

AFRICA RISK CONSULTING

Egypt Monthly Briefing June 2022

Egypt Summary 16 June 2022

Egypt and Israel sign a deal to export gas to Europe as Russia curbs supplies to the European Union (EU) via the Nord Stream pipeline. The Center for Public Mobilization and Statistics (CAPMAS) reports that inflation in Egypt rose to 13.5% in May as hikes in global commodity prices and the devaluation of the Egyptian pound pushed consumer prices upwards for a sixth consecutive month. Egypt announces plans to move forward with a “National Dialogue” proposed by President Abdel Fattah El Sisi (2014-present) in April, which will involve opposition representatives in a bid to define the priorities of a ‘new republic’.

EU president signs gas deal in Cairo

European Union (EU) Commission president **Ursula von der Leyen** and Israel’s energy minister, **Karine Elharrar**, arrived in **Cairo** on 15 June to sign a trilateral deal on gas between Israel, the EU and **Egypt**.¹ The agreement is set to pave the way for more Israeli gas to be exported to **Europe** via Egypt’s liquefied natural gas (LNG) facilities in an effort to slash its dependence on **Russian** energy after Russia curbed supplies through the major **Nord Stream 1** pipeline by 40% on 14 June. Russia has already cut off gas supplies to **The Netherlands, Denmark, Poland** and **Bulgaria** for failing to pay in rubles, threatening to intensify Europe’s energy crisis.²

Under the deal, Israeli natural gas would be liquefied at Egypt’s processing plants before being shipped to the EU. The agreement also contains measures to help stem leaks of methane, a powerful greenhouse gas. The deal comes at a time when the Egyptian government has been moving to fast-track investment to fund its cashed strapped coffers.

Critics are concerned about the long-term effects of the government’s current efforts to generate cash, which include large deals to produce green energy, particularly in regard to methane emissions that can be 80 times more powerful than carbon dioxide. **United States (US)**-based financial news outlet **Bloomberg** noted on 4 June that **Algeria**, another country with which the EU wants to source gas supplies, has a giant gas field that has been leaking methane for nearly four decades.³

The signing coincides with a meeting of the **East Mediterranean Gas Forum (EMGF)**, which will bring together officials from the eight founding countries, as well as observers from the EU, the US and the **World Bank**. The forum has been a key policy initiative of the government, aiming to position Egypt as the LNG export hub for the region’s gas reserves. As well as Israel, Egypt has agreements with **Cyprus** and **Greece** on pipelines that would see their gas sent to Egypt for re-export.

Israel currently ships gas to Egypt via the **Eastern Mediterranean Gas** pipeline that runs between **Ashkelon** and **Arish**, with an approximate annual capacity of 7 billion cubic metres (bcm). It recently began exporting gas to Egypt via the **Arab Gas Pipeline** for the first time, with exports targeted at 2.5-3 bcm this year, potentially increasing to 4 bcm in the future.

Egypt is also looking to build new LNG terminals pipelines, and liquefaction plants. There are currently no pipelines linking Egypt to Europe. In a plan released earlier in June, the EU said it would

¹ AP, 15 Jun 2022.

² Reuters, 15 Jun 2022.

³ Bloomberg, 4 Jun 2022.

invest €12 billion (\$12.4 billion) in pipelines and LNG facilities to increase gas supplies from other producers, such as Egypt and Israel.⁴

Egypt grapples with inflation pressures

Egypt's annual urban inflation rose to 13.5% in May from 13.1% in April, as rising global commodity prices and the devaluation of the Egyptian pound pushed consumer prices upwards for a sixth consecutive month, according to figures released by the **Center for Public Mobilization and Statistics (Capmas)**.⁵

While the figure was slightly less than expected, it could nevertheless impact the **Central Bank of Egypt's (CBE) Monetary Policy Committee (MPC)** when it meets on 23 June. Citing rising inflation, the MPC raised its interest rates by 200 basis points at its last meeting on 19 May.⁶ Food inflation, the largest component of the basket used to measure inflation, rose 24.8% year-on-year in May, down slightly from 26% in April, as the war in **Ukraine** continued to hamper supplies of food staples.⁷ The increase was mostly driven by hikes in the cost of bread.

