

AFRICA RISK CONSULTING

Egypt Monthly Briefing August 2022

Egypt Summary 15 August 2022

President Abdel Fattah Sisi (2014-present) announces a cabinet reshuffle appointing 13 new ministers, amid urgent attempts by his government to cope with pressing economic challenges. Notably, the tourism and public enterprises portfolios, viewed as key in Egypt's current economic climate, get new ministers. The International Monetary Fund (IMF) calls on the Egyptian government to take "decisive" steps on fiscal and structural reforms. The government and the lender remain unable to agree on the terms of the assistance package needed to help Egypt with a growing financing gap. The first regional forum of the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP27), took place on 2 August in the Ethiopian capital, Addis Ababa, to encourage investments in fields related to action on climate change.

Sisi reshuffles cabinet amid economic challenges

President Abdel Fattah Sisi (2014-present) announced a cabinet reshuffle on 13 August appointing 13 new ministers, as **Egypt** faces urgent economic challenges exacerbated by **Russia's** war in **Ukraine**.¹ The reshuffle, which was approved by parliament on 13 August in an emergency session, affected the health, education, culture, local development, and irrigation ministries.² Sisi said the swift changes came in consultation with prime minister **Mustafa Madbouly**. It is the third cabinet shuffle since Madbouly was named prime minister in June 2018 (see *ARC Briefing Egypt Jun 2018 & January 2020*).³

Two key portfolios that were changed included the replacing of **Hisham Tawfik**, public enterprises minister with **Mahmoud Esmat**, a former company CEO. The move comes at a moment when this ministry is key to the government's plans to push forward with a radical privatization plan and increase the involvement of the private sector.

Banker, **Ahmed Issa**, also took over the tourism portfolio from **Khaled al-Anani**. Tourism is an important source of gross domestic product (GDP) for Egypt but has been affected by years of political turmoil, the pandemic and now a lack of Russian and Ukrainian visitors. The portfolio is a top priority for the state as it looks to restore the industry's position as a crucial source of foreign currency and a key driver of job creation.⁴ The new ministers were sworn in on 14 August by Sisi.

Despite the reshuffle, several ministers in charge of other crucial portfolios will be staying in their current positions, including:

- **Mohamed Maait** – finance minister;
- **Ali El Moselhy** – supply minister;
- **Hala El Said** – planning minister;
- **Yasmine Fouad** – environmental minister;
- **Rania Al Mashat** – international cooperation minister.

¹ Associated Press, 13 Aug 2022.

² Associated Press, 13 Aug 2022.

³ Reuters, 13 Aug 2022.

⁴ Associated Press, 13 Aug 2022.

Those in charge of sovereign ministries, which are directly appointed at the discretion of the president, are also to remain in their positions. This includes:

- **Mahmoud Tawfik** - interior minister;
- **Mohamed Zaki** – defence minister;
- **Sameh Shoukry** – foreign affairs minister;
- **Omar Marwan** – justice minister.⁵

Egypt scrambles to bring in funds as IMF talks stall

Egypt remains locked in talks with the **International Monetary Fund (IMF)** as it scrambles to secure funds to cover soaring costs amidst Russia's war in Ukraine, and rising interest rates in the **United States**. **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 2023.⁶ Headline inflation is expected to continue gaining momentum as the rise in global commodity prices reflects on the domestic market, with Egypt's import bill climbing and 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.⁷ The challenges facing Egypt prompted a return to the lender in April for what would be its third loan in six years (*see ARC Briefing Egypt Apr 2022*).

The fund on 27 July called on the Egyptian government to take “*decisive*” steps on fiscal and structural reforms, as the government and the lender remain unable to agree on the terms of the assistance package.⁸ Sisi went as far as to call on **European** allies to pressure the IMF to loosen its requirements for the loan agreement.⁹ In a July report, the IMF said Egypt remains vulnerable due to its high debt load and large financing requirements:

“Decisive progress on deeper structural reforms is needed to boost the economy’s competitiveness, improve governance, and strengthen its resilience against shocks.”¹⁰

The lender also referred to the government’s ongoing refusal to let the Egyptian pound float freely and the damaging effects of this policy such as “*greater exchange rate variability ... could have been entrenched to avoid a build-up of external imbalances.*”¹¹

While Egypt’s central bank has allowed the currency to depreciate by 20% against the US dollar in recent months, watchers from the **Deutsche Bank** and **United States (US)**-based **Goldman Sachs** say the currency is still about 10% overvalued, while US-based **Citigroup** has a lower estimate of 5%. **US**-based news publication **Bloomberg Economics** believes the pound needs to weaken by about 23% to help the economy adjust and reduce Egypt’s funding gap.¹²

Speculation that the IMF will demand flexibility in the pound as part of the conditions attached to a new package has pushed the currency closer toward its record low reached in 2016.¹³ The IMF has also again called for the government to be more aggressive in backing away from numerous state-owned enterprises to boost the private sector which has been increasingly sidelined since Sisi, the former defence minister, became president in 2014.

