

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing December 2022

---

#### Egypt Summary 15 December 2022

*President Abdel-Fattah El-Sisi (2014-present) arrives in Saudi Arabia on 8 December to attend the first China-Arab Summit as Egypt seeks to garner Chinese investment to bolster its cash-strapped economy. A policy expert based in Cairo tells Africa Risk Consulting Briefing (ARC Briefing) that policy analysts see a clear strategy on the behalf of the Chinese leadership to make inroads with Egypt, which the Egyptian government believes will pay off in the future. The International Monetary Fund's (IMF) executive board will meet on 16 December to discuss the final approval of Egypt's Extended Fund Facility (EFF) for \$3 billion. The IMF only lists Egypt on its schedule as of 8 December causing speculation that negotiations over further concessions are ongoing. Sisi issues a decree on 13 December defining the country's maritime borders in the Mediterranean, a sign of Egypt's growing aspirations to become an energy hub in the Eastern Mediterranean region.*

---

#### Sisi attends historic Saudi-China meeting

President **Abdel-Fattah El-Sisi** (2014-present) arrived in **Saudi Arabia** on 8 December to attend the first **China-Arab Summit** as Egypt seeks to garner Chinese investment to bolster its cash-strapped economy. The meeting saw China's President **Xi Jinping** (2012-present) declaring a "new era" in **Beijing's** relationship with the **Gulf** region.<sup>1</sup>

Saudi Arabia and China signed several deals including an agreement with Chinese-headquartered **Huawei** to establish 10G mobile internet and a cloud-computing facility in the kingdom. The US has previously voiced security concerns over the company and opposed its expansion in the region.<sup>2</sup> Egypt and China signed a similar partnership agreement with Huawei in August and in early December, launched the **Egyptian-Chinese Entrepreneurs Association (ECEA)** to drive Chinese investments in artificial intelligence (AI) and e-commerce.

Finance minister **Mohamed Maait** has been vocal in his support for Chinese investment, noting that it has increased significantly over the past decade. The Chinese embassy's economic and commercial office in Egypt published in January 2021 that China's total investment in Egypt has exceeded \$7.7 billion.<sup>3</sup> Relations between the two countries have grown significantly since Sisi became president and was one of the first **African** countries to sign an agreement on China's **Belt and Road Initiative (BRI)** in 2017.<sup>4</sup> Trade between the two countries has also grown. The **Central Bank of Egypt**

---

<sup>1</sup> Financial Times, 9 Dec 2022.

<sup>2</sup> Financial Times, 8 Dec 2022.

<sup>3</sup> Economic and Commercial Office of the Embassy of the People's Republic of China in the Arab Republic of Egypt, accessed 15 Dec 2022

<sup>4</sup> Al-Monitor, 9 Dec 2022

(CBE) has ranked China as Egypt's most important trading partner and the trade volume between the two reached \$19.98 billion in 2021, an increase of 37.3% year-on-year.<sup>5</sup>

China's interest in the region has traditionally been rooted in a need to secure oil supply, the focus has increasingly shifted to expanding its economic and political power. The BRI is at the heart of these shifting priorities. A policy expert based in Cairo told **Africa Risk Consulting Briefing (ARC Briefing)** that Egypt is central to China's efforts to build and capitalise on interdependent markets given both its 100 million-strong consumer market and strategic position as a trade gateway to **Africa** and the **Middle East**. For Egypt, China—with its lack of interest in intervening in regional or domestic policy—promises to be a less complicated political and trading partner.<sup>6</sup>

The source further pointed out that policy analysts see a clear strategy on the behalf of the Chinese leadership to make inroads with Egypt, which the Egyptian government believes will pay off in the future as previously seen through China's financing of the central bank for \$1 billion and loans to state-owned banks:

*"The fact that these overtures come without the complications of Western funds; like human rights clauses and moral posturing about domestic policy is a welcome relief for a regime that is both sensitive to criticism and in need of powerful allies with deep pockets."*<sup>7</sup>

