

AFRICA RISK CONSULTING

Egypt Monthly Briefing September 2022

Egypt Summary 15 September 2022

President Abdel Fattah Sisi (2014-present) pays a two-day visit to Qatar, his first since Egypt, Qatar and the Gulf Cooperation Countries (GCC) restored diplomatic relations in 2021 following a regional diplomatic rift. Central Bank of Egypt (CBE) governor Tareq Amer resigns on 17 August, one day before a crucial meeting to discuss interest rates. Hassan Abdalla becomes the new CBE governor as Egypt's default probability surges to its highest since 2013, and to the North African region's worst, based on a model commissioned by Bloomberg Economics. The Egypt-International Cooperation Forum (Egypt-ICF) held in Cairo sees the participation of climate negotiators from around the world.

Sisi visits Qatar for first time since Gulf Crisis ...

President **Abdel Fattah al-Sisi** (2014-present) began a two-day visit to **Qatar** on 13 September, his first since **Egypt**, **Qatar**, and the **Gulf Cooperation Countries (GCC)** restored diplomatic relations in January 2021 following a regional diplomatic rift that began in 2017 after Qatar was accused of supporting terrorism.¹ Neighbouring Gulf countries **Bahrain, Kuwait, Oman, Saudi Arabia** and the **United Arab Emirates (UAE)** threatened **Doha** with punitive measures, including a demand to shut down the Doha-based **Al Jazeera Channel**, but Doha denied the charges and refused to meet the demands of the council. The dispute ended in January 2021, when Qatar signed a declaration to normalise relations. Since then, ties between Doha and the four Arab states have improved, and officials have engaged on several regional issues and exchanged visits.²

The visit comes as Egypt faces urgent economic challenges exacerbated by **Russia's** special military operations in **Ukraine**.³ In meetings with Qatari emir **Tamim bin Hamad Al Thani** and local business leaders, Sisi was expected to discuss renewable, green hydrogen and liquefied natural gas (LNG) projects. In March, **QatarEnergy** announced an agreement with **United States (US)**-based **ExxonMobil** to acquire a 40% stake in a gas exploration block off Egypt in the **Mediterranean**.⁴ These energy deals were part of a package of promised investment announced at the time and are part of Egypt's efforts to bridge its funding gap but have yet to commence. Some of these investments reportedly include Egypt's **Sovereign Wealth Fund** and potentially a stake in **Commercial International bank**, one of Egypt's most profitable financial services companies. The value of trade between Egypt and Qatar jumped 76% to \$44.8m in 2021, up from \$25.4m a year earlier, with most of the figure representing imports into Egypt.⁵

Carnegie fellow **Yasmine Farouk** argued in an op-ed for **The Wall Street Journal** on 15 September that Egypt's economic and geopolitical clout remain the reason why Gulf countries including Qatar continue to provide billions to support the economy.⁶ So far, Saudi Arabia, Qatar and the UAE have pledged more than \$22 billion to Egypt this year as it tackles major commodity price hikes,⁷ liquidity issues and a large debt burden. However, sources within Egypt point to the changing nature of that dynamic. While historically aid was given as a form of soft power, allowing countries like Qatar to

¹ Al Ahram, 13 Sep 2022.

² Al Jazeera, 13 Sep 2022.

³ Associated Press, 13 Aug 2022.

⁴ Al Jazeera, 13 Sep 2022

⁵ CAPMAS, 2021.

