

AFRICA RISK CONSULTING

Egypt Monthly Briefing April 2023

Egypt Summary 18 April 2023

A leaked United States intelligence document shows Egyptian president Abdel Fatah el-Sisi (2014-present) ordered the production of 40,000 rockets to be covertly shipped to Russia. The leak complicates US-Egypt relations, as Egypt is heavily reliant on US aid. Sisi arrives in Saudi Arabia on 21 April to meet Crown Prince Mohamed Bin Salman, seeking to secure finance to ease pressure on the Egyptian pound and starve off ongoing economic turmoil. The World Bank also predicts on 6 April that food inflation will reach double digits in 2023. Spiralling food costs are one the greatest threats to the current government, as many people cannot afford food, which could spark social unrest. Turkey's foreign minister Mevlut Cavusoglu visits Cairo on 18 March to hold talks with his Egyptian counterpart Samer Shoukry. The visit is the most recent step taken by the two countries to mend relations after a decade-long feud. Rapprochement is a strategic decision, especially given that Egypt noted in February that Turkish companies had committed \$500m in new investment in Egypt.

Leaked document shows Egypt wanted to sell Russia rockets

A leaked **United States** intelligence document indicates that **Egyptian** president **Abdel Fatah el-Sisi** (2014–present) ordered the production of 40,000 rockets to be covertly shipped to Russia, asking officials to keep the ship a secret “to avoid problems with the West”.¹ The US media outlet **The Washington Post** reported on the previously unpublished document on 11 April, which was obtained from a trove of classified files posted in February on the chat application **Discord**.

Egypt moved to quickly deny the newspaper’s claims, and **Ahmed Abu Zeid**, a spokesman for the foreign ministry, clarified Egypt’s overall stance in the **Ukraine**-Russia conflict:

“Egypt’s position from the beginning is based on non-involvement in this crisis and committing to maintain equal distance with both sides while affirming Egypt’s support to the U.N. [United Nations] charter and international law in the U.N. General Assembly resolutions.”²

But the revelations reveal the complexity of an at-times tense partnership between the US and Egypt. Egypt depends on ongoing access to US aid, as well as the extension of credit from institutions like the **International Monetary Fund (IMF)**, however, given tension over issues like human rights, Sisi has also sought to diversify Egypt’s base of allies pursuing connections with US rivals such as **China** and Russia.

It’s not the first time Sisi’s dealings with Russia have caused controversy. In 2020, Russia’s state news agency, **TASS** announced that it had begun production of SU-35 fighter planes, intended to be delivered to the **Egyptian Air Force** under a controversial contract signed in 2018.³ US-based newspaper **The Wall Street Journal** revealed in 2019 that then US defence secretary **Mark Esper** and secretary of state **Mike Pompeo** had warned Egypt against buying Russian Su-35 jets, going as far as suggesting the US could impose sanctions on Egypt should the sale proceed.⁴

Russia has also in recent years been aggressively expanding its influence in the **Middle East** and more recently in **Africa**, bolstering the pariah regime of **Syria’s** President **Bashar al-Assad** (2000-present),

¹ The Washington Post, 11 Apr 2023

² The Washington Post, 11 Apr 2023

³ TASS, 19 May 2020

⁴ The Wall Street Journal, 19 Nov 2020

aiding the government of the **Central African Republic** with weapons and security personnel, and building ties with **Turkey**.⁵ Russia and Egypt also co-hosted the first Russia-Africa Summit and Economic Forum in 2019 in **Sochi** (Russia), inviting 40 heads of state to discuss greater collaboration on trade and security. More recently high-ranking Russian officials met with Sisi on 19 March in **Cairo** to discuss the state-owned **Rostom's** nuclear plant which is under construction on Egypt's **Mediterranean** coast. Food security was also discussed given that Egypt has been one of the main buyers of Russian wheat.⁶

For business, revelations like this represent the changing power structure of international relations as US influence is declining in the Middle East and nations like Russia and China are vying for influence, in the process re-shaping the nature of commerce and international diplomacy. A political expert based in **Cairo** told **Africa Risk Consulting Briefing (ARC Briefing)**:

"Sisi has pursued connections with states that it would have at one time been unthinkable for Egypt to do business with or have interactions with on a military level".⁷

This has an economic and a political component too - these nations see Egypt's 100 million plus strong consumer market as something they want access to going forward, and Egypt seeks allies who are partners focused on mutual benefit rather than ideals such as democracy or human rights.

Egypt scrambles for funds as World Bank predicts double-digit food inflation

Sisi arrived in **Saudi Arabia** on 21 April to meet the country's prime minister, crown prince **Mohamed Bin Salman** (2022-present) as Egypt continues efforts to secure finance to starve off an ongoing economic crisis, which includes a massive shortage of foreign currency.⁸

Following the meeting, no further funding announcements were made but the Saudi news agency **SPA** said the meeting covered "*cooperation between the two nations*".⁹ This is the latest in dozens of trips that Egyptian officials have made to Gulf countries including **Qatar**, **Bahrain** and the **United Arab Emirates** in the past six months, to lobby for cash and investment commitments, which have led to almost no tacit promises of further funding. While Gulf nations have long provided vast amounts of financial support to Sisi since he came to power in 2013, with an estimated \$100 billion in donations, nations like Saudi Arabia have signalled recently that they would no longer provide blank cheques.¹⁰

While Egypt reached a staff-level \$3 billion funding deal with the IMF in October 2022, the loan has done little to stem the pressure on Egypt's currency and the ongoing shortage of dollars.¹¹ Even after the Egyptian pound plunged to its lowest level in recorded history in January, recording 30 pounds to the US dollar, there remains huge pressure on the currency, with the black market price set as of 14 April at 37 pounds to the US dollar and another devaluation is imminent.