### IMF Executive Board to meet on Egypt

The **International Monetary Fund's** executive board will meet on 16 December to discuss the final approval of Egypt's Extended Fund Facility (EFF) for \$3 billion on 16 December. The IMF only listed Egypt on its schedule as of 8 December causing speculation that negotiations over further concessions remain ongoing. Egypt reached a staff-level \$3 billion funding deal with the lender on 27 October that would run over four years after months of protracted negotiations (*see ARC Briefing Egypt Oct 2022*).<sup>8</sup> The deal was announced hours after CBE announced a series of economic measures, including a hike in key interest rates by roughly 2% and a switch to a flexible exchange rate.<sup>9</sup>

But in recent weeks the gap between the official rate of the Egyptian pound (EGP) against the dollar and the price on the black market has widened further, putting pressure on Egypt that might see the currency weakened again ahead of the meeting. Sellers on the black market were selling 1\$ at 33 EGP against the official rate of \$1 for 24.5 EGP.<sup>10</sup>

Although Egypt has allowed the pound to slide by 36% this year there is significant speculation about whether authorities would allow the currency to depreciate further. Historically average Egyptians see the status of the pound as a measure of how well the

<sup>5</sup> Al Borsa, 12 Apr 2022

<sup>6</sup> Source, policy expert, Cairo.

<sup>7</sup> Source, policy expert, Cairo.

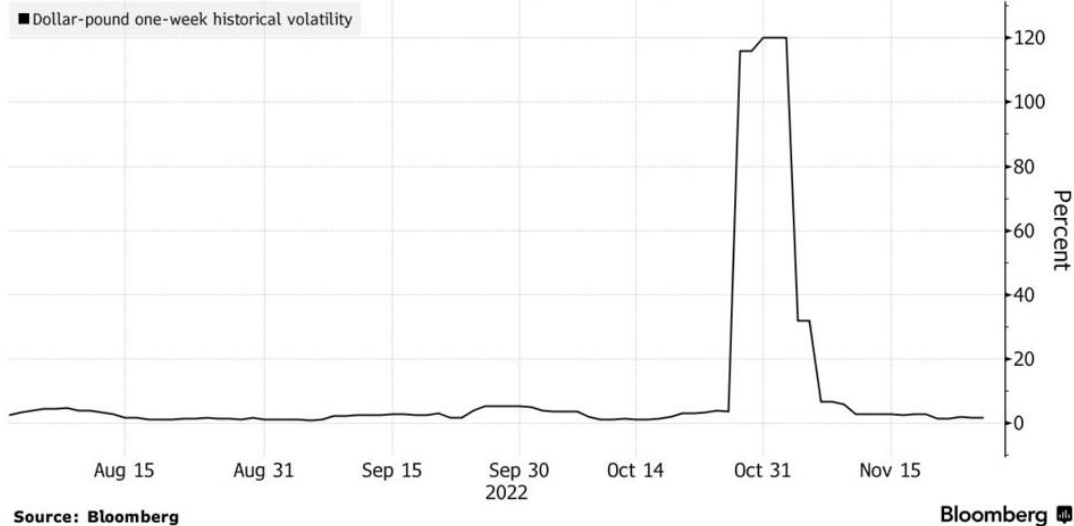
<sup>8</sup> AFP, 27 Oct 2022.

<sup>9</sup> Reuters, 27 Oct 2022.

<sup>10</sup> Reuters, 9 Dec 2022.

economy is being managed by the government which explains the extreme reluctance to let the currency undergo sharp declines.

