

AFRICA RISK CONSULTING

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Egypt Summary 15 November 2023

Egypt's President Abdel Fattah el-Sisi warns on 28 October against any expansion of the conflict in Gaza, saying the region risks becoming a "ticking time bomb". Government pushes on with its privatisation plans in a bid to help its flailing economy. In line with this, the government announces on 12 November that the Central Bank of Egypt (CBE) and Kuwait Investment Authority (KIA) have agreed on a divestment plan that will see them offloading a 40% stake in the Arab African Investment Bank. Ahmed Tantawy the former front-runner in the upcoming December election will face trial for circulating unauthorised endorsement forms.

Amid mass Palestinian casualties, Sisi warns Gaza is a ticking time bomb

President **Abdel Fattah el-Sisi** (2014-present) warned on 28 October against any expansion of the conflict in **Gaza**, saying the region risked becoming a "ticking time bomb".¹ His remarks came a day after drones were intercepted in Egyptian airspace, which fell on the towns of **Taba** and **Nuweiba** in the **Sinai** near the **Israeli** border, injuring six people. Israel said the drones were from **Iran**-backed **Houthi** rebels who control parts of **Yemen**, but Egypt said the drones originated in the southern **Red Sea** without citing a specific origin point.² Sisi's comments also reflect the wider sentiment of a region on edge with many fearing that Israel's persistent assault on civilians in Gaza, which has so far killed 11,320, threatens stability in an already fractured **Middle East**.³

Egypt has been under growing pressure from world leaders to open its borders to the people of Gaza, a move it has unilaterally rejected. In a press conference in Cairo on 18 October with the German chancellor **Olaf Scholz**, Sisi rejected any attempt to displace the Palestinian people. Alluding to Israeli claims that the displacement of Palestinians to Egypt would be temporary he said, "if there is an idea of displacement, why not move Palestinians to the Negev? [a southern desert region of Israel]".⁴ He also noted that any transfer of people to the Sinai would threaten the security of Egypt.

On 20 October, Egyptians took to the streets in a government-organised protest, the first protest in a decade. The protests served a dual purpose: to re-affirm to the West the extent of public support for the Palestinian cause and to get ahead of public anger. One source told **Africa Risk Consulting Briefing (ARC Briefing)** that Sisi is showing the West he will not be bullied and is applying pressure on the **United States (US)** to honour security commitments on **Rafah** and push Israel to let aid in, at a time when Cairo has seen a revolving door of foreign dignitaries visiting.⁵

The administration of US President **Joe Biden** (2021-present) has been warned by US diplomats, in a leaked diplomatic cable, that in the Arab world US support for Israel's military campaign in Gaza "is losing us Arab publics for a generation".⁶ US support for Israel is being seen, the cable warns, "as material and moral culpability in what they consider to be possible war crimes."⁷ One of the leaked cables from the US Embassy in Cairo relayed back to **Washington (US)** commentary in a state-run

¹ Reuters, 28 Oct 2023

² Reuters, 28 Oct 2023

³ The Washington Post, 14 Nov 2023

⁴ Press statement, 18 Oct 2023

⁵ Source, Diplomat, Cairo

⁶ CNN, 10 Nov 2023

⁷ CNN, 10 Nov 2023

Egyptian newspaper that “President Biden’s cruelty and disregard for Palestinians exceeded all previous US presidents.”⁸

Anger towards Western governments is at an all-time high as leaders of these nations have repeatedly expressed support for Israel and simultaneously blocked **United Nations** resolutions for a ceasefire. Biden himself called into question the number of Palestinians killed telling the press he had no notion that the Palestinians were telling the truth about how many people had been killed. The most senior US diplomat in the Near East⁹ later said that the number of dead Palestinians is likely to be much higher than reported.¹⁰

US **Central Intelligence Agency (CIA)** director **William Burns** on 7 November met Sisi in Cairo to discuss the conflict. Sisi reportedly rejected a proposal suggesting that Egypt manage security in Gaza until the **Palestinian Authority (PA)** can take over after the end of the war. Israeli prime minister **Benjamin Netanyahu** (1996-1999, 2009-2021 and 2022-present) has publicly stated he does not want the PA to control Gaza once the current conflict ends, fuelling Egypt’s fears that it could be saddled with governing the strip.¹¹

Economy continues rapid decline

The government, which has been in a months-long scramble to generate hard currency, announced on 12 November that the **Central Bank of Egypt (CBE)** and **Kuwait Investment Authority (KIA)** have agreed on a divestment plan that will see them offloading a 40% stake in the **Arab African Investment Bank**, one of Egypt’s most respected corporate financial services companies. The sale will be carried out via a private placement to a strategic investor and a stake sale on the **Egyptian Stock Exchange (EGX)**. While the sale is part of a wider privatisation push that has seen the state offloading stakes in several companies, one source who spoke to ARC Briefing criticised the sale. He noted that companies that were profitable for the government were being sold in flash sales that ignored their long-term value.¹² The announcement comes as Egypt is still struggling to bring its flailing economy under control.