Meanwhile, a report from the **World Bank** on the long-term effects of rising food costs, published on 6 April, suggested that economies in the **Middle East and North Africa (MENA)** region are to grow at a slowed rate in 2023 given pressure from double-digit food inflation on low-income households. It further forecasts that the effects of food insecurity could last for generations.¹² The report specifically cited a lack of current policy to address food insecurity:

⁵ The Economist, 26 Oct 2019.

⁶ Reuters, 19 Mar 2023

⁷ Source, Political expert, Cairo

⁸ AP, 3 Apr 2023

⁹ Reuters, 3 Apr 2023

¹⁰ ABC, 13 Feb 2023

¹¹ AFP, 27 Oct 2022

¹² World Bank, "Altered Destinies: The Long-Term Effects of Rising Prices and Food Insecurity in the Middle East and North Africa", 6 Apr 2023

“The human and economic cost of inaction is immense and bold policies are needed in a region where young people make up more than half of the population.”¹³

Inflation on crucial food staples looms heavily, with a 37.2% year-on-year rise in food alone, prompting the government to in January call for citizens to eat chicken feet instead of meat.¹⁴ This suggestion caused an outpouring of public anger on social media as the cost of poultry and eggs have soared in recent months after a halt on import financing caused huge backlogs of goods at ports. This meant animal feed producers have been unable to import soybeans which have forced prices up for poultry farmers, many of whom have either closed down or scaled back their operations.¹⁵ (See Arc Briefing Jan 2023)

A company CEO suggested to ARC Briefing that spiralling food costs are one the greatest threats to the current government, as many people cannot afford food, which could spark social unrest. He noted public remarks made by Sisi recently where he said the economic crisis would soon be history:

“Such a suggestion suggests a deep disconnect between the president and what’s happening in the street. The fate of this government rests on its ability to respond to the cost-of-living crisis.”¹⁶

Egypt and Turkey increase cooperation as decade-long feud thaws

Egypt and **Turkey** have taken further steps to mend an almost decade-long feud with Turkey’s foreign minister **Mevlut Cavusoglu** visiting Cairo on 18 March to hold talks with his Egyptian counterpart **Samer Shoukry**. The meeting is a further sign of improving relations after Shoukry visited the Turkish city of **Mersin** on 27 February, following the devastating earthquakes that killed more than 50,000 people in Turkey and Syria.¹⁷

Egypt and Turkey relations were fractured in 2013 after Sisi, the then defence minister, ousted **Muslim Brotherhood**-affiliated President **Mohamed Morsi** (2012-2013) in a military coup. Shortly after the coup, Sisi banned the Muslim Brotherhood and had it designated as a terrorist organisation.¹⁸ Morsi, Egypt’s first elected leader, with his conservative Islamist ideological leanings, was an ally of Turkey’s ruling party **Adalet ve Kalkinma Partisi (AKP)**. AKP condemned the coup and maintained for years that he was the legitimate president.

Mustafa Bakri, an influential Egyptian parliamentarian, told Saudi cable channel **Al Arabiya** that resuming diplomatic relations with Turkey is important for strategic reasons, including “*using Turkey’s good relations with Ethiopia to ease tensions over the Renaissance Dam*”. The **Grand Ethiopian Renaissance Dam (GERD)** is an ongoing issue for Egypt given the threat it poses to Egypt’s access to water from the **Nile River**.¹⁹ Watchers have said that the turning point in Sisi and Erdogan came when the two leaders met at the **World Cup** hosted in **Qatar** in November 2022 and engaged in a well-documented handshake. The rapprochement represents a combination of mutual interest with Erdogan keen to prove himself as a nimble statesman who is both able to engage with the West, as a member of **NATO** and engage with states that are openly hostile to the West.²⁰

Cavusoglu told journalists in a press briefing on 21 March that Turkey had actively lobbied to get Russia to renew a **Black Sea** grain deal that allows Ukraine to export grain to various Middle Eastern countries, including Egypt.²¹ The Black Sea grain deal is important to Egypt given that the war in Ukraine has caused huge food supply issues for the country, which is the world’s largest importer of

¹³ World Bank, “Altered Destinies: The Long-Term Effects of Rising Prices and Food Insecurity in the Middle East and North Africa”, 6 Apr 2023

¹⁴ Daily News Egypt, 17 Jan 2023.

¹⁵ The National, 11 Jan 2023.

¹⁶ Source, Company CEO, Cairo.

¹⁷ Atlantic Council, 11 Apr 2023.