**Egypt's Shift to Flexible Exchange Rate Is in Question**  
**Dollar-pound one-week historical volatility back to pre-devaluation levels**



**Middle East and North Africa (MENA)** economist, **Mohamed Abdelmeguid** of **French**-headquartered **BNP Paribas** predicted an unscheduled central bank policy meeting this week, writing in a note that policymakers could raise rates by 200 basis points before the IMF board meets. Abdelmeguid believes that CBE will likely need to “*move more decisively toward a floating currency framework*” before the IMF agrees to disburse the first tranche. Abdelmeguid expects the EGP-to-dollar exchange rate to fall to 33 EGP against the dollar by the end of the year and 37 EGP during the first quarter of 2023. This would see inflation rise to 25% during the next quarter and leave it averaging 22% through 2023. Inflation already rose to 18.7% in November, its highest level in almost five years.<sup>11</sup>

Despite the IMF deal, a source within the business community told ARC Briefing that Egypt remains in a precarious position:

*“With a huge current account deficit, debt payments totalling almost half of the government’s revenues next year and a lack of foreign currency, as well as rumoured ongoing import bans make the business climate incredibly volatile.”*<sup>12</sup>

US-headquartered credit rating agency **Fitch Solutions (Fitch)** revised its outlook on Egypt from stable to negative on 8 November, citing a deterioration in the country's external liquidity position and reduced prospects for bond market access.<sup>13</sup>

<sup>11</sup> BNP Paribas, Dec 2022.

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

<sup>13</sup> Reuters, 8 Dec 2022.

It is the fourth time Egypt has sought the fund's help since 2013 with the country being the second biggest debtor to the IMF after **Argentina**.<sup>14</sup> In total, Egypt owes multilateral institutions \$52 billion.<sup>15</sup> Negotiations with the IMF began in March, following **Russia's** invasion of **Ukraine**, which pushed Egypt's already fraught finances into further chaos.

### Egypt moves to define maritime borders

President Sisi issued a decree on 13 December defining the country's maritime borders in the **Mediterranean**, a sign of its growing aspirations to become an energy hub in the **Eastern Mediterranean** region.<sup>16</sup> The decree notes:

*"The borders of Egypt's territorial waters begin from the Egyptian-Libyan land border point No. 1 for a distance of 12 nautical miles reaching point No. 8, and thus Egypt's western maritime borderline launches from point No. 8 in the direction of the north."*<sup>17</sup>

Egypt previously oversaw the formation of the **Eastern Mediterranean Gas Forum**, which aims to develop the region's gas market. The forum brings together **Cyprus, Greece, Israel, Italy, Jordan**, and the **Palestinian Authority**, but excludes regional foe Turkey. Egypt and Greece have increasingly cooperated to develop energy resources in the Eastern Mediterranean, sharing intelligence and conducting joint war games and Sisi's decree comes after Greece and Egypt strongly condemned maritime gas deals in disputed waters between **Turkey** and **Libya's Tripoli-based government**, one of two rival administrations in the country, but Egypt has tended to back the eastern government. Both nations said a deal allowing Turkish hydrocarbon exploration in Libya's Mediterranean waters was *"illegal"* and Greece said it would oppose it by all *"legal means"*.<sup>18</sup> Egypt's foreign minister, **Sameh Shoukry** met with Greek Foreign Minister **Nikos Dendias** in October noting that *"this agreement threatens stability and security in the Mediterranean"*.<sup>19</sup> The question of rights to Libya's immense energy resources has become more urgent as global energy prices have soared following Russia's invasion of Ukraine earlier this year.

### Planner

16 Dec 2022 **Washington (United States) AP. International Monetary Fund (IMF) executive board meets**

### Chronology

13 Dec 2022 **Cairo (Egypt) Arab Finance. Central Agency for Public Mobilisation and Statistics** says the value of **Egypt's** exports to **East Asian** countries grew by 62.8% to \$6.6 billion in 2021 from \$4.1 billion in 2020;

<sup>14</sup> The Financial Times, 31 Oct 2022.

<sup>15</sup> Middle East Eye, 26 Oct 2022.

<sup>16</sup> The National, 13 Dec 2022.

<sup>17</sup> The National, 13 Dec 2022.

<sup>18</sup> The National, 9 Oct 2022.

<sup>19</sup> The National, 9 Oct 2022.