The current global situation is not expected to ease in the coming months, causing prolonged pressure on domestic price levels. **Goldman Sachs MENA** economist **Farouk Soussa** predicts inflation could climb as high as 17% in 2022 before falling back into the CBE target range by the end of 2023.⁸ Headline inflation is expected to continue gaining momentum as the rise in global commodity prices reflects on the domestic market, with Egypt set to face an extra \$10.2 billion burden in the next fiscal year if wheat and oil prices remain at their current elevated levels.⁹ The government has scrapped plans to increase household electricity costs by 20% as of 1 July, as part of its plan to phase out subsidies by 2025, with cost of living pressures already putting an immense strain on millions of Egyptians living below the poverty line.¹⁰

Based on these trends, analysts are predicting another hike in interest rates with some sources suggesting a 200-basis point hike is imminent in June, due to global monetary tightening and high food and energy prices.¹¹ However, other sources believe that the government will wait until the summer ends, given that the CBE has already raised rates by 300 basis points in the past three months.¹² Business is holding its breath as consumer spending is expected to take further hits with steepening prices, while the cost of doing business will continue to increase in the coming quarter with expected hikes in the cost of fuel, as well as ongoing difficulties with import restrictions that require importers to use letters of credit to cover imports. As a result, non-oil private sector activity in Egypt contracted for an 18th month in May.¹³

Government moves forward with plans for National Dialogue

The Egyptian government announced plans on 9 June to move forward with a "*National Dialogue*" proposed by President **Abdel Fattah El Sisi** (2014-present) in April. The dialogue, scheduled for early July, will involve opposition representatives from Egyptian society in a bid to define the priorities of a "*new republic*" and confront the current challenges facing the country.¹⁴ Government critics have cautiously welcomed the dialogue, which comes at a time when Egypt is experiencing a severe economic downturn.

⁴ Bloomberg, 4 Jun 2022.

⁵ CAPMAS, 9 Jun 2022.

⁶ Reuters, 29 May 2022.

⁷ CAPMAS, 9 Jun 2022.

⁸ Enterprise, 28 Apr 2022.

⁹ Al Ahram, 13 Jun 2022.

¹⁰ Al Masry Al Youm, 13 Jun 2022.

¹¹ Investment analyst, Cairo, Egypt

¹² Investment analyst, Cairo, Egypt

¹³ Reuters, 5 Jun 2022.

¹⁴ Al Masry Al Youm, 9 Jun 2022.

The **National Training Academy**, one of the youth organisations that falls under the umbrella of the presidency, will oversee the forum. The academy was created by the **General Intelligence Services (GIS)**, arguably the country's most prominent security apparatus.

Opposition figures including MP **Khaled Youssef**, politician **Hamden Sabahi** and journalist and **Dostour** party politician **Khaled Dawoud** are set to be included. All are centrists who have criticised the state, but rarely called for radical changes.¹⁵ However, the talks will not include younger leftists, liberal and political activists, human rights defenders, researchers, feminists, lawyers, or journalists who are vocal critics of the government's economic, foreign, and security policies.¹⁶

The dialogue comes as Egypt has been under continuing scrutiny for its record under Sisi's presidency, during which tens of thousands of political opponents have been jailed, many without being charged. Critics say that the move is another false promise of change which cannot amount to anything given the absence of the rule of law, real opposition parties or fair elections. A senior member of the **Revolutionary Socialists**, one of the political groups that spearheaded the opposition after the 2011 revolution, told *The Africa Report* that:

*"The regime wants to whitewash its crimes by selectively conversing with some politicians with no promise of accountability of violations done by the police and the military in the last years."*¹⁷

There is hope that the release of some prisoners in recent months represents a softening gesture by the president and, if nothing else, it might signify greater willingness to release many other political prisoners and potentially re-try those jailed on protest-related cases. However, critics say they are empty gestures taken following increased focus on torture-related deaths after former political staffer **Ayman Hadhoud** was arrested by security forces and later died in a government hospital. Worse still, many see the dialogue as a distraction from the continuing detention of Egypt's most famous activist, **Alaa Abdel Fattah**, who is in the second month of a hunger strike after gaining **British** nationality in late 2021 but being denied consular visits.¹⁸ If Fattah dies while in state custody, the government can point to the dialogue as proof that it is "*changing its tactics*" and trying to be more responsive to human rights and dissent.

For the business community, the current government remains a significant obstacle to doing business in Egypt. On the logistical side, businesses have to negotiate significant bureaucratic hurdles, while also dealing with the country's military and security apparatuses. From that perspective, any process that pulls back the government from acting with impunity is positive, despite the suspicion that it would only initiate such a dialogue at a time of extreme weakness, hoping to appear more responsive to the private sector, as well as Egyptian society at large. It will be interesting to examine the government's outreach to the private sector in the coming months, as it seeks to draw interest in stake sales of state-owned companies, to evaluate what tangible gains might be made by industry who engage with the government's efforts.

