meetings;

7-18 Nov 2022 **Sharm El Sheikh (Egypt)** *AP*. Egypt will host **COP27** April 2022 **Cairo (Egypt)** *Al Mal*; Egypt's second corporate green bond issuance expected to be announced;

## Chronology

18 Jul 2022 **Cairo (Egypt)** *Press release*. Cairo-born mass transport app **Swvl** is continuing its buying spree with the acquisition of **Mexico**-based transport firm **Urbvan Mobility**, giving the **Nasdaq**-listed startup access to the second most populated market in **Latin America**;

18 Jul 2022 **Cairo (Egypt)** *Reuters*. **Libya** has ended its ban on oil production and exports after reaching an agreement with demonstrators who had shuttered the country's oil facilities for three months, which could allow exports to return to full capacity, adding 850,000 barrels of oil a day to the global market;

17 Jul 2022 **Cairo (Egypt)** *Press release*. President **Abdel Fattah El Sisi** is in **Berlin (Germany)** for the **Petersburg Climate Dialogue**;

17 Jul 2022 **Cairo (Egypt)** *The New Arab*. **Egypt** releases an unspecified number of detained dissident politicians and journalists in the wake of President **Abdel Fatah al-Sisi**'s meeting with **United States** President **Joseph Biden**;

17 Jul 2022 **Cairo (Egypt)** *Daily News*. Petroleum and mineral resources ministry announces an increase in the prices of domestic fuel by EGP0.50 (\$0.026) for 80-octane, 92-octane petrol and diesel, while 95-octane petrol was raised by EGP1 (\$0.052);

17 Jul 2022 **Cairo (Egypt)** *Daily News*. Egypt sees sixth wave of **COVID-19** infections, but health ministry says everything is "under control";

17 Jul 2022 **Cairo (Egypt)** *Mada Masr*. The family of **Sorbonne University** student and **French** national **Yann Bourdon**, missing in Cairo, accuses the French government of negligence;

17 Jul 2022 **Cairo (Egypt)** *MSNBC*. President **Abdel Fatah al-Sisi** and **United States** president **Joseph Biden** reiterate the need for agreement on filling and operation of the **Grand Ethiopian Renaissance Dam (GERD)**;

16 Jul 2022 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah al-Sisi** discusses food security and disruptions to energy supplies with **United States** president **Joseph Biden** as they meet for the first time on the sidelines of an **Arab** summit in **Jeddah (Saudi Arabia)**;

15 Jul 2022 **Cairo (Egypt)** *The Guardian*. An adviser to the **United States White House** and his partner have urged the **United Nations (UN)** to move **2022 UN Climate Change Conference (COP27)** from Egypt due to the country's treatment of LGBTQ people, citing fears that security forces would target them and other activists if they attend the talks;

14 Jul 2022 **Cairo (Egypt)** *Reuters*. Prime minister **Mostafa Madbouly** says **Egypt's** government is subsidising diesel at a rate of about 55 billion Egyptian pounds (\$2.92 billion) a year despite the first rise in the price of the fuel for three years;

12 Jul 2022 **Cairo (Egypt)** *Egypt Independent*. Finance minister **Mohamed Maait** says **Egypt** has allocated EGP 6 billion (\$318m) in the new budget for fiscal year 2022-2023 to support export development;

11 Jul 2022 **Algiers (Algeria)** *Middle East Business Intelligence*. **Algerian** gas exports to **Spain** were down by 15% in June compared to May due to diplomatic spat;

11 Jul 2022 **Sheikh Zayed City (Egypt)** *Addustour*. The **New Urban Communities Authority**, an affiliate of the housing ministry, offers nearly 270,000 square metres of land in **Sheikh Zayed City, Cairo Governorate**, for projects in housing, tourism and other sectors;

11 Jul 2022 **Cairo (Egypt)** *Egypt Today*. Finance minister **Mohamed Maait** says **Egypt** will invest EGP 9.5 billion (\$344m) in establishing and developing 28 national universities as part of its new budget for fiscal year 2022-2023;