The **International Monetary Fund (IMF)** on 11 October downgraded its 2023/24 growth outlook for Egypt to 3.6% from 4.1%. This was the second time it had downgraded its outlook this year, having cut it from 5% in July amid a foreign currency shortage and lower investor confidence. Egypt’s \$3 billion IMF programme is on hiatus due to the government’s reluctance to float its currency and a lack of progress in state asset sales. Between October and November, US-headquartered rating agencies have also downgraded Egypt - **Fitch Ratings** downgraded Egypt’s sovereign rating to B.to B- on 4 November, following in the footsteps of **Moody’s** downgrade from B3 to Caa 1 on 10 October and **S&P Global’s** downgrade from B to B- on 20 October.

Payments by the government for some wheat imports and to foreign energy companies have also been deferred.¹³ On 6 November, Egypt asked **Kenya** to barter tea for anything produced in the country as a way to prevent spending scarce hard currency.¹⁴

The conflict in Gaza has also meant a change in Gulf nations’ willingness to fund Egypt. Prior to the conflict several Gulf countries had made public statements that they would no longer be offering direct deposits to Egypt. **Monica Malik**, an economist with **Abu-Dhabi-based ADCB** noted “I have felt a change in sentiment in the Gulf because before Gaza there was very little patience with Egypt.”¹⁵ **Saudi**

⁸ CNN, 10 Nov 2023

⁹ The Near East is the region around the East Mediterranean encompassing west **Asia**, the **Balkans** and **North Africa**

¹⁰ CNN, 9 Nov 2023

¹¹ Times of Israel, 12 Nov 2023

¹² Source, investor, Cairo

¹³ Reuters, 25 May 2023

¹⁴ Bloomberg, 6 Nov 2023

¹⁵ Reuters, 10 Nov 2023

Arabia, the United Arab Emirates, Kuwait and Qatar have a total of \$29.9 billion on deposit with the CBE and have lent another \$16 billion in other forms of credit.¹⁶

Two sources told ARC Briefing they were aware of discussions with Gulf countries involving support for Egypt in the event of another devaluation. Reports in Egyptian media in October said Gulf countries were in talks to deposit another \$5 billion.¹⁷ The Egyptian Pound has weakened to record lows against the US dollar in the parallel market in recent weeks as pressure builds on the currency. The currency was trading at over 50 to the US dollar compared to the 30.9 on the official exchange rate.¹⁸

All these issues also continue to impact citizens, with Egypt topping the world in food inflation for the second month in a row despite its annual urban consumer price inflation rate dropping to 35.8% in October from a record high of 38% in September.¹⁹ These figures along with the expected fallout from the ongoing conflict with Gaza have watchers concerned, with more than two-thirds of the population already being either poor or vulnerable. An expected devaluation of the Egyptian pound in December is also likely to usher in a new wave of inflation.

Former election front runner to face trial

Ahmed Tantawy, the former front-runner in Egypt's upcoming December election, will face trial for circulating unauthorised endorsement forms.²⁰ Tantawy withdrew his candidacy on 13 October after he was unable to secure only 14,000 of the required 25,000 public endorsements needed to run for president. Should he be convicted, it would prevent him from running in future elections.

Since he announced his intention to qualify as a presidential candidate his campaign has been repeatedly targeted with harassment and arrests. Members of Tantawy's family were arrested before the campaign launched, and more than 142 people have been arrested in total for participating in the campaign.²¹ Supporters seeking to endorse his nomination were subject to harassment, obstructing them from registering that they backed the opposition contender.

Tantawy, a former parliamentarian, has been a thorn in Sisi's side, having said previously that "*if real elections were held, he would not gather more than one percent of the vote*".²² Sisi won the 2014 and 2018 elections with 97% of the vote and is expected to win this election with civil society and the opposition having been all but eliminated in the past decade. **Farid Zahran**, a social democrat is the only career politician running against the former general, but he lacks popular support and was reportedly pressured to run by the government as proof that the election is fair.

Sisi has portrayed himself as the saviour of the nation determined to bring stability after the 2011 ousting of former president **Hosni Mubarak** (1981-2011) in the Arab Spring uprisings however, the past decade of his tenure has been marked by successive economic crises, massive spending on mega infrastructure that has almost bankrupted the country and created a cost-of-living crisis.

Planner

10-12 Dec 2023 **Cairo (Egypt)** Presidential election;
 Dec **Cairo (Egypt)** *Enterprise*. Kenyan trade conference in Egypt;
 4Q 2023 **Cairo (Egypt)** *Enterprise*. **Egyptian Stock Exchange (EGX)** to launch a new futures exchange;

¹⁶ Reuters, 10 Nov 2023

¹⁷ Reuters, 10 Nov 2023

¹⁸ Source, trader, Cairo.

