

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing July 2023

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#### Egypt Summary 19 July 2023

*Egypt announces it has signed contracts to sell stakes in state assets worth \$1.9 billion as pressure mounts for it to raise foreign currency and demonstrate commitment to boosting the private sector. President Abdel Fattah al-Sisi (2014-present) calls on the country's development benefactors to show understanding of economic pressures on Egypt as the Arab world's most populous nation faces an economic crunch and skyrocketing debt amid a stalled agreement with the International Monetary Fund (IMF). Egypt hosts the leaders of six African nations that share borders with Sudan – Ethiopia, South Sudan, Chad, Eritrea, the Central African Republic and Libya – to discuss ending the conflict in Sudan. The countries agree to form a council of foreign ministers to coordinate efforts to reach an extended ceasefire.*

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#### Egypt races to sell \$1.9 billion in state assets

**Egypt** announced on 11 July that it had signed contracts to sell stakes in state assets worth a total of \$1.9 billion. Pressure has mounted for Egypt to raise foreign currency and demonstrate commitment to boosting the private sector amid an economic crunch and under the terms of a \$3-billion loan agreement it signed with the **International Monetary Fund (IMF)** in 2022 (see *ARC Briefing Egypt Dec 2022*).<sup>1</sup> The **Abu Dhabi Sovereign Wealth Fund (ADQ)** acquired 25-30% stakes in **Egyptian Ethylene and Derivatives Company (Ethydco)**, **Egyptian Linear Alkyl Benzene (Elab)**, and **Egyptian Drilling Company (EDC)** for \$800m.<sup>2</sup>

**Icon Investments**, a subsidiary of the **Talaat Moustafa Group**, and unnamed foreign investors invested \$700m in a government holding company for hotels including **Sofitel Legend Old Cataract** in **Aswan** and **Winter Palace Hotel** in **Luxor**, the **Steigenberger** in **Tahrir Square**, via a capital increase, taking a 37% stake. The deal had been set to go to the **Qatar Investment Authority**, but the government made a last-minute decision to award the transaction to notorious real estate baron and parliamentarian **Hesham Talaat Mostafa** for \$50m less.<sup>3</sup> Moustafa is a controversial figure in Egypt, having been convicted of paying a former police officer \$2m to kill his girlfriend in 2008 and sentenced to death. An appeal saw his sentence reduced to 15 years and in 2017 he received a presidential pardon.<sup>4</sup> He has since donated hundreds of millions of Egyptian pounds to various presidential causes including the **Tahya Masr Fund**. The government also sold a 31% stake in **Al Ezz Dekheila** to its parent company, **Ezz Steel**, for \$241m.<sup>5</sup> At least 60% of this amount was raised in **United States (US)** dollars, with the remainder in Egyptian pounds.

The government raised \$153m from stake sales in **Telecom Egypt** and the **National Paint Industry Company (Pachin)** in May.<sup>6</sup> However, there have been media reports that Egypt's **Sovereign Wealth Fund**, which is managing the deals, has not yet signed any contracts with the

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<sup>1</sup> Reuters, 11 Jul 2023.

<sup>2</sup> Press statement, 11 Jul 2023.

<sup>3</sup> Mada Masr, 16 Jul 2023.

<sup>4</sup> Al Masry Al Youm, 24 Jun 2017.

<sup>5</sup> Press statement, 11 Jul 2023.

<sup>6</sup> Enterprise, 12 Jul 2023.

**Emirati** fund,<sup>7</sup> suggesting that the government is eager to signal to the market that it is moving forward with privatisation despite significant challenges regarding disagreements over the value of the Egyptian pound and how much of the transactions should be paid in foreign currency.

Prime minister **Moustafa Madbouly** said on 11 July that the government will announce additional transactions worth a further \$1 billion in the coming months. As part of its agreement to supervise the privatisation strategy, the **International Finance Corporation (IFC)** is overseeing the addition of 50 companies to the programme. These include:

- **Gabal El Zeit** wind farm: The 580-MW Gabal El Zeit wind farm is expected to sell to **United Kingdom (UK)**-based emerging market-focused private-equity firm **Actis** for \$300m;
- **Wataniya**: Three companies will conduct due diligence on military-owned gas station company Wataniya after receiving six non-binding offers. The transaction is expected to close by November. The company was reported to have caught the attention of Emirati energy firm **Adnoc**;
- **Power plant**: One of three **Siemens**-built power plants in **Beni Suef** is set to be finalised in early 2024. Actis and **Malaysian** power company **Edra** are reported to be interested in acquiring the asset;
- **Water desalination plants**: housing ministry will sell stakes in 21 desalination plants that have a capacity of 3.3 million cubic metres per day. The first phase of the selloff, which will start in 2024, is expected to bring in \$3 billion in investments.<sup>8</sup>

