

AFRICA RISK CONSULTING

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Egypt Summary 12 December 2023

The International Monetary Fund (IMF) says it is seriously considering increasing the size of Egypt's \$3 billion loan programme in light of the war in Gaza. Incumbent President Abdel Fattah El Sisi (2014-present) is expected to win the presidential elections held on 10-12 December. The elections are regarded as performative, given Sisi's status as an autocrat who has jailed tens of thousands of opponents since he came to power in a military coup in 2013. Prime minister Moustafa Madbouly warns during a session of parliament against the displacement of Palestinian refugees into the Sinai, saying that Egypt will not accept the liquidation of a Palestinian state despite facing significant economic and political pressures. During the session, several members of parliament call for Egypt to cancel the historic 1979 Camp David Peace accords in which Egypt was the first Arab country to sign a peace treaty with Israel.

IMF mulls increasing loan assistance amid Gaza war

The **International Monetary Fund (IMF)** says it is seriously considering increasing the size of **Egypt's** \$3 billion loan programme in light of the war in **Gaza**. While no amount has been confirmed, **Bloomberg** reported in October that Egypt was negotiating for an additional \$2 billion.¹ IMF communications director **Julie Kozeck** told reporters in a press briefing noting the impact of the war on Egypt's economy:

*"It is clear that additional financing will be critical to ensure the success in the implementation of the policy package for Egypt."*²

The IMF added that important progress has been made over a flexible exchange rate, tighter monetary policies and inflation.³ IMF managing director **Kristalina Georgieva** noted that extra funding was essential:

*"Investors are going to be shy to go to these countries. The cost to move goods, they go up."*⁴

Egyptian talk show host **Lamise El Hadidi**, who has close ties to government sources, said on 9 December that Egyptian authorities are in talks with the fund over potentially raising the value of the loan to \$10-12 billion, four times the value of the original facility.⁵ The IMF postponed two reviews in March and September after Egypt failed to meet several conditions, including implementing a flexible exchange rate. Georgieva warned on 13 October that the country will continue to "bleed" reserves if the currency is not devalued.⁶

The first two reviews will need to be approved before any decision is made to add to the current loan. While Egypt has been widely expected to devalue its currency again after the presential election, meaning that the IMF would disburse an estimated \$700m in outstanding loan money, Georgieva said in a press interview on 3 December that despite ongoing issues with the exchange rate, curbing inflation, currently hovering at 38%, is the greater priority for the fund, at least in the short term. **Abu**

¹ Reuters, 17 Nov 2023

² Press briefing, 7 Dec 2023

³ Press briefing, 7 Dec 2023

⁴ Al Ahram, 25 Oct 2023

⁵ Kelma Akhira, 9 Dec 2023

⁶ Bloomberg, 8 Oct 2023

Dhabi Bank's chief economist, **Monica Malik**, noted that the war has meant a shift in the approach to debt relief to Egypt:

*"No one wants to see Egypt fail, or economic conditions to worsen."*⁷

The **European Union (EU)** is also planning to provide a debt relief and investment package to Egypt for €10 billion (\$10.77 billion) to prevent the potential migration of refugees across the **Mediterranean**.⁸ Meanwhile, the **United Arab Emirates** and **Kuwait** have both renewed deposits that were due to mature this year. The two **Gulf** nations have a total of \$9.7 billion in deposits in the **Central Bank of Egypt (CBE)**.

Economy watchers have noted that as the war worsens, Egypt's role becomes more crucial. This has meant that international bond markets have betted on a lesser likelihood of default on expectations that the international community will be more willing to provide Egypt with rescue packages.⁹ On 10 December, **United States (US)**-based investment bank **Morgan Stanley** listed Egypt's 30-year notes on a list of *"nine bonds to buy"*.¹⁰

However, Egypt's debt burden continues to grow, with an estimated \$42.3 billion set to be spent on foreign debt repayments in 2024 alone.¹¹ Egypt will have to repay an additional \$9.5 billion in short-term debt obligations during the first half of 2024. The largest part of the payment is scheduled for February and March.¹² Egypt's debt exposure has quadrupled in the past 10 years, reaching \$165.4 billion in March due to increased borrowing from multilateral lenders and international debt markets.¹³

For business in Egypt, the shortage of currency remains a huge and costly hurdle. Any business that requires foreign materials must procure dollars on the black market to import materials. While some businesses can offset these costs, others who work in sectors where there are price caps, such as the pharmaceutical industry, cannot. The owner of a large pharmaceutical company told **Africa Risk Consulting Briefing (ARC Briefing)** that he is struggling to procure raw materials from Europe needed to produce medications sold on the local market because if he were to buy dollars at the black-market rate, he would effectively be losing 25% of price for each box of medication produced. He cannot increase the price of goods, as prices are mandated by the government:

*"This puts manufacturers in a terrible position because we cannot afford to buy parallel market hard currency, but if we don't, like many others we face the prospect of going out of business."*¹⁴

Alongside the currency crisis, business is also facing inflation and hikes in wage costs that are making the operating environment profoundly challenging.