¹⁵ Africa Report, 30 May 2022.

¹⁶ Africa Report, 30 May 2022.

¹⁷ Africa Report, 30 May 2022.

¹⁸ The Guardian, 5 Jun 2022.

Planner

June 2022 **Cairo (Egypt)** *Press statement*. **Poland's** President **Andrzej Duda** will visit Egypt to coordinate ways to ship **Ukrainian** wheat to Egypt amid the war in Ukraine;

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

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;

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

Chronology

16 Jun 2022 **Cairo (Egypt)** *United Nations*. Egypt saw foreign direct investment inflows fall 12% in 2021 but remained the second-largest recipient of FDI in **Africa** after **South Africa**;

15 Jun 2022 **Cairo (Egypt)** *AP*. **Israel, Egypt** and the **European Union (EU)** ink a gas deal to reduce dependence on **Russian** supplies;

12 Jun 2022 **Cairo (Egypt)** *Press release*. Egypt joins **India** and **Sri Lanka** in threatening to block a **World Trade Organization (WTO)** food export agreement to curb food protectionism at the WTO meeting where members are searching for solutions to the escalating food crisis stemming from the war in **Ukraine**;

12 Jun 2022 **Cairo (Egypt)** *MSNBC*. Finance minister **Mohamed Maiit** says if oil prices stay at \$122 per barrel, it will cost the Egyptian budget an extra \$7.2 billion;

12 Jun 2022 **Cairo (Egypt)** *Al Mal*. Egypt receives 63,000 tonnes of wheat from **France**;

6 Jun 2022 **Cairo (Egypt)** *Il Fatto Quotidiano*. **Italian** government official says **Egypt's** President **Abdel Fattah el-Sisi** is awaiting confirmation from Italian prime minister **Mario Draghi** to finalise a \$3 billion deal to acquire arms;

5 Jun 2022 **Cairo (Egypt)** *Reuters*. Non-oil private sector activity in **Egypt** contracts for the 18th month in May as the **Ukraine** crisis, import restrictions and a devalued currency put pressure on prices;

3 Jun 2022 **Cairo (Egypt)** *Bloomberg*. The **European Union** and **Egypt** are set to sign a deal later this month on supplying the bloc with gas as it seeks to slash its dependence on **Russian** supplies;

1 Jun 2022 **Cairo (Egypt)** *Wamda*. **Egypt**-based commerce **Appetito** acquires **Tunisia**-based **Lamma** to expand operations in **Morocco, Tunisia** and **West Africa** for an unknown amount;

29 May 2022 **Cairo (Egypt)** *WAM*. Prime minister **Mostafa Madbouly** says **Egypt** is aiming to massively increase and enhance its exports, doubling them to \$100 billion over the next three years;

29 May 2022 **Cairo (Egypt)** *Youm7*. An **Egyptian** court sentences former presidential candidate **Abdel Moneim Aboul Fotouh** and several prominent figures from the banned **Muslim Brotherhood** to lengthy jail terms on accusations including plotting to overthrow the state;

28 May 2022 **Cairo (Egypt)** *Reuters*. **Egypt** signs contract with **Germany**-headquartered industrial manufacturing company **Siemens'** rail and traffic unit and its consortium partners to build 2,000 kilometers of high-speed railways;

24 May 2022 **Cairo (Egypt)** *Axios*. The **United States Joseph Biden** administration has been quietly mediating among **Saudi Arabia, Israel** and **Egypt** on negotiations that, if successful,

could be a first step on the road to the normalisation of relations between Saudi Arabia and Israel;

22 May 2022 **Cairo (Egypt)** *MENA*. President **Abdel Fattah al-Sisi** signs a law to increase the state budget in the 2021-2022 fiscal year ending in June by \$329m;

21 May 2022 **Cairo (Egypt)** *Egypt Independent*. Finance minister **Mohamed Maait** says **Egypt** expects the **Suez Canal**'s revenues to reach about \$7 billion by the end of the current fiscal year;

19 May 2022 **Cairo (Egypt)** *Egypt Independent*. **Central Bank of Egypt** raises its overnight interest rates by 2% each to 11.25%, 12.25% and 11.75%, seeking to contain inflation expectations after prices soared by their quickest in three years;

16 May 2022 **Cairo (Egypt)** *AFP*. Prime minister **Mostafa Madbouli** announces a series of planned privatisations of state-owned companies, as the country struggles with an economic crisis and inflation at almost 15% in April;

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