### Egypt and the IMF: can they revive the loan deal?

President **Abdel Fattah al-Sisi** (2014-present) called on the country's development benefactors on 22 June to show understanding of the economic pressures on Egypt. The Arab world's most populous nation faces an economic crunch, including skyrocketing debt, while an agreement with the IMF has stalled.<sup>9</sup> **Central Agency for Public Mobilization and Statistics (CAPMAS)** data released the same day showed that Egypt's year-on-year headline inflation rose to a record 35.7% in June from 32.7% in May, accelerating past the previous high reached in 2017.<sup>10</sup>

Egypt faces massive debt repayments in the coming eight months. The **Institute of International Finance (IIF)** noted in a June report that Egypt remains "*extremely vulnerable*" given high external debt levels, fiscal and current account deficits, a deteriorating net foreign asset position, and portfolio outflows.<sup>11</sup> In its 2023/2024 budget published on 9 May, the government earmarked 50% of allocations for debt service, projecting that nearly half of its revenue will come from further debt.<sup>12</sup> The amount that Egypt owes to multilateral lenders has more than quadrupled over the past decade, rising from \$11.4 billion in 1Q 2012-2013 to \$49.7 billion at the end of 1Q 2022-2023.<sup>13</sup> Sisi told an audience at the **Summit for New Global Financial Pact in Paris (France)**:

*"Programs for renewables, water distillations, improving road networks and using electric transportation vehicles cost us major sums of money."*<sup>14</sup>

<sup>7</sup> Mada Masr, 16 Jul 2023.

<sup>8</sup> Enterprise, 12 Jul 2023.

<sup>9</sup> Egypt Today, 22 Jun 2023.

<sup>10</sup> CAPMAS, 22 June 2023.

<sup>11</sup> Institute of International Finance, June 2023.

<sup>12</sup> Al Monitor, 23 May 2023.

<sup>13</sup> Central Bank, 2023.

<sup>14</sup> Egypt Today, 22 Jun 2023.

When Egypt reached a staff level agreement with the IMF in December for a \$3-billion loan facility, one of the key sticking points was the transition to a flexible exchange rate. Although the pound has seen several devaluations in the past year, losing more than half its value, the exchange rate has held at 30.9 Egyptian pounds to 1 US dollar since January. The lack of progress in the country's commitments to float the pound and raise hard currency by selling state-owned assets meant that a planned review by the IMF in March, which would have led to the release of the second tranche of the loan, has stalled and remains in serious doubt given Egypt's unwillingness to liberalise the exchange rate. In response to questions at the **National Youth Conference** on 14 June, Sisi told the audience:

*"We are flexible on the exchange rate, but not when it comes to Egypt's national security and the harm to the Egyptian people."*<sup>15</sup>

IMF managing director **Kristalina Georgieva** told **Blomberg Asharq** in an interview on 20 June that multiple exchange rates create privileged positions for some and not for others and likened propping up the pound to pouring water into a leaking boat:<sup>16</sup>

*"How exactly Egypt goes about it... is not only an economic question; it's also a question of political economy."*<sup>17</sup>

IIF analysts note that import controls put in place in 2022 restricting the volume of goods being brought into the country eased the pressure on Egypt's balance of payments. However, adopting a flexible exchange rate will be key to resolving the imbalances and rebuilding reserves:

*"An additional devaluation could lower the trade deficit, constraining imports while boosting non-hydrocarbon exports, while also allowing remittances to recover as the parallel and official rates converge, lowering financing needs."*<sup>18</sup>

For business, import restrictions that are still formally and informally enforced have put a huge strain on operations given that numerous sectors including engineering and construction, pharmaceutical and commodity enterprises rely on imports. The foreign currency shortage is also making it harder for the government to pay international companies, causing total outstanding dues to reportedly more than triple from mid-2020 to \$3 billion in April 2023. UK-based oil and gas firm **Capricorn Energy** is reportedly owed \$145m in outstanding receivables from Egypt including \$104m overdue as of May, up from \$97m at the end of 2022.<sup>19</sup>

Sources have told **ARC Briefing** that Egypt approaching the IMF for the third time in less than five years represents a massive failure. They argue that the current situation shows the 2016 programme, where the IMF agreed to lend Egypt \$12 billion on condition that it implement a series of austerity measures and reforms, failed in its primary objectives.<sup>20</sup> These were to facilitate inclusive private sector-led growth, increase labour force participation (especially among women), attract foreign direct investment, and strengthen macroeconomic stability.<sup>21</sup> However, the non-oil and gas sectors have contracted for 63 of the past 72 months.<sup>22</sup> Foreign direct investment outside of energy has also been scarce. Female participation in the labour market has decreased and foreign firms remain hesitant to do business in Egypt's convoluted

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<sup>15</sup> Sada El Balad, 14 Jun 2023.

