

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing January 2024

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#### Egypt Summary 22 January 2024

*The National Elections Authority (NEA) announces on 18 December that incumbent president Abdel-Fattah El-Sisi (2014-present) won 89.6% of the vote in the 10-12 December presidential election. United States (US) ratings agency Moody's Investors on 18 January affirms Egypt's credit rating of Caa1 or seven notches into junk status but revises its outlook from stable to negative. The Central Bank of Egypt (CBE) on 21 December decides to hold interest rates at 19.25% after inflation keeps cooling from a record 38%. China's foreign minister, Wang Yi, arrives in Cairo on 13 January for an official visit that centres on the conflict in Gaza and escalating tensions in the Red Sea.*

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#### Sisi cruises to third term with 89.6% of vote...

The **National Elections Authority (NEA)** announced on 18 December that incumbent president **Abdel-Fattah El-Sisi** (2014-present) had won 89.6% of the vote in the 10-12 December presidential election, extending his presidency until 2030.<sup>1</sup> The NEA added that a record 66.8% of Egypt's 67.3 million registered voters took part in the election.<sup>2</sup> El-Sisi's win comes as no surprise as he faced no serious challengers and public dissent was scant given how authorities orchestrated the electoral process to ensure a smooth victory for the president.<sup>3</sup> The only uncertain outcome observers were watching for was the margin of the victory in the December polls.<sup>4</sup> Egyptian authorities prioritised encouraging citizens to flock to polling stations in a bid to allay any signs of apathy in the country where inflation is at a high 35% and markets are expecting some potentially painful economic reforms in the next few weeks or months.<sup>5</sup>

In a televised address shortly after NEA announced his victory, El-Sisi admitted that he was "*aware of the challenges*" Egypt faced and would not undertake any measures that were not in the interests of its more than 105 million population.<sup>6</sup> Skyrocketing prices and a foreign exchange crisis were expected to be the main focus of El-Sisi's re-election campaign, however, the breakout of the **Israel-Hamas** conflict on Egypt's border on 7 October altered plans, strengthening his profile as a global statesman and potentially securing the country a fresh injection of foreign capital.<sup>7</sup> While it was highly unlikely that El-Sisi would not win, these circumstances helped him shore up some additional support.

El-Sisi assumed power in 2014 a year after he was part of a military-backed uprising that ousted the president **Mohammed Morsi** (2012-2013), which was pre-dated by the 2011 ousting of former president **Hosni Mubarak** (1981-2011) in the **Arab Spring** uprisings.<sup>8</sup> In both the 2014 and 2018 elections, El-Sisi also faced token challengers and soared to victory, attaining 97% of the votes in both polls.<sup>9</sup> Following a 2019 referendum, presidential terms in Egypt were extended from four to six years.

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<sup>1</sup> National Elections Authority, 18 Dec 2023; Reuters, 20 Dec 2023

<sup>2</sup> National Elections Authority, 18 Dec 2023

<sup>3</sup> Reuters, 20 Dec 2023

<sup>4</sup> Bloomberg, 18 Dec 2023; The Africa Exchange, 19 Dec 2023

<sup>5</sup> Bloomberg, 18 Dec 2023; The Africa Exchange, 19 Dec 2023

<sup>6</sup> The Africa Exchange, 19 Dec 2023

<sup>7</sup> Bloomberg, 18 Dec 2023

<sup>8</sup> The Africa Exchange, 19 Dec 2023

<sup>9</sup> The Africa Exchange, 19 Dec 2023

While El-Sisi has often portrayed himself as bringing stability after the instability of 2011 and 2013, under his tenure, Egypt's foreign currency debts have soared to around \$164 billion, one of the highest levels among emerging countries, while investors' fears about a default have subsided in recent weeks, the country's bonds are still trading near distressed territory.<sup>10</sup> Following his re-election, El-Sisi's focus will be directed to dealing with near-record inflation, an overvalued currency and massive debt, both domestic and foreign.<sup>11</sup> The threat of social unrest due to widespread hardships could test El-Sisi, as it did to his last two predecessors and subsequently topped their regimes.