Prime minister Madbouly has said the government wants to double the private sector’s role in the economy over the next three years (*see ARC Briefing Egypt May 2022*). Former public enterprises

⁵ Al Masry Al Youm, 13 Aug 2022.

⁶ Enterprise, 28 Apr 2022.

⁷ Al Ahram, 13 Jun 2022.

⁸ IFC, July 2022 report.

⁹ Ashaq Aswat, 19 Jul 2022.

¹⁰ IMF, July 2022 report.

¹¹ IMF, July 2022 report.

¹² Bloomberg Economics, 9 Aug 2022.

¹³ Bloomberg, 9 Aug 2022.

minister **Hisham Tawfik** said on 8 May that the government will resume its privatisation programme in September, but no further information has been provided.

As efforts to move the loan negotiations forward have stalled, the government has taken dramatic steps to generate cash. It has secured \$22 billion in **Gulf** financing in recent weeks, implemented strict import restrictions since February, and on 13 August announced it would ration electricity nationwide in a bid to export more gas and increase revenues.¹⁴

This situation is increasingly pressing given Egypt is estimated to need around \$41 billion to cover debt repayments and fund its current account deficit by the end of 2023 but has seen its foreign reserves fall almost 20% to \$33 billion this year.¹⁵

Critics argue that Egypt approaching the lender for the third time in less than six years represents a massive failure by the government to correct the economy, refuting that worsening global economic conditions and the war in Ukraine are responsible. Rather, it is argued that the current situation reflects that the 2016 IMF program, where it was agreed to lend Egypt \$12 billion under the conditionality of implementing a series of austerity measures and reforms, has failed in its primary objectives.¹⁶

The objectives of the 2016 programme include facilitating inclusive private sector-led growth, increasing labour force participation (especially among women), attracting foreign direct investment, and strengthening macroeconomic stability.¹⁷ However, the past five years have seen the non-oil and gas sectors contracting for 63 of the past 72 months.¹⁸ Foreign direct investment outside of energy has also been scarce. Female participation in the labour market has decreased and foreign firms remain hesitant to attempt doing business in Egypt's convoluted market with its lack of transparency or rule of law, and the risk of unfair competition with companies owned by the Egyptian military.¹⁹

Sources say governance should have been the primary condition for the original loan programme, to prevent the squandering of the funds on vanity projects by the government. Instead, the previous IMF support lent credibility to the government allowing them to sell bonds to fill the budget gap and then resulted in massive outflows of capital known as 'hot money' at the first sign of crisis. **Robert Springborg**, a professor from the **United Kingdom**-based **King's College**, and an expert on the workings of the military economy elaborated on Egypt's spending predicament:

*"The regime's financial appetites are gargantuan, but it is luxuries, not basic necessities for a growing population, that absorb the bulk of state revenues. Al-Sisi, who came to power through a coup, relies on the "wow" factor of mega-projects and weapons purchases to bolster his legitimacy. To pay for these extravagances, the government has squeezed the citizenry through cuts in consumer subsidies, regressive taxation, and increased fees for "public" services. Egyptians suffer under stagnating wages, rising prices, and high unemployment, with some 30 million citizens living on incomes of less than \$3.20 a day."*²⁰

COP27 Update

The first regional forum of the **Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP27)**, to be held in **Sharm el-Sheikh** on 7 November, commenced on 2 August in the **Ethiopian** capital, **Addis Ababa**, to encourage investments related to action on climate change.²¹

¹⁴ Youm7, 13 Aug 2022.

¹⁵ Bloomberg, 11 Aug 2022.

¹⁶ Think Tank expert, 6 July 2022.

¹⁷ Think Tank expert, 6 July 2022.

¹⁸ Think Tank expert, 6 July 2022.

¹⁹ The Economist, 21 Apr 2022.

²⁰ Project on Middle East Democracy, Jan 2022.

²¹ Dostour, 14 Aug 2022.

The regional forums are intended to discuss the financing of climate-related projects to examine the potential contribution of the private sector, major companies and institutions in this field. This is especially important considering that investments in projects aimed at addressing climate change are financed up to 80% by the private sector, while the rest is from the government.²²

Egypt aims to discuss investment opportunities in the food and water sectors, develop irrigation systems, increase agricultural productivity, new and renewable energy and related infrastructure, and digital transformation in the management and operation of these sectors.²³

Egypt's former environment minister **Khlaled Fahmy** noted:

*"Developing countries especially in Africa— suffer from a financial burden to face climate change, and according to estimates African countries need \$1.3 trillion to transition to clean energy."*²⁴

Given the limited resources of developing countries, finding means of finance is key to progress on climate action. The forum on Africa was held in Addis Ababa given it is the seat of the **United Nations (UN) Economic Commission for Africa**. The second forum is scheduled for 25 August in **Bangkok, Thailand**, the headquarters of the UN Economic and Social Commission for **Asia and the Pacific**. The third forum is scheduled to be hosted in **Santiago, Chile**, in early September. On 15 September, **Lebanon's** capital, **Beirut**, which is the seat of the UN Economic and Social Commission for **Western Asia** is to host the fourth forum dedicated to **Arab** countries. The Egyptian initiative will conclude these forums in **Geneva**, the seat of the UN Economic Commission for **Europe**, on 20 September.²⁵

Planner

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

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)** *Enterprise*. **Naval Power**, Egypt's first naval defence expo;

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)**;

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**.