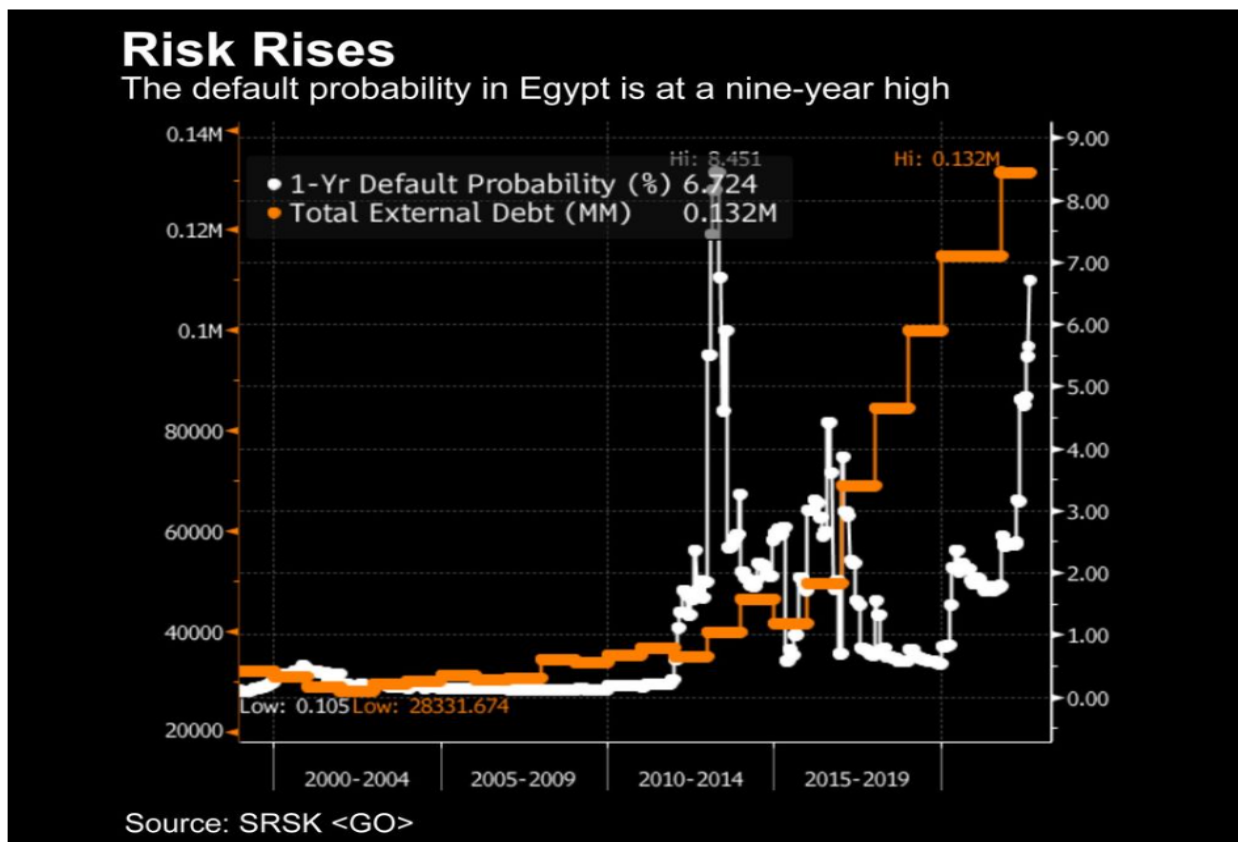
⁶ The Wall Street Journal, 15 Sep 2022.

⁷ The Wall Street Journal, 15 Sep 2022

promote favorable diplomatic relations, current investments represent a “fire-sale” model whereby wealthy neighbouring countries gain stakes in crucial Egyptian business at less than market prices, which dilutes revenue sources in Egypt and signals to the international market that these countries are the only ones willing to take the risk of investing in the country.⁸

... as Egypt hits nine-year high for default probability

Egypt’s default probability – the probability its government will fail to repay debt in one year – has surged to the highest since 2013, and to the **North African** region’s worst, based on a model commissioned by **Bloomberg Economics**.⁹ Egypt has been racing to secure external financing to cover soaring costs amidst Russia’s military operations in Ukraine, rising interest rates in the US and the looming threat of a global recession.



Source: Bloomberg

Headline inflation is expected to continue gaining momentum as the rise in global commodity prices reflects on the domestic market.¹⁰ Egypt’s import bill is increasing and is 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.¹¹ The challenges facing the county prompted a return to the **International Monetary Fund (IMF)** in April for what would be its third loan in six years (see *ARC Briefing Egypt Apr 2022*). In July, amidst talks over the terms of a new loan, the IMF 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 (see *ARC Briefing Egypt Aug 2022*).

The flash appointment of new **Central Bank of Egypt (CBE)** head **Hassan Abdalla** on 23 August is viewed as a positive step. **Tareq Amer**, who had been in the role since 2015, resigned as CBE

⁸ Source, think tank expert, Cairo

⁹ Bloomberg, 28 Aug 2022.

¹⁰ Al Ahram, 13 Jun 2022.

¹¹ Al Ahram, 13 Jun 2022.

governor on 17 August, one year early, amid Egypt's economic crisis.¹² Abdalla is viewed as more likely to favour a fluctuating pound.¹³ The easing of restrictions on capital is also seen as a positive step amid the IMF loan talks.

