

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing March 2023

#### Egypt Summary 20 March 2023

*The collapse of the United States (US)-based Silicon Valley Bank (SVB) affects over 46 Egyptian companies. The lender was popular with startups and counted several Cairo and MENA-based companies as clients. Foreign minister Sameh Shoukry reiterates on 9 March the importance of reaching a legally binding agreement on the filling and operation of the controversial Grand Ethiopian Renaissance Dam. Shoukry also approves a decision to place the issue of the dam as a permanent topic on the Arab League Council agenda saying it affects 140 million Arab citizens. Egypt sells its first US-denominated sovereign bonds, Islamic sukuk, with a total value of \$1.5 billion on 22 February. The sale comes as Egypt struggles to raise funds amid an ongoing economic crisis after the war in Ukraine triggered huge capital outflows from emerging markets. The finance will help the cash-strapped nation repay \$1.25 billion in five-year Eurobonds, which carried a fixed interest rate of 5.577% and matured on 21 February.*

#### Egyptian companies affected by Silicon Valley Bank Collapse

The collapse of the **United States (US)**-based **Silicon Valley Bank** has affected over 46 **Egyptian** companies after it became the largest bank to fail since the 2008 financial crisis. Previously the sixteenth-largest bank in the US, the bank was popular with startups including several Egyptian and **Middle Eastern**-based firms.<sup>1</sup> Among the notable regional startups affected are music app **Anghami**, ride-sharing giant **Careem**, and cloud kitchen platform **Kitopi**. After the bank collapsed a list of local firms affected began circulating in **Cairo**.

At least five local firms were able to access their funds with some even choosing to leave their deposits in place given that the US government has guaranteed all deposits, while others have moved their funds to digital-only banks like the US-based **Tribal Credit** which has launched an initiative offering accounts to businesses facing issues because of SVB in the Middle East, **Mexico** and the US.<sup>2</sup> But the bank's troubles underscore the issues facing firms in Egypt's growing fintech scene who already have limited access to foreign banking institutions.

While Egypt's overall economy is struggling, the startup and fintech sectors are a rare bright spot with investors keen to fund companies that can tap into Egypt's 104 million-strong consumer market. Fintech company **Mnt-Halan** became Africa's first unicorn in February as Egypt's first tech company to break above a \$1 billion valuation.<sup>3</sup> Egypt lead North Africa and the MENA region in the number of venture capital deals done last year with funding totalling \$517m in 2022.<sup>4</sup>

Accessing finance has become even more crucial with the US dollar crisis facing Egypt, given that many expenses startups have to pay are in dollars. Several sources suggested that the bank's collapse shows the need for MENA startups to have better services provided to them by local banks that have only begun to consider how they can serve the emerging startup scene:

*I think on a more long term basis startups are worried about where future funding for growth is going to come from. Global jitters make it hard to secure those funds for fintech which is one of the most promising sectors in the country.”<sup>5</sup>*

<sup>1</sup> Enterprise, 12 Mar 2023.

<sup>2</sup> Enterprise, 17 Mar 2023.

<sup>3</sup> The Africa Report, 1 Mar 2023.

<sup>4</sup> Magnitt 2022 Venture Capital Report.

<sup>5</sup> Source, investor, Cairo.

**Hani Milad**, the head of the general division of gold and jewellery at the **Federation of Egyptian Chambers of Commerce** announced on 15 March that the collapse of the bank will impact gold prices in Egypt which have soared to \$1,900 an ounce (the highest it has ever been) on the back of surging inflation and the rapid depreciation of the pound.<sup>6</sup> Gold has been historically a popular investment choice for Egyptians wishing to preserve the value of their savings during times of economic uncertainty. With the economy currently in turmoil and dollars scarcely available in the market, demand for gold has been huge causing what economic watchers have called an exaggerated gap between real and declared prices.

### GERD issue put on permanent agenda of Arab League

Egypt's foreign minister **Sameh Shoukry** reiterated on 9 March the importance of reaching a legally binding agreement with **Ethiopia** on the filling and operation of the controversial **Grand Ethiopian Renaissance Dam (GERD)**. Shoukry, who was speaking during the 159th session of the **Council of Arab Foreign Ministers**, approved a decision to place the issue of the dam as a permanent topic on the **Arab League Council** agenda saying it affects 140 million Arab citizens:

*"I do not fail to address a pivotal issue of advanced priority, which has fateful consequences for Egypt's national security, namely the danger of unilateral Ethiopian practices on the common river basins, of which the GERD is the most prominent current manifestation."*<sup>7</sup>

Ethiopia responded by saying that the problem is an **African** problem and should be resolved by African nations:

*"The fact is that Egypt, with its obdurate stance to maintain a colonial era-based self-claimed water allocation and its unending attempts to internationalize the matter, is the reason for the delay of the negotiation."*<sup>8</sup>