¹⁸ Atlantic Council, 11 Apr 2023.

¹⁹ VOA, 18 Mar 2023.

²⁰ VOA, 18 Mar 2023.

²¹ Press statement, 20 Mar 2023.

wheat, with millions of poor citizens dependent on government-subsidised bread.²² There is also another key economic incentive for rapprochement with Turkey - Egypt noted in February that Turkish companies had committed to \$500m in new investment in Egypt.²³

Ongoing tensions between the two nations over natural gas resources in the **Eastern Mediterranean** also have made relations at times hostile. The renewal of a partnership between the two also has wider regional implications as it could mean avoiding potential conflict over gas rights, which represent a major source of future economic growth to numerous neighbouring countries across the Eastern Mediterranean.²⁴ So far, Turkey has been excluded from the **Eastern Mediterranean Gas Forum**, which Egypt established in 2020 to boost gas trade between **Israel, Greece, Cyprus and Jordan**.

Planner

3 May 2023 **Cairo (Egypt)** *Enterprise*. National dialogue begins;

Jun 2023 **Cairo (Egypt)** *Al Mal*. **Indian** representatives to discuss prospective investments in the **Suez Canal**;

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

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

2023 **Cairo (Egypt)** *Press statement*. President **Abdel Fattah El Sisi** and **Turkish** President **Recep Erdogan** expected to hold a summit.

Chronology

15 Apr 2023 **Cairo (Egypt)** *Reuters*. State grain buyers start offering yellow corn on the country's newly-launched commodities exchange;

15 Apr 2023 **Cairo (Egypt)** *Bloomberg*. The **International Monetary Fund (IMF)** is waiting to see Egypt enact more of the wide-ranging reforms it pledged before carrying out the first review of its extended credit facility arrangement;

12 Apr 2023 **Cairo (Egypt)** *Reuters*. **United Arab Emirates** president Sheikh **Mohammed bin Zayed** arrives in Cairo for an unexpected visit;

10 April 2023 **Cairo (Egypt)** *CAPMAS*. Annual urban consumer inflation rate in March increases to 32.7% year-on-year from 31.9% in February;

5 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. **The Sovereign Fund of Egypt** CEO **Ayman Suleiman** announces it has received investors' offers to buy shares in **Wataniya** and **Safi** companies, affiliated with the **National Service Projects Organisation of the Armed Forces**, and that an initial public offering (IPO) is set to be completed within a few weeks, after which shares will be offered on the stock exchange;

3 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. Supreme council of antiquities secretary-general **Mostafa Waziri** welcomes **China's** culture and tourism minister, **Hu Heping**, and his accompanying delegation, taking them on an introductory tour of **Luxor Governorate**;

31 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Egypt and the **European Union** sign a grant agreement of \$40m to support food security efforts;

²² VOA, 18 Mar 2023.

²³ Reuters, 18 Mar 2023.

²⁴ Atlantic Council, 11 Apr 2023.

30 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. **Ethiopian** foreign ministry rejects Egypt's attempts to internationalise the **Grand Ethiopian Renaissance Dam** crisis;

29 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Public business sector ministry spokesperson **Mansour Abdel-Ghani** announces that textile factories for the state project to develop the spinning and weaving sector will be opened in July;

28 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. President **Abdel Fattah al-Sisi** directs his cabinet ministers to closely and regularly follow up on construction works and projects being implemented in the **New Administrative Capital**;

27 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. **Turkey**-based **Istanbul Airport (IGA)** reports that **EgyptAir** ranked fifth among airlines with the largest share in operating flights coming from or heading to Istanbul in 2022;

19 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. The **United States** dollar exchange rate is stable at Egypt's major banks, including the **National Bank of Egypt (NBE)** and **Banque Misr**, where it registered EGP 30.75 for buying and EGP 30.85 for selling;

16 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Presidential decree amends a partnership agreement between Egypt and the **Agence Française de Développement (AFD)** (French development agency) to implement a technical cooperation project to support teaching French as a foreign language in public schools;

24 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. **British** multinational bank **HSBC** expects the **Central Bank of Egypt** to raise the interest rate by 3% at its **Monetary Policy Committee** meeting;

22 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Government is trying to counter the high demand for **United States** dollars via new sources of foreign currency, including establishing a company for Egyptian expatriates to invest their savings in various economic activities in the local market;

21 Mar 2023 **Cairo (Egypt)** *Reuters*. Egypt suspends the sale of a stake in state-controlled **Telecom Egypt** because of market conditions;

21 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Head of food, grocery and spices division at the **Alexandria** chamber of commerce, **Hazem al-Menoufy**, says the prices of rice and other strategic commodities have risen following the increase in production costs;

14 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Chamber of commerce gold and jewellery division head **Hani Milad** says the collapse of **United States**-based **Silicon Valley Bank** will impact gold prices in Egypt;

13 Mar 2023 **Cairo (Egypt)** *Egypt Independent*. Egypt's official **Gazette** publishes the decision of tourism and antiquities minister **Ahmed Issa** to suspend accepting requests for the establishment of new tourism companies for a year due to the excessive current number of tourism companies.

About Africa Risk Consulting:

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