

AFRICA RISK CONSULTING

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Egypt Summary 16 May 2023

The International Monetary Fund (IMF) delays Egypt's first review of the Extended Fund Facility (EFF) as Fitch downgrades Egypt's sovereign credit rating on 5 May from B+ to B- for the first time in a decade. The downgrade comes amid ongoing pressure on the Egyptian pound, a shortage of foreign currency and the perception that the country has failed to impose sufficient reforms. Authorities launch a national political dialogue on 3 May that is meant to facilitate discussions around the country's future. The dialogue, which was announced in April 2022, takes place in an atmosphere of intimidation and ongoing arrests. More than 56,000 people flee to Egypt from Sudan after an outbreak of violence on 15 April between the Sudanese Armed Forces and the paramilitary group, Rapid Support Forces (RSF). The influx of people places pressure on Egypt's already fragile economy.

IMF stalls Egypt review as economic spiral continues

The **International Monetary Fund (IMF)** published its latest economic outlook on the **Middle East** and **Central Asia** on 3 May, indicating that it expects **Egypt's** total public debt to make up 92.9% of the country's gross domestic product in 2023.¹ This would mark a 4.4% increase from the previous year's 88.5%.² Following the report's publication, the **United States**-headquartered credit rating agency **Fitch Ratings** downgraded Egypt's sovereign credit rating on 5 May from B+ to B- for the first time in a decade amid ongoing pressure on the Egyptian pound, a shortage of foreign currency and the perception that the country has failed to impose sufficient reforms.³ Finance Minister, **Mohamed Maait**, accused credit agencies of bias against Egypt during a television interview on 6 May.⁴

Egypt's agreement with the IMF has also run into problems. The first review of the **Extended Fund Facility (EFF)** loan programme was supposed to be conducted on 15 March but has been repeatedly delayed amid speculation that the IMF is asking the country for further compliance with the conditions of the agreement before it commits to releasing the second tranche of the loan worth \$347m. Chief among the conditions of the loan was a commitment to a flexible exchange rate and steps to prioritise the inclusion of the private sector in the economy. The exchange remains in question given that it has hovered at EGP 30.9 to the **United States (US)** dollar since January, however, Egypt did finalise a deal to sell a 9.5 % stake in state-controlled **Telecom Egypt** for EGP 3.75 billion (\$121.6m) on 14 May, making some progress.⁵

Another condition that the state put a pause on a series of mega projects that have cost the country billions of dollars since 2014 is in doubt. **Kristalina Georgieva**, managing director of the IMF, addressed the delay in the first review on 14 April saying that "*under the present circumstances these projects, which are otherwise very important and very good for Egypt, could undermine macroeconomic stability.*"⁶ Meanwhile, in March, the government announced that the country would receive the first

¹ IMF Report, May 2023.

² IMF Report, May 2023.

³ Bloomberg, 5 May 2023.

⁴ Amr Adeeb, Al Hekaya, 6 May 2023.

⁵ Reuters, 14 May 2023.

⁶ Al Ahram, 14 May 2023.

chunk of financing from the **Islamic Development Bank** totalling EUR 318m (\$346m) to fund the first phase of a multi-billion-dollar monorail project.⁷

The finance minister was forced to respond to claims from members of parliament on what they perceived as an *"alarming increase in debt service costs and a widening of the budget deficit"* on 12 May.⁸ He responded by blaming interest rates and spiralling commodity costs, but the government's ongoing lack of reform and inability to stop spending continues to be a source of worry to businesses. Sources have reiterated that the lack of foreign currency continues to cause headaches for businesses dependent on imports and the ongoing gap between the actual and perceived value of the pound makes investors reluctant to put money into the country. One source told **Africa Risk Consulting Briefing (ARC Briefing)**:

*"The government has failed to create confidence- both in local and international investors- in its ability to manage the economy. Deep sustained change requires admitting there is a problem in the first place."*⁹

National dialogue begins amid arrests

Authorities launched a national political dialogue process on 3 May, aimed at facilitating discussions around Egypt's future, which took place in an atmosphere of intimidation and ongoing arrests.¹⁰ The dialogue was announced in April 2022 amid criticisms about the lack of dissent in the country since the current president **Abdel Fattah El Sisi** (2014-present) came to power in a coup in 2013. Critics have accused the event of seeking to appease Western allies while having little chance of achieving anything given it has no voting mechanism and that proposals will be presented to the president for consideration.