The GERD, announced in 2011, has been positioned as the centrepiece of Ethiopia's push to become Africa's biggest power exporter, generating more than 6,000 megawatts (MW) of power. The deadlock revolves around key differences over the annual flow of water that should be guaranteed to Egypt and how to manage flows during droughts. Ethiopia asserts their right to exploit the Nile waters to further develop its economy while Egypt sees any loss of Nile water as an existential threat. Over the past three years, Ethiopia has implemented three phases of filling the dam, starting with the partial operation of its first turbine in 2022 despite objections by Egypt and **Sudan** over fears for their people's interests. US secretary of state **Antony Blinken** discussed the dispute with officials in Ethiopia on 16 March during a visit, but the exact nature of the talks was not made public.

Egypt which currently receives about 85% of its water from the Nile, is already anticipating a nationwide shortage of fresh water by 2025.<sup>9</sup> Egypt has previously said that without the concessions it has asked for, it would risk losing more than one million jobs and \$1.8 billion in economic output annually, as well as electricity valued at \$300m.<sup>10</sup>

### Egypt scrambles to raise cash with more bond issuances

Egypt sold its first US-denominated sovereign bonds, **Islamic sukuk**, with a total value of \$1.5 billion on 22 February as the country struggles to raise funds amid an ongoing economic crisis after the war in **Ukraine** triggered a huge capital outflow from emerging markets. The finance will help Egypt repay \$1.25 billion in five-year Eurobonds, which carried a fixed interest rate of 5.577% and matured on 21 February.<sup>11</sup>

<sup>6</sup> Al Masry Al Youm, 15 Mar 2023.

<sup>7</sup> Press release, 10 Mar 2023.

<sup>8</sup> Press statement, 11 Mar 2023.

<sup>9</sup> Quartz, 17 Sep 2019

<sup>10</sup> Reuters, 16 Sep 2019

<sup>11</sup> Reuters, 21 Feb 2023.

Sukuk is a **Sharia**-approved bond-like instrument that involves a direct asset ownership interest, while bonds are indirect interest-bearing debt obligations.<sup>12</sup> More than 250 investors subscribed from **Europe, Gulf and Asia** including asset managers, pension funds and banks. The bonds will be traded in the secondary market on the **London Stock Exchange (LSE)**. Sources noted the situation was dire given that the debt financing model is part of what has taken the country to where it currently is but also noted there was no other available alternative:

*"To be making issuances to cover previous issuances is a rather bad predicament to be in. But what other choice is there? Egypt's position is only made worse but the current vulnerability of the global economy."*<sup>13</sup>

The bid to raise cash comes as government officials including Prime Minister **Moustafa Madbouly** and planning minister **Hala Sayed** undertook several trips to **Qatar** and other **Gulf** nations in early February in a bid to secure much-needed investment. Qatar's sovereign wealth fund deposited \$1 billion in Egypt's central bank in November 2022 as it was negotiating to acquire stakes in major companies owned by the government, but so far, no further money has materialised, and local media reports say deals to acquire government stakes in **Vodafone Egypt** and **United Bank** have stalled due to disagreements over stake size and the currency that the deals are to be valued.<sup>14</sup> Meanwhile, international investors are also playing a waiting game to see whether the government intends to honour its commitments under the terms of its **International Monetary Fund (IMF)** \$3 billion programme, which includes pulling out of the private sector and implementing a flexible exchange rate. The official EGP-USD rate has remained unchanged at 30.96 since 9 March.<sup>15</sup> **Simon Kitchen** head of strategy at **EFG Hermes Research** echoed this sentiment on the government's privatisation drive suggesting that:

*"Investors aren't prepared to take things on faith. They want to see things sold and for the public sector to pull back. If we were to see a couple of proper asset sales in the next three months, that would really help."*<sup>16</sup>

Egypt's pound has depreciated by nearly half against the dollar since March 2022. Despite the loan from the IMF in December an ongoing dollar shortage has slowed imports and caused a backlog of goods at ports, with a trickle-down effect on local industry. US-based rating agency **Moody's** on 8 February downgraded Egypt's sovereign credit rating for the first time since 2013, due to vulnerability to external shocks and lowering its rating to B3 from B2. It changed its outlook to stable from negative due to the country's increased vulnerability to external shocks.<sup>17</sup>

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<sup>12</sup> Investopedia, May 2022.

<sup>13</sup> Source, Investment banker, Cairo.

<sup>14</sup> Al Ahran, 9 Nov 2022.

<sup>15</sup> Enterprise, 19 Mar 2023.

<sup>16</sup> Enterprise, 14 Mar 2023.

<sup>17</sup> Moody's, 8 Feb 2023.