Egyptians head to the polls in presidential vote

Egyptian voters headed to the polls on 10 December as part of a three-day vote in the presidential election. Incumbent president **Abdel Fattah El Sisi** (2014-present) is expected to win the elections, which are for the most part performative in nature given Sisi's status as an autocrat who has jailed tens of thousands of opponents since he came to power in a military coup in 2013.¹⁵

The presidential vote is the first since a constitutional referendum passed in 2019 that paved the way for Sisi to stay in office until 2030. The other candidates on the ballot include **Abdel Sanad Yamama**

⁷ Bloomberg, 7 Dec 2023

⁸ Bloomberg, 15 Nov 2023

⁹ Enterprise, 10 Dec 2023

¹⁰ Enterprise, 10 Dec 2023

¹¹ Central Bank, Dec 2023

¹² Central Bank of Egypt, 2 Oct 2023

¹³ Enterprise, 2 Dec 2023

¹⁴ Source, company owner, Cairo

¹⁵ Al Masry Al Youm, 10 Dec 2023

of the **Al Wafd** party, **Farid Zahran** of the **Egyptian Social Democratic Party**, and **Hazem Omar** from the **Republican People's Party**. Results of the vote will be announced on 18 December.¹⁶

Ahmed Tantawy, the former frontrunner who had caused significant buzz with his candidacy, will face trial for circulating unauthorised endorsement forms.¹⁷ 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.

Sisi won the 2014 and 2018 elections with 97% of the vote in campaigns marked by voter suppression and widespread intimidation.¹⁸ However, this election has been different. When Sisi announced his campaign on 2 October, protests – which are strictly forbidden – broke out in **Marsa Matrouh**, a city close to the **Libyan** border known for its influential tribes.¹⁹

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. But the past decade of his rule has seen successive economic crises, as well as massive spending on mega infrastructure projects that have almost bankrupted the country and created a cost-of-living crisis. When Sisi came to office, 1 US dollar equalled 7 Egyptian pounds; today foreign currency is scarce and only accessible on the black market where 1 US dollar equals 52 pounds. An estimated 60,000 political prisoners are said to be detained even as Sisi has been pressured to release some activists and begin a national dialogue forum.²⁰

Forcible expulsion of Gazans into Egypt could rupture Camp David accords

Prime minister **Moustafa Madbouly** has warned against the displacement of **Palestinian** refugees into the **Sinai**. During a session of parliament, Madbouly said that Egypt would not accept the liquidation of a Palestinian state despite facing significant economic and political pressures.²¹ Several members of parliament called for Egypt to cancel the historic 1979 **Camp David Peace Accords** in which Egypt became the first Arab country to sign a peace treaty with **Israel**. The accords established diplomatic relations but were deeply unpopular, and until recent years, relations between the two nations had been mostly related to security. The war in Gaza represents the most significant threat to relations in a generation with public opinion in Egypt against Israel's use of deadly military force against a trapped population.

Quoting US and Israeli officials, US-based news outlet **Axios** reported that any transfer could cause a "rupture" in the two countries' relationship, noting that Egyptian officials have expressed concerns to Israel that its intense military aggression was pushing civilians to mass near the border, to the point where they could cross and trigger a crisis.²² **United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA)** commissioner-general **Philippe Lazzarini** re-affirmed this position in an opinion piece in the **Los Angeles Times** on 9 December, saying that:

*"The developments we are witnessing point to attempts to move Palestinians into Egypt."*²³

In late October, a document outlining a wartime proposal to transfer from Gaza 2.3 million people to Egypt was leaked, further fuelling fears of the Palestinians and Egypt that Israel would pursue the complete expulsion of Gazans.²⁴ Israeli officials have also made numerous references in media

¹⁶ Enterprise, 9 Dec 2023

¹⁷ New Arab, 7 Nov 2023

¹⁸ Reuters, 27 Sep 2023

¹⁹ Source, official, Cairo

²⁰ Reuters, 27 Sep 2023

²¹ Youm7, 21 Nov 2023

²² Axios, 7 Dec 2023

²³ Axios, 7 Dec 2023

²⁴ France24, 31 Oct 2023

interviews to the idea that Egypt should take in the population of Gaza, of which nearly 85% are estimated to be internally displaced.