Diaa Rashwan, who was appointed by Sisi to oversee the sessions, said the meetings would be open to the press but discussions relating to the constitution, foreign policy and *"strategic national security"* would be off limits.¹¹ In a recorded message played at the meeting, Sisi said *"I urge you to do the effort to make the national dialogue experience a success. He went on to add that "differences in opinion do not damage the cause of a nation".*¹²

Since 2014, critics say the country has witnessed the most violent crackdown on dissent in modern history, with tens of thousands of Islamists, journalists, lawyers and students being jailed or detained. **Ahmed Tantawy** a former parliamentarian who was previously head of the leftist **Al Karma party** and now lives in **Lebanon**, announced in March his intention to run in the next presidential election and to attend the national dialogue. In April more than 12 of his relatives were arrested in what has been called an attempt to prevent him from running.¹³ **Gameela Ismail**, the former wife of **Ayman Noor**, Egypt's opposition leader during **Hosni Mubarak's** (1981-2011) rule, interrupted a session of the dialogue demanding a chance to speak. Several days later security forces seized one of her homes, accusing her of criminal activity.

Two sources who attended the dialogue told ARC Briefing that they were explicitly threatened with arrest if they did not appear at the meetings. They added that given the economic situation in Egypt, the government is eager to show its benevolence to opposition voices to facilitate the procurement of more Western funds to fund the budget.

⁷ Zawya, 2 Apr 2023.

⁸ Al Ahram, 12 May 2023.

⁹ Source, Investor, Cairo.

¹⁰ Reuters, 3 May 2023.

¹¹ Reuters, 3 May 2023.

¹² Reuters, 3 May 2023.

¹³ Human Rights Watch, 5 May 2023.

Refugees pour into Egypt amid Sudan fighting

More than 56,000 people have fled to Egypt from **Sudan** since mid-April when fighting broke out between the **Sudanese Armed Forces** and the paramilitary group, **Rapid Support Forces (RSF)**.¹⁴ Egypt, which is already home to an estimated 5 million **Sudanese** refugees who have fled from previous outbreaks of violence, has been left in the difficult position of supporting these refugees while in the midst of an economic crisis.

The fighting has been marked as another potential event that could lead to higher inflation, which is already causing a major cost of living crisis for millions of Egyptians living below the poverty line. The **US Department of Agriculture** said on 12 May that it expects food inflation to worsen in Egypt as a result of the conflict causing supply deficits.¹⁵ Egypt imports beef from Sudan, which has already doubled in cost over the past year.¹⁶ Sudan is also one of Egypt's key export markets, and in the first quarter of 2023, Sudan was the second-largest buyer of Egyptian goods in Africa.¹⁷

However, several sources told ARC Briefing that El Sisi views hosting refugees as a way to secure further financial aid from Western allies. They added that Egypt also sees the conflict as a way to influence the ongoing issue of the **Grand Renaissance Dam** dispute with **Ethiopia**:

*"There is a perception that if we support the Army, this might help sway their side on the dam."*¹⁸

But there is also fear that instability in Sudan will derail negotiations over the dam which Egypt views as an existential threat to its water supply. On the security side, there are also worries that the armed force's decision to release Islamist members of the former government could present a security threat to Egypt whose military is already overstretched policing the border with **Libya**.

Planner

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;

2023 **Cairo (Egypt)** **Egyptian Stock Exchange** to launch its new futures exchange.

¹⁴ UNHCR, 5 May 2023.

¹⁵ Dow Jones, 12 May 2023.

¹⁶ Dow Jones, 12 May 2023.

¹⁷ US Department of Agriculture, May 2023.

¹⁸ Source, Diplomat, Cairo.

Chronology

16 May 2023 **Cairo (Egypt)** *CNBC Arabia*. **National Investment Bank** subsidiary **NI Capital** is preparing to sell stakes in seven state-owned companies as part of the government's privatisation programme, two of which are expected to be complete by the end of the fiscal year in June;

16 May 2023 **Cairo (Egypt)** *Asharq Business*. **Saudi Arabia's ACWA Power** and the **United Arab Emirates-based Alcazar Energy** and **Infinity** are among seven companies interested in acquiring Egypt's two largest wind farms;

15 May 2023 **Washington D.C (United States)** *Enterprise*. Draft legislation introduced by **United States** lawmakers aims to prevent countries from normalising ties with the **Syrian** government, threatening sanctions, which would make it harder for Egypt to export natural gas to **Lebanon** under a plan agreed in 2021;