However, economists remain divided on how they expect policymakers to move ahead with a devaluation. US-headquartered financial services company **Goldman Sachs MENA** economist **Farouk Soussa** claims a one-off depreciation would be a single painful event, with no expectations that more is to come, which would help to anchor inflation expectations and limit the incentive to hoard foreign exchange.¹⁴ In August, headline inflation accelerated to 14.6%, its fastest level in four years, off the back of rising food costs and a weakening pound. Economists expect this trend to continue for the rest of the year.¹⁵ Other analysts say a gradual depreciation would be more favourable, with **Standard Chartered Bank** economist **Carla Slim** noting:

*"A gradual pace of depreciation may be necessary to contain costly negative consequences from a weaker exchange rate to inflation, public debt and unanchored foreign exchange."*¹⁶

In a bid to ease cost of living pressures on millions of Egyptians who live below the poverty line and prevent the potential for civil unrest, President Sisi has ordered an increase in the exceptional bonus to state subsidy cards to 300 Egyptian pounds (EGP) (\$15.62) from EGP100 (\$5.14), and an increase in bread subsidy programme allocations by EGP32 billion (\$1.6 billion). The government has not said where the increased subsidy funds will come from, but a local analyst says military discretionary funds are likely to be the source.

Meanwhile, foreign reserves remained stagnant in August at \$33.14 billion.¹⁷ Reserves have fallen almost 20% since March as the fallout from the Ukraine war and rising interest rates forced the CBE to cover portfolio outflows, finance imports and meet debt repayments. Non-oil private sector activity in Egypt shrank for the 21st consecutive month in August.¹⁸

COP27 update

Climate negotiators from around the world landed in **Cairo** on 7 September for the opening of the **Egypt-International Cooperation Forum (Egypt-ICF)**.¹⁹ Officials from more than 20 **African** nations, global policymakers, international financial institutions and climate experts gathered in the new administrative capital on the outskirts of Cairo to discuss climate action, the green transition, food security and finance ahead of the **Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC COP27)** in November.²⁰

President Sisi said that developed countries with higher emissions are more accountable for climate change and should provide more financial support to poorer nations, noting that only 20 countries are responsible for about 80% of the effects of climate change:

*"I think it is fair and objective that these nations that bear the largest responsibility significantly contribute to supporting developing countries. We need a comprehensive vision to support African nations in their effort to adjust to climate change."*²¹

European Bank for Reconstruction and Development (EBRD) president **Odile Renaud-Basso** said the EBRD will provide \$1 billion in renewable energy projects and provide a further \$200m-300m to fund the energy pillar of the government's **Nexus on Water, Food and Energy Programme**.

¹² Middle East Eye, 17 Aug 2022

¹³ Al Masry Al Youm, 28 Aug 2022.

¹⁴ Bloomberg TV, 28 Aug 2022.

¹⁵ CAPMAS, Aug 2022.

¹⁶ Bloomberg TV, 28 Aug 2022.

¹⁷ CAPMAS, Aug 2022.

¹⁸ CAPMAS, 5 Sep 2022.

¹⁹ Al Mal, 7 Sep 2022.

²⁰ Press release, 8 Sep 2022.

²¹ Al Ahram, 8 Sep 2022.

US climate envoy **John Kerry** said the programme has the potential to attract significant investments from donor governments, philanthropy, development finance institutions and the private sector,

*"It's exactly the kind of innovative thinking we need."*²²

UN climate envoy **Mark Carney** announced the creation of the **Glasgow Financial Alliance for Net Zero** as a new initiative to attract investment into climate projects in Africa. The **Africa Network** will work with African financial institutions, policymakers and regulators to improve access to climate finance on the continent.²³ Egypt's climate envoy, former **World Bank** staffer **Mahmoud Mohieldin**, will chair the network's advisory board, while **Financial Regulatory Authority** chief **Mohamed Farid** will be vice chair.