Egypt sees opening the border as a potential threat to national security because it could not only mean the potential transfer of weapons, but Egypt could also be forced to into being the de facto administrator of the area.²⁵ The international community has largely left **Jordan** and **Lebanon**, which took in hundreds of thousands of refugees after the creation of Israel as well as **Syrians** fleeing conflict, to provide for these refugees who have since become a political flashpoint domestically.²⁶ Egypt, which is already home to an estimated 9 million refugees, not including the 500,000 **Sudanese** who have recently crossed the border, does not have the resources to handle further arrivals. Furthermore, any of these scenarios would not be accepted by the Egyptian public, who view the opening of the border or the ceding of Egyptian territory as red lines.

While the **United Nations** has said that half of Gaza's population is starving,²⁷ the US on 8 December blocked a **UN Security Council** resolution calling for an immediate ceasefire. The vote was triggered when UN secretary-general **Antonio Guterres** invoked a rarely used clause to urge the Security Council to discuss the conflict because of the threat to global security. Under Article 99 of the UN charter, the secretary-general has the power to bring the council's attention to any matter that *"threatens the maintenance of international peace and security"*.²⁸

What's next in 2024?

2023 has not been an easy year for Egypt. The enormous impact that the past two months have had on Egypt gives a sense of their continuing impact on Egypt's trajectory. Just two months ago, before the **Hamas** attacks on Israel on 7 October, President Sisi was in a bind; the economy of the Arab world's most populous nation was on the edge of complete collapse. His Gulf benefactors had cut off the petrodollars that had bankrolled his fumbling regime. Government payments for wheat imports and to oil and gas companies had been deferred. Egypt's powerful **General Intelligence Agency**, run by Sisi's right-hand man, **Abbas Kamel**, had been implicated in a bribery scheme that threatened the future of \$3 billion in annual US military aid. The IMF had put a \$3 billion loan on hiatus after Egypt failed to implement a flexible exchange rate. Egyptians – who have been hit by 60% food inflation – were enraged when Sisi told an audience at a campaign event that if the price of development *"is to go hungry and thirsty, then let us not eat or drink."* The anger of a poor and disappointed people was mounting.

Fast forward to now; Sisi allowed the first public protests in a decade, getting ahead of public anger by encouraging it to be vented under the auspices of the state, thus uniting the country in a common cause. Egypt, which had declined in status in the international arena, is relevant again. Cairo with its proximity to Gaza and history of negotiating every previous ceasefire with Hamas, has seen a revolving door of Western leaders in recent weeks and has been crucial to the current pause that has facilitated hostage releases and will be fundamental to the eventual end of the conflict. By refusing to accede to the requests of the West, which most recently included a proposal from the **CIA** that Egypt manage security in Gaza after the war, Sisi has further bolstered his public standing domestically.

Looking to 2024, while Egypt's debt quagmire remains grim, things are looking up in a way they haven't for some time. Economists say that the Gulf, fearful of regional instability, is ready to rethink direct deposits to the central bank that were previously out of the question. The IMF had said it is considering increasing Egypt's \$3 billion loan to \$5 billion. There is a \$9-billion debt relief deal on the table from the EU intended to curb potential migration across the Mediterranean. Sisi's former running mate has withdrawn his candidacy and has been quietly indicted on criminal charges. The

²⁵ Source, official, Cairo

²⁶ The Economist, 14 Oct 2023

²⁷ BBC, 10 Dec 2023

²⁸ Enterprise, 8 Dec 2023

stakes remain extremely high and all things considered, it may just be a stay of execution, but Sisi is riding this wave into a next term.

The questions for the coming year are: Can Israel and Egypt maintain their peace treaty given that Israel's actions present an existential threat to Egypt's national security and threaten the stability of the region? At the same time, Sisi's leadership, whilst safe for now, is also subject to the shifting winds of the global economy, and regional and domestic politics; will he be able to play the difficult set of political cards he's been given to his advantage in the face of an ongoing economic crisis? And how will the war affect Egypt as it drags on? Will it mean a reboot of the insurgency in the Sinai, which the government has been fighting for a decade with mixed success, or will the conflict continue to put Egypt front and centre of international politics where it can leverage its influence and gain further access to debt relief and other much-needed investment.

2024 will be a defining year for Sisi. Never has he been at the centre of so many crises, each with the potential to end his rule and plunge the country once again into civil unrest.

Planner

10-12 Dec 2023 **Cairo (Egypt)** Presidential election;

Dec 2023 **Cairo (Egypt)** *Enterprise*. Kenyan trade conference in Egypt;

4Q 2023 **Cairo (Egypt)** *Enterprise*. **Egyptian Stock Exchange (EGX)** to launch a new futures exchange;

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)** *Enterprise*. Deadline for bidders for oil and gas expansion in the 23 new regions.