14 May 2023 **Cairo (Egypt)** *Egypt Independent*. **Islamic Jihad Movement** political department head **Mohammed al-Hindi** affirms the movement's commitment to the cease-fire brokered by Egypt with **Israel**;

14 May 2023 **Cairo (Egypt)** *Egypt Independent*. **Egyptair Holdings** CEO and chair **Yehia Zakaria** attends executive meetings of the **African Airlines Association (AFRAA)** held in conjunction with the **Aviation Stakeholders Convention** to discuss developments in the air transport industry;

14 May 2023 **Cairo (Egypt)** *Al Jazeera*. Finance ministry announces the selling of a 9.5% stake in state-controlled **Telecom Egypt** for EGP 3.75 billion (\$122.4m);

11 May 2023 **Cairo (Egypt)** *Reuters*. Analysts warn that **Tunisia** and Egypt are edging closer to major debt crises that could suck in a volatile **North Africa** region and pose tough choices to wealthy **Gulf** neighbours;

11 May 2023 **Cairo (Egypt)** *AP*. Egypt starts mediating an end to **Israel-Gaza** rocket strikes;

10 May 2023 **Cairo (Egypt)** *CAPMAS*. Annual urban consumer inflation in April slowed to 30.6% from 32.7% in March;

7 May 2023 **Cairo (Egypt)** *Al Masry Al Youm*. State minister for military production **Mohamed Salah Eldin Mostafa** stresses the importance of committing to the timeframe for implementing projects to which the ministry is contributing as well as luring new investments;

4 May 2023 **Cairo (Egypt)** *Egypt Independent*. **Saudi Arabian** foreign ministry launches a new e-visa service for Egyptians, replacing the need for a visa sticker on the holder's passport;

3 May 2023 **Cairo (Egypt)** *Egypt Independent*. Planning and economic development minister **Hala al-Said** meets with **Organization for Economic Co-operation and Development (OECD)** secretary-general **Mathias Cormann** at **OECD** headquarters in **Paris (France)**;

2 May 2023 **Cairo (Egypt)** *Egypt Independent*. Petroleum and mineral resources minister **Tarek al-Molla** says the exportation of liquefied natural gas (LNG) on a spot basis is helping Egypt further capitalise on global gas price hikes;

1 May 2023 **Cairo (Egypt)** *Egypt Independent*. **Federation of Egyptian Chambers of Commerce** general division for gold and jewellery head **Hani Milad** announces an initiative to lower making charges for gold jewellery in cooperation with workshops and retail stores;

30 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. Supply and internal trade minister **Ali al-Moselhi** says the strategic reserve of basic commodities is "safe and sufficient" for several months, with wheat reserves to last around 2.6 months until July;

27 Apr 2023 **Khartoum (Sudan)** *Egypt Independent*. Foreign ministry announces that the **Egyptian** diplomatic mission has been relocated Khartoum due to escalating threats and security risks as a result of the armed conflict between the **Sudanese Armed Forces** and the **Rapid Support Forces**;

26 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. The **Chinese** Embassy in Egypt confirms that Chinese citizens have been evacuated through the Sudanese-Egyptian border following the deteriorating security situation in Sudan.

25 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. The Egyptian pound maintains stability against the **United States** dollar, at EGP30.75 for purchase and EGP30.85 for sale;

24 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. Presidency spokesperson **Ahmed Fahmy** reports that President **Abdel Fattah El Sisi** and **United Kingdom** prime minister **Rishi Sunak** discussed by phone coordinating efforts regarding the Sudan crisis;

23 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. Foreign affairs ministry says it is following up around the clock with all concerned state agencies, **Sudanese** authorities, the Egyptian embassy in **Khartoum** and the Egyptian consulates in **Port Sudan** and **Wadi Halfa** on the state of the Egyptian community in Sudan;

20 Apr 2023 **Cairo (Egypt)** *Al Ahram*. President **Abdel Fattah El Sisi** meets with the economic ministerial group, directing the government to intensify efforts to contain the effects of the global economic crunch on Egypt's economy;

19 Apr 2023 **Cairo (Egypt)** *BBC*. **Sudan's Rapid Support Forces** announce the transfer of Egyptian soldiers detained in Sudan from **Meroe Airport** to Sudan's capital, **Khartoum**;

17 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. President **Abdel Fattah El-Sisi** holds talks with **South Sudan's** president **Salva Kiir** to discuss developments in the recent situation in **Sudan**, with Egypt calling for a cease-fire.

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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