

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing March 2022

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#### Egypt Summary 15 March 2022

*The World Bank says that soaring energy and food prices triggered by the Ukraine conflict could exacerbate existing food security concerns in the Middle East and North Africa, and may fuel growing social unrest. United States-headquartered investment bank JPMorgan says a devaluation of Egypt's pound is likely to be required and that Egypt may need more assistance from the International Monetary Fund (IMF) if financial market pressures continue to intensify. The ministry of health announces it will cease daily Covid-19 reports, as the rate of Covid-related hospital admissions declined by almost half in February, amid overall decreases in reported infections.*

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#### Ukraine conflict raises global concern over surging commodity prices

Economists say soaring energy and food prices triggered by the **Russia-Ukraine** conflict could exacerbate existing food security concerns in the **Middle East** and **North Africa**, and may fuel growing social unrest. **World Bank** chief economist **Carmen Reinhart** noted on 8 March that the conflict will have significant ramifications for “*the Middle East, for Africa, North Africa and sub-Saharan Africa, in particular*”.<sup>1</sup> Reinhart noted that these regions have already been experiencing food insecurity due to price surges in the aftermath of the **Covid-19** pandemic. She also suggested that higher food prices previously compounded unrest and led to protests that culminated in the **Arab Spring**.

**Egypt** has been closely observing mounting tensions between Russia and Ukraine amid concerns over the supply of wheat. Egypt is the world's largest wheat importer and the largest consumer of Ukrainian wheat.<sup>2</sup> In 2021, Egypt purchased the equivalent of around 14% of its total wheat needs from the eastern **European** nation (see *ARC Briefing Egypt Feb 2022*).<sup>3</sup>

The government has announced several wheat-related measures as it scrambles to fortify the country's food security in the wake of supply fallout from the conflict. The supply ministry announced on 14 March plans to buy more than 6 million tonnes of domestic wheat this harvest season, up from its previous 5.5 million tonne target.<sup>4</sup> The government had previously upped its local target by nearly 40% in the days after Russia invaded Ukraine, and has said it will pay more for local wheat after farmers called on authorities to raise prices to help domestic suppliers cope with inflation and meet production targets. The government is also set to make new announcements on subsidised fertiliser prices for wheat farmers, as the surging cost of fertiliser is currently one of the key barriers for Egyptian farmers.

Adding to concerns, Egypt currently only has storage capacity of around 3.4 million tonnes, raising questions about where it plans to put the extra quantities of local wheat.<sup>5</sup> Price caps for unsubsidised wheat are also expected. The planned regulations will take into consideration global inflation after talk show hosts commented that the price of unsubsidised bread “*has now risen by 100%*” amid the

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<sup>1</sup> Reuters, 8 Mar 2022.

<sup>2</sup> Reuters, 13 Feb 2022

<sup>3</sup> Reuters, 13 Feb 2022

<sup>4</sup> Press release, 15 Mar 2022.

<sup>5</sup> Bloomberg, 13 Mar 2022.

global surge in wheat prices.<sup>6</sup> The trade and industry ministry has banned from 10 March the export of wheat, fava beans, lentils, pasta, and all flour for the next three months.<sup>7</sup>

Finance minister **Mohamed Maait** said global wheat prices could cost the government an additional EGP15 billion (\$1 billion) this financial year.<sup>8</sup> The ministry assumed an average price of \$255 per tonne in this year's budget but the state is now paying \$350 per tonne.<sup>9</sup> Sources noted the impact of surging prices on the government's plans to reduce subsidies on bread, and the dilemma of absorbing costs or removing the subsidies and the inflationary pressure that would ensue. They estimate inflation could reach 12% should the government go ahead with reducing subsidies.