8 Jul 2022 **Cairo (Egypt)** *The New Arab*. **International Monetary Fund** says it held productive discussions during a staff visit to **Egypt** on economic policies and reforms to be supported by an extended fund facility;

6 Jul 2022 **Cairo (Egypt)** *Ahram Gate*. **United Kingdom**-based **Africa**-focused producer **Globeleq** tells Egypt's electricity minister, **Mohamed Shaker**, that it is looking to invest in electricity, renewable energy, green hydrogen and green ammonia projects in Egypt, after entering the Egyptian renewables space in 2021 when it acquired the 66-MW **Benban** solar plant from a consortium of **Italian** and **Saudi** companies;

6 Jul 2022 **Cairo (Egypt)** *Egypt Today*. Egypt's **Purchasing Managers' Index (PMI)** records 45.2 in June, down from 47 in May, marking its weakest performance in two years;

4 Jul 2022 **Cairo (Egypt)** *Zawya*. Foreign minister **Sameh Shoukry** meets **United Kingdom** state minister for **North Africa, South and Central Asia**, the **Commonwealth**, and the **United Nations**, **Tarek Ahmed**, to inaugurate the first participation council between the two countries;

29 Jun 2022 **Cairo (Egypt)** *Egypt Independent*. **World Bank** approves new \$500m loan to **Egypt** to help the country's food security;

28 Jun 2022 **Cairo (Egypt)** *The New Arab*. **United Kingdom**-based NGO **Amnesty International** denounces the mass trial of 200 defendants accused of terrorism offences in Egypt from 2013-2015 as the court sentences ten of the accused to death and 15 others to life imprisonment;

27 Jun 2022 **Cairo (Egypt)** *Middle East Monitor*. Finance minister **Mohamed Maait** states that Egypt's wheat reserves are sufficient for six months, an improvement on the four-month supply held at the beginning of the **Russia-Ukraine** conflict;

27 Jun 2022 **Cairo (Egypt)** *Reuters*. Finance minister **Mohamed Maait** cautions that government can no longer depend on foreign purchases of treasury bonds to finance its budget and must work to improve foreign direct investment (FDI) flows;

23 Jun 2022 **Cairo (Egypt)** *Bloomberg*. **Central Bank of Egypt (CBE)** (central bank) **Monetary Policy Committee (MPC)** leaves the lending rate unchanged at 12.25% and its deposit rate at 11.25%, stating its intention to tolerate elevated inflation for six months;

22 Jun 2022 **Cairo (Egypt)** *Al-Monitor*. **Saudi Arabia**-based **ACWA Power** signs an agreement with **Egypt**-based engineering firm **Hassan Allam Holdings** to develop a 1.1GW wind project in the **Gulf of Suez** and **Gabal el Zeit** area for \$1.5 billion, which is expected to reach financial close by end of Q3 2024 and begin operations by the end of 2026;

21 Jun 2022 **Cairo (Egypt)** *Reuters*. Parliament approves the state budget for the financial year that begins on 1 July, with expenditure rising by 15% and the deficit by 14.5%;

21 Jun 2022 **Cairo (Egypt)** *Reuters*. **Egypt** and **Saudi Arabia** signal their intention to strengthen economic ties during a visit to **Cairo** by **Saudi** de facto ruler Crown Prince **Mohammed bin Salman**, announcing deals worth \$7.7 billion;

21 Jun 2022 **Cairo (Egypt)** *MEO*. Finance minister **Mohamed Maait** says **Egypt**'s green bond issuance cost it more than a traditional Eurobond would have;

20 Jun 2022 **Cairo (Egypt)** *Egypt Today*. State-owned **Egyptian Natural Gas Holding Company** and **United States**-based oil and gas giant **Chevron** sign preliminary agreement to explore sending natural gas from offshore **Mediterranean** fields to **Egypt** for processing and export;

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