<sup>16</sup> Bloomberg Asharq, 20 Jun 2023.

<sup>17</sup> Bloomberg Asharq, 20 Jun 2023.

<sup>18</sup> Institute of international Finance, June 2023.

<sup>19</sup> Enterprise, 26 Jun 2023.

<sup>20</sup> Think Tank expert, 6 Jul 2022.

<sup>21</sup> Think Tank expert, 6 Jul 2022.

<sup>22</sup> Think Tank expert, 6 Jul 2022.

market with its lack of transparency or rule of law, and the risk of unfair competition with companies owned by the Egyptian military.<sup>23</sup>

### **Egypt hosts Sudan peace talks**

President Abdel Fattah Sisi hosted the leaders of six **African** nations that share borders with **Sudan** in Cairo on 13 July to discuss ending the conflict in Sudan. Leaders of **Ethiopia, South Sudan, Chad, Eritrea, the Central African Republic** and **Libya** attended the talks. The countries agreed to form a council of foreign ministers to coordinate efforts to reach an extended ceasefire. No representatives from Sudan were in attendance.<sup>24</sup>

The **Sudanese Army** has been fighting rival paramilitary group **Rapid Support Forces (RSF)** since April, with more than 2.4 million people forced to flee their homes and 738,000 crossing into neighbouring countries.<sup>25</sup> An estimated 250,000 of those have crossed into Egypt.<sup>26</sup> Egypt, which has been quietly aligned with the Sudanese army, has so far not been eager to play a public role in the conflict given that one of its key allies, the **United Arab Emirates**, backs the RSF. However, beset by its own growing economic crisis and already home to millions of **sub-Saharan African** refugees, Egypt is keen to see the conflict resolved given the strain that a flow of refugees can put on the country.

The council will work on a set of conditions to facilitate a ceasefire and will set up a system for the delivery of humanitarian aid to Sudan. The first session will be held in Chad's capital, **N'Djamena**, and will present recommendations at the next Sudan peace summit.<sup>27</sup> **Saudi Arabia** and the US have previously mediated a series of truces between the two sides but these fell apart after the ceasefire was violated in June.

One of the more dramatic outcomes of the conflict has been a rapprochement between Egypt and Ethiopia after years of acrimony over the construction of the **Grand Ethiopian Renaissance Dam**, which is close to the border with Sudan. Sisi and Ethiopia's prime minister, **Abiy Ahmed**, said on 13 July that they had agreed to accelerate talks to find a solution to the long-running dispute within the next four months.<sup>28</sup> The move is seen in Egypt as a huge step forward in securing Egypt's water security, as well as a diplomatic win that de-escalates a potential conflict with a regional neighbour that has positioned itself as a future leader in the region for hydropower.

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<sup>23</sup> The Economist, 21 Apr 2022.

<sup>24</sup> AP, 13 Jul 2023.

<sup>25</sup> International Organization for Migration, Jul 2023.

<sup>26</sup> International Organization for Migration, Jul 2023.

<sup>27</sup> Reuters, 13 Jul 2023.

<sup>28</sup> Press statement, 13 Jul 2023.

## Planner

27-28 Jul 2023 **Cairo (Egypt)** *The National*. President **Abdel Fattah El Sisi** and his **Turkish** counterpart, **Recep Tayyip Erdogan**, will meet after the **Russia-Africa** summit in **St Petersburg (Russia)**;

Jul 2023 **Cairo (Egypt)** *The National*. Egypt and **Ethiopia** are set to resume negotiations on the disputed **Grand Ethiopian Renaissance Dam**;

Jul 2023 **Cairo (Egypt)** *Enterprise*. **Egyptian Exchange** to launch a Sharia-compliant index;

Sep 2023 **Cairo (Egypt)** *Al Mal*. A **Japanese** trade delegation, including representatives of 30 companies, will visit Egypt to meet local business leaders and officials to discuss potential investment in Egypt's renewable energy and green hydrogen industries;

2023 **Cairo (Egypt)** *Enterprise*. Government to sign agreements with a consultant for the **EuroAfrica** electricity interconnector.