A **Cairo**-based former economist notes that uncertainty amidst the Russia-Ukraine conflict is creating volatile conditions in the market:

*"Should things go on this way, the commodity situation can affect Egypt enormously – whether we are talking about oil and wheat, or the flow-on effects of uncertainty, like reductions in tourism and the flight of millions of dollars from the Egyptian market since the war began."*

The source notes that Egypt, like other emerging economies, is hugely vulnerable, particularly to a large spike in inflation:

*"The timing is especially unfortunate given that the government planned to announce much needed bread subsidy reductions this month, off the back of prices that were already high before the war, and they are in a bind."<sup>10</sup>*

As the conflict drags on, business is weighing the long-term implications of the sanctions against Russia, which are designed to undermine the ruble and limit Russia's ability to reverse the damage. Apart from noticeable impacts on food commodities, Egypt is negatively affected by soaring oil prices. As a net importer of crude oil, changes in oil prices are not in Egypt's interest, with the country currently importing more than 120 million barrels of crude a year. Natural gas prices have spiked in Europe in response to the conflict, potentially providing an opportunity for Egypt to offset some of the costs caused by the oil price spike. Oil minister **Tarek El Molla** told journalists in a press briefing on 6 March:

*"We can take advantage of this period when energy prices are high to maximise [liquefied natural gas] LNG exports. We hope that gas exports will compensate for part of the cost of importing oil and petroleum products."*

El Molla said the oil ministry has been working to increase the amount of gas it imports from **Israel** for re-export to Europe, which is in search of alternative suppliers to decrease its reliance on Russian gas.

### **JP Morgan says Egyptian pound likely to be devalued**

**United States**-based investment bank **JPMorgan** said on 8 March that a devaluation of Egypt's pound is likely to be required and that it may need assistance from the **International Monetary Fund (IMF)** if market pressures continue to worsen.<sup>11</sup> The combination of increased food prices and a potential drop in Russian and Ukrainian tourists, who make up 10% and 3% of overall visitors to Egypt, are set to put further pressure on the country's finances. JPMorgan estimates the Egyptian pound is currently more than 15% overvalued:

*"We expect an FX devaluation will now likely be required."*

<sup>6</sup> Kelma Akhira, 13 Mar 2022.

<sup>7</sup> Al Ahram, 10 Mar 2022.

<sup>8</sup> Bloomberg Asharq, 8 Mar 2022.

<sup>9</sup> Bloomberg Asharq, 8 Mar 2022.

<sup>10</sup> Source, former economist, Cairo.

<sup>11</sup> Reuters, 8 Mar 2022.

Sources have for some time suggested that the pound is significantly overvalued and that the **Central Bank of Egypt** is not allowing the currency to float freely as it did previously both before and after it received loans from the IMF.<sup>12</sup> Currently, those suspicions are backed by the fact that the pound has tracked a strengthening dollar and strengthened against the euro. Critics argue that with large dollar inflows and access to foreign creditors, the protection of the pound may have seemed sustainable.<sup>13</sup> The problem is that this approach sets the country up for an economic shock when circumstances change. Rather than the currency gradually adjusting over years, avoiding dramatic currency volatility, Egyptians are likely to experience a more significant immediate change in the pound's value when the government is likely forced to devalue the pound, causing a spike in inflation.<sup>14</sup> Analysts say some blame lies with international lenders, who have continued to accept dishonest economic reporting and skewed reports of progress.<sup>15</sup> At the same time, expansion of regime-owned enterprises has deterred investment, causing the private sector to shrink and unemployment to rise.

Planning minister **Hala al-Said** told **Reuters** on 14 March that Egypt is not yet in discussions with the IMF over a new loan. However, sources say it is likely to be on the government's agenda soon with the announcement that the finance ministry is working on an emergency plan to handle the country's rising import bill. Said's comments came just days after IMF head **Kristalina Georgieva** said that the lender is engaged in discussions with Egypt on how to target vulnerable populations and businesses. A new IMF loan would be the third in six years, after a \$12 billion loan in 2016 and another \$8 billion to support the economy during the **Covid-19** pandemic.

### Covid update

The health ministry announced on 12 March that it will no longer provide daily reporting on Covid-19 statistics but will instead provide weekly coverage. The ministry has confirmed that the fifth wave of Covid-19 infections has been stagnating. In February, the rate of Covid-related hospital admissions declined by almost half, amid overall decreases in reported infections.

According to government data, almost 40% of the country's 104 million citizens have been vaccinated against Covid-19 as of 7 March, as part of Egypt's target to vaccinate 70% of its eligible population by the second half of 2022.<sup>16</sup> As part of this target, the ministry of higher education and scientific research and Egyptian pharmaceutical company **Eva Pharma** have begun clinical trials of the first domestic vaccine, **COVI-VAX**, set to be manufactured via state-owned drug company **VACSERA**.