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;

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

15 Oct 2022 **Cairo (Egypt)** *Enterprise*. **Cairo Metro** will launch a global tender for maintenance work on the power stations and overhead catenary system of Line 1;

17 Oct 2022 **Geneva (Switzerland)** *Enterprise*. Fifth **Egypt** and **United Nations**-led regional climate roundtable ahead of **COP27**;

7-18 Nov 2022 **Sharm El Sheikh (Egypt)** *AP*. Egypt hosts **COP27**;

13-15 Dec 2022 **Cairo (Egypt)** *US-Africa Leaders' Summit*

Chronology

15 Sep 2022 **Cairo (Egypt)** *Al Ahrām*. Egypt has lifted a months-long ban on the export of staple goods such as wheat, flour, fava beans, vegetable oils, corn, lentils and pasta;

14 Sep 2022 **Cairo (Egypt)** *EGX Bulletin*. Shareholders in **The Egyptian Exchange (EGX)**-listed food company **Domty** have agreed to sell 93.2 million shares to the consortium of investors led by **Expedition Investments**, amounting to around 97% of the 96.2 million shares the consortium was targeting in its bid to acquire a 34% stake in the cheesemaker;

11 Sep 2022 **Cairo (Egypt)** *Egyptian Streets*. Egypt has reported its first **monkeypox** case, a 42-year-old national who is resident in an unnamed **European** country, who is in stable condition in hospital;

8 Sep 2022 **Cairo (Egypt)** *Africanews*. Finance, economy and environment ministers meet in **Egypt** ahead of the scheduled **United Nations Climate Change Conference (COP27)** summit in November to discuss leveraging greater international support;

7 Sep 2022 **Cairo (Egypt)** *New York Times*. The public prosecutor has charged four journalists with criminal offences over a corruption story on the **Nation's Future Party** as a renewed crackdown threatens the work of **Mada Masr**, Egypt's last remaining independent news site;

²² Al Mal, 8 Sep 2022.

²³ Press statement, 8 Sep 2022.

6 Sep 2022 **Cairo (Egypt)** *AP*. Foreign minister **Samir Shoukry** withdraws from an **Arab League** session chaired by the chief diplomat of one of **Libya's** two rival governments in an apparent protest against her representing Libya at the pan-Arab summit; Egypt supports her administration's rival;

5 Sep 2022 **Cairo (Egypt)** *CAPMAS*. Non-oil private sector activity in Egypt shrank for the 21st consecutive month in August, and businesses took a bleak view of the year ahead amid concerns over the currency, **Ukraine** and import bottlenecks;

1 Sep 2022 **Cairo (Egypt)** *The Guardian*. **Suez Canal** is briefly blocked after **Singapore**-flagged tanker **Affinity V** becomes stuck;

1 Sep 2022 **Cairo (Egypt)** . *Enterprise*. Egypt eyes issuance of \$500m panda bonds in the **Chinese** market for the first time before the end of the current fiscal year;

31 Aug 2022 **Cairo (Egypt)** *Reuters*. State news agency **Middle East News Agency (MENA)** reports that President **Abdel Fattah al-Sisi** has ordered an increase in the exceptional bonus to state subsidy cards to 300 Egyptian pounds (EGP) (\$15.62) from EGP100 (\$5.30), and an increase in bread subsidy programme allocations by EGP32 billion (\$1.64 billion);

21 Aug 2022 **Cairo (Egypt)** *Egypt Independent*. **United Arab Emirates'** President **Sheikh Mohamed bin Zayed Al-Nahyan** arrives in **Egypt** on an unannounced visit for talks with his **Egyptian** counterpart, **Abdel-Fattah al-Sisi**;

25 Aug 2022 **Cairo (Egypt)** *Bloomberg*. **South Korean** state-owned **Korea Hydro & Nuclear Power** signs \$2.2 billion deal with **Russia's** state-owned **Rosatomb** to provide buildings and components for a new **Egyptian** nuclear plant named **El Dabaa**;

22 Aug 2022 **Cairo (Egypt)** *Egypt Independent*. Prime minister **Mostafa Madbouly** says **Egypt** is nearing an agreement with the **International Monetary Fund** on a new loan, signalling more help for the economy may be imminent after a leadership shakeup at the **Central Bank of Egypt**;

17 Aug 2022 **Cairo (Egypt)** *Middle East Eye*. **Central Bank of Egypt** governor **Tareq Amer**, who had been in the role since 2015, resigns a year early amid the country's ongoing economic crisis;

15 Aug 2022 **Cairo (Egypt)** *Zawya*. Electricity and renewable energy ministry considers cooperation with **Slovenia** in the fields of electricity, new energy, and green hydrogen as it targets boosting the contribution of renewable energy to the energy mix to over 42% by 2035.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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