## Chronology

17 Jul 2023 **Cairo (Egypt)** *Al Ahrām*. At least 13 people are killed after a five-storey building in Cairo collapses;

16 Jul 2023 **Cairo (Egypt)** *Al Mal*. President **Abdel Fattah El Sisi** travels to **Kenya** to participate in the **African Union's** mid-year meeting and will go through Egypt's agenda as the head of the **New Partnership for Africa's Development Agency (NEPAD)**;

16 Jul 2023 **Cairo (Egypt)** *Al Ahrām*. **India** has invited Egypt to take part as a guest at this year's **G20** meetings;

16 Jul 2023 **Cairo (Egypt)** *Mada Masr*. The **House of Representatives** gives final approval to a series of amendments to the investment law, a government priority amid plans to mitigate the country's foreign currency drought by incentivising private sector inflows;

13 Jul 2023 **Cairo (Egypt)** *AP*. President **Abdel Fattah El Sisi** and **Ethiopian** prime minister **Abiy Ahmed** agree to accelerate talks to find a solution to the long-running dispute over the **Grand Ethiopian Renaissance Dam (GERD)** within the next four months;

11 Jul 2023 **Cairo (Egypt)** *Reuters*. Egypt has signed contracts to sell stakes in state assets worth a total of \$1.9 billion as part of a programme to boost the private sector and raise scarce hard currency;

10 Jul 2023 **Cairo (Egypt)** *Reuters*. **Norway**-headquartered energy company **Scatec** signs a land allocation agreement with Egypt's electricity ministry for a planned \$5-billion 5-GW wind farm in **Sohag** governorate, expected to create 8,000 jobs and be one of the largest wind farms in Africa;

10 Jul 2023 **Cairo (Egypt)** *CAPMAS*. Egypt's headline inflation climbs to all-time high of 35.7% in June;

10 Jul 2023 **Cairo (Egypt)** *Reuters*. Egypt's government is preparing more offerings of stakes in state-owned enterprises in addition to those in 32 companies that have already been announced;

9 Jul 2023 **Cairo (Egypt)** *AP*. Egypt to host a summit of **Sudan's** neighbours on 13 July to discuss ways to end a 12-week conflict between rival Sudanese military factions that has triggered a major humanitarian crisis in the region;

5 Jul 2023 **Cairo (Egypt)** *Reuters*. Survey shows activity in Egypt's non-oil private sector continued to decline in June although at a slower pace as inflationary pressures eased slightly;

5 Jul 2023 **Cairo (Egypt)** *Reuters*. **S&P Global Egypt Purchasing Managers' Index (PMI)** rose to 49.1 in June from 47.8 in May, but still below the 50.0 threshold that separates growth from contraction for a 31st consecutive month;

5 Jul 2023 **Cairo (Egypt)** *WAM*. Egypt has begun a \$1.8 billion programme to drill natural gas exploration wells in the **Mediterranean Sea** and **Nile Delta**, in cooperation with **Eni, Chevron, ExxonMobil, Shell** and **BP**, aiming to drill 35 exploration wells within two years, 21 in the current 2023/2024 financial year and 14 in the next year;

3 Jul 2023 **Cairo (Egypt)** *The Guardian*. More than 100 **British** MPs and peers have signed a letter to the UK foreign secretary to voice concern about the continued detention of British-Egyptian activist **Alaa Abdel Fattah**;

26 Jun 2023 **Cairo (Egypt)** *Enterprise*. **United Kingdom**-based oil and gas firm **Capricorn Energy** says it has some \$145m in outstanding receivables from Egypt including \$104m which are overdue from May, up from \$97m at the end of 2022;

25 Jun 2023 **Cairo (Egypt)** *Reuters*. Egypt and **India** bolster ties as Indian prime minister **Narendra Modi** makes first trip to Cairo;

25 Jun 2023 **Cairo (Egypt)** *Press statement*. The government has appointed the **International Finance Corporation (IFC)** to act as an advisor for its privatisation programme;

25 Jun 2023 **Cairo (Egypt)** *Egypt Independent*. Egyptian **State Information Service** accuses a report from **The Economist** regarding the **Suez Canal** and other Egyptian affairs of violating journalistic integrity and spreading unfounded claims;

24 Jun 2023 **Cairo (Egypt)** *Hapi Journal*. President **Abdel Fattah El Sisi** has directed that start-ups be exempted from taxes for a five-year period, on the sidelines of the **Youth Conference**.

### About Africa Risk Consulting:

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