Chronology

18 August 2022 **Cairo (Egypt)** *Enterprise*. The **Central Bank of Egypt (CBE)** is likely to resume its tightening cycle and raise interest rates by 100 base points for the third time since March in a bid to tamp down on inflation and support the EGP;

13 Aug 2022 **Cairo (Egypt)** *AP*. President **Abdel Fattah El-Sisi** implements a surprise cabinet reshuffle in an emergency session, changing 13 portfolios, including health, education, culture, local development and irrigation ministries;

²² Al Monitor, 12 Aug 2022.

²³ Press release, 1 Aug 2022.

²⁴ Al Monitor, 12 Aug 2022.

²⁵ Al Monitor, 12 Aug 2022.

3 Aug 2022 **Cairo (Egypt)** *Press statement*. Electricity rationing goes into effect across Egypt to limit the country's use of electricity, raise natural gas exports, and increase inflows of foreign currency. The government hopes to export around 15% of the gas that is currently allocated to the nation's power stations;

13 Aug 2022 **Cairo (Egypt)** *Enterprise*. Egypt could turn to **Emirati** lenders for up to \$2.5 billion in financing with **First Abu Dhabi Bank (FAB)** and **Abu Dhabi Commercial Bank (ADCB)** arranging the loan and inviting other lenders to get involved;

13 Aug 2022 **Cairo (Egypt)** *Reuters*. Egypt's foreign currency gap narrows to \$400m last month from \$3.9 billion in February;

12 Aug 2022 **Cairo (Egypt)** *Al Mal*. Ethiopia completes the third filling of its \$4.2 billion Grand Ethiopian Renaissance Dam (GERD). The country has begun generating electricity from the second of the dam's 13 turbines. Egypt and **Sudan** did not respond. Talks between the three over the filling and operating of the dam have been at a standstill for a year, after Ethiopia unilaterally embarked on filling the dam's reservoir and Egypt and Sudan pulled out of the **African Union**-led negotiations;

11 Aug 2022 **Cairo (Egypt)** *Zawya*. Marketing startup **ConvertedIn** raises \$3m in seed capital. The funding round was led by **Saudi Arabain** tech investor **Merak Capital**;

11 Aug 2022 **Cairo (Egypt)** *Enterprise*. **Egyptian** ports could see more than \$1 billion in foreign investment as international companies look to expand capacity and capitalize on Egypt's position as a strategic trading route. Under agreements signed with **Hutchison Ports** and **AP Moller-Maersk**, \$1.3 billion could be invested in the development of the **Ain Sokhna**, **Dekheila** and **East Port Said** ports;

10 Aug 2022 **Cairo (Egypt)** *CAPMAS*. Egypt's annual urban consumer inflation accelerates to 13.6% year-on-year in July from 13.2% in June;

9 Aug 2022 **Cairo (Egypt)** *Reuters*. **Abu Dhabi** investment firm **Chimera** acquires a controlling stake in Egypt's **Beltone Financial Holdings** as part of strategy to expand in **MENA** region;

2 Aug 2022 **Cairo (Egypt)** *Egypt Independent*. The civil aviation ministry is set to launch a low-cost airline, **Air Shinx**, in 2023;

27 Jul 2022 **Cairo (Egypt)** *Reuters*. **Egypt** cancels contracts for 240,000 tonnes of **Ukrainian** wheat that were booked by state grain buyers for February and March delivery but not loaded due to **Russia's** invasion of Ukraine;

27 Jul 2022 **Cairo (Egypt)** *Press release*. **Egyptian** start-ups should raise a combined \$850m in investment by the end of 2022;

24 Jul 2022 **Cairo (Egypt)** *Financial Times*. Russia's foreign minister, Sergei Lavrov, meets President Abdel Fattah al-Sisi as part of a tour of several African nations designed to counter western accusations that Moscow's invasion of Ukraine has led to a global food crisis;

22 Jul 2022 **Cairo (Egypt)** *The Guardian*. A hundred days before the **Cop27** summit is due to start in **Sharm el-Sheikh**, a group of environmentalists and activists have expressed alarm over **Egypt's** ability to host the event successfully because of its poor record on human rights, as thousands of political prisoners remain behind bars;

18 Jul 2022 **Cairo (Egypt)** *The New Arab*. Opposition parties announce their rejection of any alliance with **Israel** over the weekend, despite the two countries sharing diplomatic ties for decades;

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