## Planner

2023 **Cairo (Egypt)** *Al Arabiya*. President **Abdel Fattah El Sisi** and his **Turkish** counterpart, **Recep Tayyip Erdogan** to hold direct talks in a summit during the second half of the year;

Q4 2023: **Cairo (Egypt)** *Enterprise*. **Egyptian Stock Exchange (EGX)** to launch its new futures exchange;

## Chronology

19 Mar 2023 **Cairo (Egypt)** *Al Borsa*. **Egyptian Linear Alkyl Benzene (Elab)** will be the first company to go to market via the **Sovereign Fund of Egypt's (SFE)** pre-IPO fund;

19 Mar 2023 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah al-Sisi** holds talks with high-ranking **Russian** officials to discuss a Russian-built nuclear plant under construction on Egypt's north coast as well as grains supply and food security;

19 Mar 2023 **Cairo (Egypt)** *Press statement*. **United Arab Emirates**-headquartered **AD Ports Group** signs a 30-year concession agreement worth \$200m to develop and operate Egypt's **Safaga** port;

19 Mar 2023 **Sharm El Sheikh (Egypt)** *Reuters*. **Israeli** and **Palestinian** officials agreed to curb incitement, in talks that stressed the need to prevent violence at **Jerusalem's** holy sites when Ramadan begins this week;

19 Mar 2023 **Cairo (Egypt)** *Asharq al-aswat*. Six of the first eight companies set to debut on the **Egyptian Stock Exchange (EGX)** under the state privatisation program are oil or petrochemical players, a preliminary list of state-owned firms earmarked for IPOs include **Enppi, eMethanex, Midor, Assiut Oil Refining Company, Ethydco, and El Wady for Phosphate Industries and Fertilizers**;

19 Mar 2023 **Cairo (Egypt)** *Al Ahram*. Egypt's parliament approves a government-drafted bill granting new wage hikes to government employees and a rise of 15% in pensions;

18 Mar 2023 **Cairo (Egypt)** *Youm7*. **Turkish** foreign minister **Mevlut Cavusoglu** visits Cairo for talks with **Sameh Shoukry** for the first time in a decade;

14 Mar 2023 **Cairo (Egypt)** *Sada el Balad*. Prime Minister **Moustafa Madbouli** hosts **Danish** Prime Minister **Mette Frederiksen** to discuss advancing economic cooperation;

12 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. **United States** dollar rate registers stable at EGP 30.75 for buying and EGP 30.85 for selling at **National Bank of Egypt (NBE)** and **Banque Misr** at the start of transactions at Egypt's major banks;

9 Mar 2023 **Cairo (Egypt)** *CAPMAS*. Annual inflation rises to 32.9% in February, up from 26.5% in January;

5 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Assistant health and population minister **Ahmed al-Sobky** meets with **Belgian** ambassador **Francois Cornet** to discuss aspects of bilateral cooperation in the healthcare field and to support the achievement of sustainable health development goals per Egypt's **2030 Vision**;

6 Mar 2023 **Cairo (Egypt)** *Egypt Today*. President **Abdel Fattah al-Sisi** discusses Egypt's new **Delta Project** and its importance in achieving food security for Egypt in a meeting with Prime Minister **Moustafa Madbouli**, ministers and senior officials;

1 Mar 2023 **Menya (Egypt)** *Egypt Independent*. President **Abdel Fattah El Sisi** arrives in the **Upper Egypt** governorate of **Minya** to inaugurate several development projects and inspect achievements in developing the governorate and its villages as well as the **New Minya** city;

28 Feb 2023 **Cairo (Egypt) AP**. Three journalists from Egypt's most prominent independent news outlet, **Mada Masr**, have been referred to trial on charges of offending members of parliament from a pro-government party and misusing media channels;

28 Feb 2023 **Cairo (Egypt) Press Statement**. Planning minister **Hala Saeed** announces that Egypt is seeking to establish a joint investment fund with **Qatar** to attract investments that Qatar plans to put into Egypt;

19 Feb 2023 **Cairo (Egypt) Al Ahrām**. Foreign minister **Sameh Shoukry** says Egypt is keen on activating the **African Continental Free Trade Area (AfCFTA)** and is working on finalising protocols to put the project into effect;

16 Feb 2023 **Cairo (Egypt) Al Mal**. Presidency-affiliated **Long Live Egypt Fund** announces that it is collecting donations in all Egyptian banks for earthquake victims in **Syria**;

14 Feb 2023 **Cairo (Egypt) Egypt Independent**. **European** energy commissioner **Kadri Simson** stresses the importance of the strong partnership between Egypt and the **European Union** in the field of new and renewable energy and green hydrogen in an interview during the **Egypt Petroleum Show**.

### **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 safeguard their reputations.

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