Chronology

11 Dec 2023 **Cairo (Egypt)** *Reuters*. **Gazans** say hunger is growing, fuelling fears of exodus into Egypt;

4 Dec 2023 **Cairo (Egypt)** *Central Bank*. Egypt is expected to spend at least \$ 42.3 billion on foreign debt repayments in 2024;

3 Dec 2023 **Cairo (Egypt)** *Central Bank*. Egypt's budget deficit widened to 3.9% of GDP in Q1 FY 2023-24 from 2.1% a year earlier, largely due to the government's spiralling interest bill;

3 Dec 2023 **Cairo (Egypt)** *Egypt Today*. Environment minister **Yasmine Fouad** announces that government plans to invest \$270m in projects aimed at reducing carbon emissions from the industrial sector;

3 Dec 2023 **Cairo (Egypt)** *Enterprise*. The **United Arab Emirates (UAE)** has renewed a \$1 billion deposit that matured in July 2023 and is now due in July 2026; the UAE has \$5.7 billion in total deposited at the **Central Bank of Egypt (CBE)** while **Kuwait** has renewed a \$2 billion deposit that matured in April 2023, now due in April 2024, with a total \$4 billion deposited at the CBE;

2 Dec 2023 **Cairo (Egypt)** *Al Mal*. **Norwegian** renewables developer **Scatec** will establish a 1-GW solar and 200-MWh battery storage project in Egypt – the country's first – under an agreement signed with the **Egyptian Electricity Holding Company (EEHC)** at **COP28**;

28 Nov 2023 **Cairo (Egypt)** *Egypt Today*. General Intelligence chief **Abbas Kamel** arrives in **Doha (Qatar)** to meet with the **United States CIA** director **William J. Burns**, **Israel's**

Mossad chief **David Barnea** and other high-ranking officials to discuss the ongoing conflict between **Israel** and **Gaza**;

26 Nov 2023 **Cairo (Egypt)** *Egypt Today*. State information service head **Diaa Rashwan** says 2,675 tonnes of medical supplies, 9,621 tonnes of food, 7,047 tonnes of water, 82 tents and 1,992 tonnes of equipment have entered **Gaza** through the **Rafah** border crossing since the ceasefire between Israel and Palestine;

26 Nov 2023 **Cairo (Egypt)** *Daily News Egypt*. **General Authority for Investment and Free Zones (GAFI)** CEO **Hossam Heiba** receives a delegation from **Oman** who are interested in investing in Egypt;

23 Nov 2023 **Cairo (Egypt)** *Amnesty International*. **United Kingdom**-headquartered **Amnesty International** says in a press release that Egyptian authorities have ramped up their repression of dissent against political opponents, peaceful protestors and other critics ahead of the presidential elections scheduled for 10-12 December;

22 Nov 2023 **Cairo (Egypt)** *Offshore Technology*. **United Kingdom**-headquartered **Shell** announces a gas discovery in the **North East El-Amriya** block in the **Mediterranean**;

20 Nov 2023 **Cairo (Egypt)** *Anadolu Agency*. Authorities confirm that more than 6,000 foreign passport holders, 929 Egyptians and 236 injured **Palestinians** seeking medical treatment have crossed the **Rafah** border gate from **Gaza** since conflict broke out on 7 October;

19 Nov 2023 **Cairo (Egypt)** *Enterprise*. The government has completed the sale of a 30% stake in state-owned tobacco manufacturer **Eastern Company** for \$625m, making it the single-largest transaction since it rebooted its privatisation strategy earlier this year;

19 Nov 2023 **Cairo (Egypt)** *Enterprise*. Leading private-sector bank **CIB** will receive a \$150m subordinated loan from the **European Bank for Reconstruction and Development (EBRD)** after credit rating agencies **Moody's**, **S&P** and **Fitch** downgraded its credit ratings deeper into junk territory over the past month due to its exposure to government debt;

18 Nov 2023 **Cairo (Egypt)** *Reuters*. **European Union Commission** president **Ursula von der Leyen** backs Egypt's rejection of **Israeli** ambitions to forcibly displace **Gazans** into the **Sinai** during talks with President **Abdel Fattah El Sisi** in Cairo;

16 Nov 2023 **Cairo (Egypt)** *Bloomberg*. Foreign minister **Sameh Shoukry** says **Israel** and the **United States** have not offered to give Egypt debt relief in return for taking in **Palestinian** refugees;

About Africa Risk Consulting:

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