<sup>12</sup> Source, investment banker, Cairo.

<sup>13</sup> Source, think tank analyst, Cairo.

<sup>14</sup> Think tank analyst, Cairo.

<sup>15</sup> Think tank analyst, Cairo.

<sup>16</sup> Al Ahram, 1 Mar 2022.

## Planner

Mar 2022 **Cairo (Egypt)** *Reuters*. Supply ministry expected to take final decision on bread subsidies;

March 2022 **Cairo (Egypt)** *Enterprise*. **Egyptian German Green Energy Forum**;

31 March **Cairo (Egypt)** **Vodacom** purchase of **Vodafone Group's** stake in **Vodafone Egypt** expected to be completed by this date;

April 2022 **Cairo (Egypt)** *Al Mal*. Egypt's second corporate green bond issuance expected to be announced;

7-18 Nov 2022 **Cairo (Egypt)** *AP*. Egypt will host **COP27** in **Sharm El Sheikh**.

## Chronology

15 Mar 2022 **Cairo (Egypt)** *Enterprise*. Egyptian **mass transportation startup Swvl** expects to receive final approvals on its IPO from the **United States Securities and Exchange Commission (SEC)** to go public on the **Nasdaq** through its merger with US SPAC **Queen's Gambit Growth Capital** by the end of March;

14 Mar 2022 **Cairo (Egypt)** *Reuters*. Denmark-headquartered shipping company **Maersk** will soon sign an MoU with the **Suez Canal Economic Zone (SCZone)**, which could pave the way for Egypt to supply Maersk with fuel for its new generation of low-carbon vessels;

14 Mar 2022 **Cairo (Egypt)** *Daily News Egypt*. Real estate stakeholders say the **Russia-Ukrainian** conflict will affect Egypt's real estate sector with price increases of over 10% expected as a result of the rise in international oil prices and the impact of this on iron, pallet, cement, bricks, accessories, wood, and other building materials;

13 Mar 2022 **Cairo (Egypt)** *Al Mal*. Egypt aims to procure more than six million tonnes of local wheat during the upcoming harvest season that starts mid-April;

12 Mar 2022 **Cairo (Egypt)** *Al Ahram*. Egypt imposes a three-month export ban on cooking oil, corn, green wheat;

10 Mar 2022 **Cairo (Egypt)** *CAPMAS*. Egypt's annual urban consumer price inflation surged to its highest in nearly three years in February reaching 8.8%, driven by a sharp increase in food prices;

10 Mar 2022 **Cairo (Egypt)** *Euronews*. **World Bank** says **Ukraine** war-related inflation may drive protests and riots;

10 Mar 2022 **Washington DC (United States)** *Politico*. An attempt by **United States** lawmakers to **block a \$2.2 billion arms sale to Egypt** on human rights grounds **has failed**, with senators voting down the effort by a margin of 81 to 18;

10 Mar 2022 **Cairo (Egypt)** *Egypt Independent*. Official figures show inflation rate hit 10% in February, given the country's heavy reliance on wheat imports from **Russia** and **Ukraine**, with prime minister **Mustafa Madbouly** announcing plans to diversify Egypt's sources of wheat;

10 Mar 2022 **New York (United States)** *Reuters*. Analysts at investment bank **JP Morgan** say a steep devaluation of **Egypt's** pound is likely to be required and that Egypt may need more **International Monetary Fund (IMF)** assistance if financial market pressures continue to intensify;

2 Mar 2022 **Cairo (Egypt)** *Reuters*. Two bankers with knowledge of the matter say **Egypt** has seen hundreds of millions of dollars leave its treasury markets since **Russia's** invasion of **Ukraine** as investors flee emerging markets for safer pastures;

27 Feb 2022 **Cairo (Egypt)** *Egypt Independent*. **Egyptian** government calls for an emergency **Arab League** meeting at delegate level to discuss developments in **Ukraine**;

20 Feb 2022 **Cairo (Egypt)** *Egypt Independent*. Foreign ministry slams **Ethiopia's** unilateral start of the operation of the **Grand Ethiopian Renaissance Dam**, calling it a violation of its commitments under the 2015 Declaration of Principles;

### About Africa Risk Consulting:

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