- 12 Dec 2022 **Cairo (Egypt)** *Egypt Today*. **Saudi Arabia's** sovereign wealth fund is in advanced talks to acquire **Egypt's** state-owned **United Bank** in a deal that could be worth \$600m;
- 9 Dec 2022 **Cairo (Egypt)** *Nasdaq*. Government and **United Kingdom**-headquartered oil major **BP** sign a Memorandum of Understanding (MoU) to explore possibilities of building a renewable hydrogen production facility;
- 6 Dec 2022 **Cairo (Egypt)** *Reuters*. Annual consumer inflation surges to a five-year high of 18.7% year-on-year in November following currency devaluation in October;
- 30 Nov 2022 **Cairo (Egypt)** *Reuters*. Cabinet says government has finalised agreements with **Emirati** firm **AMEA Power** to build a solar park and a wind farm with a combined capacity of more than a gigawatt in a \$1.1 billion deal;
- 29 Nov 2022 **Cairo (Egypt)** *Daily News Egypt*. President **Abdel Fattah Al-Sisi** and **Equatorial Guinea's** President **Theodore Obiang** agree to further strengthen bilateral relations;
- 28 Nov 2022 **Cairo (Egypt)** *Reuters*. **Turkish** President **Tayyip Erdogan** and **Egypt's** President **Abdel Fattah al-Sisi's** handshake last week reportedly opened the door to a flurry of back-door diplomacy between intelligence officials;
- 28 Nov 2022 **Cairo (Egypt)** *Reuters*. **Egypt** posts economic growth at 4.4% in Q1 of the fiscal year 2022/23 and the unemployment rate rose slightly to 7.4% in Q1 against 7.2% in the corresponding period during 2021/22;
- 25 Nov 2022 **Cairo (Egypt)** *Military Africa*. Armed forces conclude the 'Medusa 12 military exercise', a seven-day exercise in the **Mediterranean Sea** involving air and naval drills with forces from **Greece, Cyprus, Saudi Arabia** and the **United States (US)**;
- 24 Nov 2022 **Cairo (Egypt)** *Anadolu Agency*. Authorities demand 11 **Israeli** pilots, reportedly forced to land due to a lack of fuel and poor weather, leave after they entered **Egypt** without visas;
- 23 Nov 2022 **Cairo (Egypt)** *Capacity*. The **2Africa** subsea cable project led by a consortium of global telecoms companies lands in **Ras Ghareb (Egypt)** with plans to be expanded to an additional 46 locations in **Africa, Europe** and **Asia** in 2024;
- 22 Nov 2022 **Cairo (Egypt)** *Middle East Monitor*. President **Abdel Fattah Al-Sisi** orders a private jet to repatriate **Muhammad Al-Mirghani**, head of **Sudan's Democratic Unionist Party**, ending his 10-year exile in **Egypt**;
- 22 Nov 2022 **Cairo (Egypt)** *Energy Monitor*. **United Kingdom**-based oil major **BP** awards a \$136.4m contract to **United States**-based **Valaris** to conduct offshore drilling in **Egypt** in Q3-Q4 2023;
- 21 Nov 2022 **Cairo (Egypt)** *Al-Jazeera*. President **Abdel Fattah el-Sisi** meets **Turkey's** President **Recep Tayyip Erdogan** in **Doha (Qatar)**, signalling an end to nine years of suspended diplomatic relations;

18 Nov 2022 **Cairo (Egypt)** *Zawya*. **Australia-based Fortescue Future Industries (FFI)** signs a framework agreement with government to study and develop green hydrogen and renewable energy projects in Egypt;

16 Nov 2022 **Cairo (Egypt)** *European Commission*. **European Union (EU)** signs a Memorandum of Understanding (MoU) with **Egypt** for a strategic partnership on renewable hydrogen production;

15 Nov 2022 **Cairo (Egypt)** *Zawya*. **General Authority for Suez Canal Economic Zone (SCZONE) and Suez Canal Container Terminal (SCCT)**, owned by **Netherlands-based APM Terminals**, sign a \$500m concession agreement to construct a second container building at the **Port Said East Port**;

14 Nov 2022 **Cairo (Egypt)** *North Africa Post*. Egypt signs an agreement permitting the country to join the **China-based New Development Bank (NDB)**.

### 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.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistle-blower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)