¹⁹ CAPMAS, 11 Nov 2023

²⁰ New Arab, 7 Nov 2023

²¹ Mada Masr, 7 Nov 2023

²² New Arab, 7 Nov 2023

4Q 2023 **Cairo (Egypt) Enterprise. Egyptian Stock Exchange (EGX)** to launch a Shariah-compliant index

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

25 Feb 2024 **Cairo (Egypt) 2024 Enterprise.** Deadline for bidders for oil and gas expansion in the 23 new regions.

Chronology

15 Nov 2023 **Cairo (Egypt) Enterprise.** Gas imports from **Israel** are set to increase to 650 million cubic feet per day by 16 November and reach pre-war levels of 800 million cubic feet per day towards the beginning of next week;

11 Nov 2023 **Cairo (Egypt) Press statement.** Egyptian officials say humanitarian corridors approved by **Israel** after talks with **United States (US)** officials are “*deceitful*” and will be used to displace thousands of **Palestinians**;

9 Nov 2023 **Cairo (Egypt) Al Ahram.** The Emir of **Qatar, Sheikh Tamim bin Hamad Al-Thani** arrives in Cairo to hold talks with President **Abdel-Fattah el-Sisi**,

8 Nov 2023 **Cairo (Egypt) Al Ahram.** A **Hamas** delegation led by **Ismail Haniyeh** and **Khaled Meshaal** arrives in Cairo to meet with the head of **General Intelligence, Abbas Kamel**, and discuss the issue of captives and a humanitarian ceasefire;

7 Nov 2023 **Cairo (Egypt) Press statement.** Egypt raises JPY 75 billion (\$500m) in a JPY-denominated bond sale in **Japan** in what was the country’s second samurai bond sale;

5 Nov 2023 **Cairo (Egypt) Reuters.** Egypt’s **Global Purchasing Managers Index (PMI)**, published by **United States**-headquartered **S&P Global**, falls to 47.9 in October from 48.7 in September, indicating a continued decline in business activity below the 50.0 threshold that separates growth from contraction;

4 Nov 2023 **Cairo (Egypt) AP.** **United States** secretary of state **Antony Blinken** rejects demands for an immediate ceasefire in **Gaza** during talks with **Arab** foreign ministers in **Jordan**;

2 Nov 2023 **Cairo (Egypt) AP.** Egypt raises domestic petrol prices with the price of 80-octane petrol raised by EGP 1.25 (\$0.040) to EGP 10 (\$0.32) per litre, 92-octane petrol by EGP 1.25 (\$0.040) to EGP 11.50 (\$0.7) and 95-octane petrol by EGP 1 (\$0.032) to EGP 12.50 (\$0.40) per litre. Diesel remains EGP 8.25 (\$0.27) per litre;

29 Oct 2023 **Cairo (Egypt) Bloomberg.** Cabinet says the cessation of natural gas imports from **Israel** as a result of the **Gaza** conflict is the reason behind expanded power cuts;

25 Oct 2023 **Cairo (Egypt) Reuters.** Plane ticket purchases from **London (United Kingdom)** to Egypt, **Jordan** and **Lebanon** plummet after the **Palestinian** militant group **Hamas** attacked Israel on 7 October, as the conflict's effects spill into the wider region;

24 Oct 2023 **Cairo (Egypt) Financial Times.** **European Union (EU)** is increasing efforts to reach an economic support agreement with **Egypt** due to raising concerns about a potential refugee crisis resulting from the **Israel-Hamas War**;

24 Oct 2023 **Cairo (Egypt) Anadolu Agency.** President **Abdel Fattah El-Sisi** discusses the situation in **Gaza Strip** with **Malaysia**’s prime minister, **Anwar Ibrahim**, with both leaders stressing the need to continue to provide safe and urgent access to humanitarian aid;

23 Oct 2023 **Cairo (Egypt) Press statement.** Foreign Minister **Sameh Shoukry** attends an emergency ministerial session of the **United Nations Security Council** called by **Brazil** to

continue discussions aimed at de-escalating the conflict. Shoukry reiterates the need for an immediate ceasefire and acceleration of aid deliveries to the besieged territory;

20 Oct 2023 **Cairo (Egypt)** *Asharq Al-Awsat*. International cooperation minister **Rania al-Mashat** signs a debt swapping memorandum of understanding with the **China International Development Agency** for development projects;

17 Oct 2023 **Cairo (Egypt)** *Egypt Independent*. **Central Bank of Egypt** tells commercial banks to restrict customers from using credit cards for transactions in foreign currencies, both domestically and abroad, in a bid to stop foreign currency outflows;

17 Oct 2023 **Cairo (Egypt)** *Egypt Independent*. **United Arab Emirates (UAE)**-headquartered **Al Dahara** is reportedly in talks with the government to acquire more agricultural land to help reduce Egypt's dependence on imports of staple crops;

16 Oct 2023 **Cairo (Egypt)** *Mada Masr*. Egyptian media reports that **Israel** has bombed the **Rafah** crossing for the 4th time at a time when while international efforts are intensifying to get aid into **Gaza** and help stranded dual nationals out;

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.

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