### Moody's downgrades Egypt's outlook to negative

**United States (US)**-headquartered credit rating agency **Moody's Investors Service** on 18 January affirmed Egypt's credit rating of Caa1 or seven notches into junk status and revised its outlook from stable to negative, highlighting the country's worsening economic situation.<sup>12</sup> Even though Egypt is holding talks with the **International Monetary Fund (IMF)** to increase its \$3 billion rescue package, of which little has actually been disbursed, Moody's has warned that it might not be enough.<sup>13</sup> Moody's added that despite the government running a fiscal surplus when debt payments are excluded, overall risks have increased, including weak debt metrics and increased exposure to foreign exchange and interest rate risks.<sup>14</sup>

The ratings agency also estimated that interest payments will absorb two-thirds of Egypt's revenue at the end of this financial year, which concludes in June.<sup>15</sup> Egypt is currently facing its worst economic crisis in decades at a time when the Israel-Hamas war is adding significant economic pressure. Revenues from the **Suez Canal**, a key source of foreign currency for Egypt, are declining as many shipping companies, such as **China's Costco**, are avoiding the sea route. This is due to the increase in attacks by **Iran-backed Houthi** rebels on ships in the **Red Sea** in response to the ongoing conflict in **Gaza**.<sup>16</sup> **Suez Canal Authority** head **Osama Rabie** reported on 18 January that traffic volumes in the canal dropped by 30% between 1 and 11 January compared with a year prior.<sup>17</sup> Due to security concerns, many shipping companies are instead re-routing their cargo around the **Cape of Good Hope in South Africa**, which is safer but also takes longer and is more expensive.

The government has decided to push ahead with an increase in its transit fees through the Suez Canal due to a dire need for foreign currency.<sup>18</sup> Rather than delay the implementation of the long-planned hike, Egyptian authorities are betting that additional income from ships still transitioning through the route will help the cash-strapped economy. Moody's negative outlook for Egypt underscores the dire shortage of hard currency in the country, despite foreign investors reducing bets on a near-term devaluation. It also emphasises the massive challenges facing El-Sisi as he begins his third term.

### Egypt holds interest rates at 19.25% as inflation slows...

The **Central Bank of Egypt (CBE)** on 21 December decided to hold interest rates after inflation kept cooling from a record 38% while the government expects an expanded IMF loan and speculation mounts over the timing of a much-expected currency devaluation.<sup>19</sup> CBE's **Monetary Policy Committee (MPC)** opted to keep interest rates at 19.25% and the lending rate at 20.25%.<sup>20</sup> The

<sup>10</sup> The Africa Exchange, 19 Dec 2023; Bloomberg, 18 Dec 2023

<sup>11</sup> Reuters, 20 Dec 2023

<sup>12</sup> Moody's Investors Service, 18 Jan 2024

<sup>13</sup> Moody's Investors Service, 18 Jan 2024

<sup>14</sup> Moody's Investors Service, 18 Jan 2024; Bloomberg, 19 Jan 2024

<sup>15</sup> Moody's Investors Service, 18 Jan 2024; Bloomberg, 19 Jan 2024

<sup>16</sup> China Global South Project, 15 Jan 2024

<sup>17</sup> Bloomberg, 19 Jan 2024

<sup>18</sup> Bloomberg, 19 Jan 2024

<sup>19</sup> Central Bank of Egypt, 21 Dec 2023

<sup>20</sup> Central Bank of Egypt, 21 Dec 2023

decision to hold the key rate maintains the benchmark at its highest level since records were published in 2006. In its statement, the MPC said that it:

*“Will not hesitate to utilise all its available tools to ensure that the policy stance is set at sufficiently restrictive levels to preserve the decelerating trend of underlying inflation”.*<sup>21</sup>

CBE authorities publishes data on 10 January indicating that inflation slowed for a third month in a row and appears set to decelerate even further unless the CBE moves to devalue the pound again in the next few weeks.<sup>22</sup> Consumer prices in urban regions of the country increased by an annual 33.7% in December, down from 34.6% in November and the slowest since May.<sup>23</sup> Increases in prices of food and beverages, the largest single component of Egypt’s inflation basket, dropped to 60.5%.<sup>24</sup> The drop in inflation from last year’s 38% has gone uninterrupted, suggesting that inflation pressures have been relatively contained a month after El-Sisi won a third term. However, Egypt is facing its worst economic crisis in decades and its first monetary tightening since August is widely expected sooner rather than later. With the election passed, a fourth currency devaluation can also be expected in the next few weeks, and it will most likely be followed by another sharp rate increase, a decision that will undoubtedly add more economic pressure on households in the Arab world’s most populous country.

### Chinese and US foreign ministers visit Egypt...

China’s foreign minister, **Wang Yi**, arrived in **Cairo** on 13 January, the first stop in a week-long tour four-country African tour that also included stops in **Tunisia**, **Côte d’Ivoire** and **Togo**.<sup>25</sup> During his visit, Wang held talks with El-Sisi and his counterpart, **Sameh Shoukry**, where the conflict in Gaza and the escalating tensions in the Red Sea were a key focus of their discussions.<sup>26</sup> Wang’s visit takes place in the context of China’s 34-year tradition of foreign ministers undertaking their first official foreign visits of the year to select African countries in January. What was unusual about Wang’s trip to Egypt is that his predecessor, **Qin Gang**, also visited Cairo during his African tour in January 2023.<sup>27</sup> While it is very rare for Chinese foreign ministers to visit a country on consecutive African tours, there are multiple reasons to explain Egypt’s inclusion this year again. **China Global South Project** managing director **Cobus van Staden**, noted on 16 January:

*“The choice to include Egypt again was likely informed by its new status as a BRICS country, its adjacency to the Israel crisis, and its strategic position on key Red Sea shipping lanes.”*<sup>28</sup>

Egypt officially joined the BRICS group of countries on 1 January, along with **Ethiopia**, **Iran**, and the **United Arab Emirates (UAE)**. **Argentina** declined its invitation and **Saudi Arabia** has not yet formally accepted its offer. BRICS, founded in 2009, accounts for 25% of global gross domestic product (GDP) and is home to 40% of the world’s population. The bloc is increasingly seen by many developing countries as a rival to the **G7** and other **Western**-led blocs, as well as an ideological and economic counterweight to the US and its allies.<sup>29</sup> Therefore, Egypt’s admission into BRICS was a key focus of Wang’s visit to Cairo. At a press conference with Shoukry on 14 January, Wang also said both Egypt and China are monitoring attacks by the Houthi rebels on shipping cargo vessels sailing through the Red Sea.<sup>30</sup> Wang directed veiled criticism to the **United Kingdom (UK)** and the US for their counterattacks against the Houthi militants when he said that their actions were not authorised by the **United Nations (UN)** as required by international law.<sup>31</sup> Wang would not have been able to score these diplomatic points by pushing back on the UK and US for their military actions in Yemen without

<sup>21</sup> Central Bank of Egypt, 21 Dec 2023

<sup>22</sup> Central Bank of Egypt, 10 Jan 2024

<sup>23</sup> Central Bank of Egypt, 10 Jan 2024

<sup>24</sup> Central Bank of Egypt, 10 Jan 2024

<sup>25</sup> China Global South Project, 15 Jan 2024; Arab News, 14 Jan 2023

<sup>26</sup> China Global South Project, 15 Jan 2024; Arab News, 14 Jan 2023

<sup>27</sup> China Global South Project, 15 Jan 2024

<sup>28</sup> China Global South Project, 15 Jan 2024

<sup>29</sup> Morocco World News, 1 Aug 2022

<sup>30</sup> English Almayadeen, 14 Jan 2024

<sup>31</sup> Reuters, 14 Jan 2024; China Global South Project, 15 Jan 2024

the support of El-Sisi.<sup>32</sup> During the conference, Wang also repeated China's call for an immediate ceasefire in Gaza and the establishment of an independent Palestinian state based on the 1967 borders with **East Jerusalem** as its capital.<sup>33</sup>

Under El-Sisi, Egypt has become a safe place and platform for Chinese officials to speak on contentious **Middle East** issues like the war in Gaza, which Beijing hopes will broaden its appeal among **Arab** and **Muslim** countries.<sup>34</sup> For El-Sisi, the visit by Wang and West leaders, such as US secretary of state **Antony Blinken** on 11 January, emphasises his status as the 'go-to' man for global leaders trying to stop the Israel-Hamas war from escalating.

## Planner

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

## Chronology

21 Jan 2024 **Cairo (Egypt)** *Al Jazeera*. President **Abdel Fattah El-Sisi** says Egypt supports **Somalia** in its current dispute with **Ethiopia** over the **Red Sea** access deal between **Somaliland** and Ethiopia, stating that "Egypt will not allow anyone to threaten Somalia or affect its security";

21 Jan 2024 **Cairo (Egypt)** *Ahram Online*. Foreign minister **Sameh Shoukry**, during the **European Union-Egypt Association Council**, says the EU and international community need to intervene and apply pressure for a ceasefire in **Gaza**;

17 Jan 2024 **Cairo (Egypt)** *Bloomberg*. **Kuwait**-headquartered **Alshaya Group** says it will cut down its operations in Egypt citing difficulties faced by overseas businesses in the country which is facing a foreign currency crisis;

16 Jan 2024 **Cairo (Egypt)** *Techpoint Africa*. A number of Egyptian banks have imposed new limits on international credit card transactions as the country wrestles with its worst foreign currency crunch in decades;

15 Jan 2024 **Cairo (Egypt)** *Zawya*. Finance minister **Mohamed Maait** states that President **Abdel Fattah El-Sisi** has mandated the government to prepare a new social protection package focused on improving wages and pensions and raising the tax exemption limit;

14 Jan 2024 **Cairo (Egypt)** *Euractiv*. **European Union (EU)** will reportedly provide Egypt with \$95.27m and new equipment for a migration management project started in 2022;

14 Jan 2024 **Rafah (Egypt)** *Bloomberg*. Some **Gazans** are raising money online to pay bribes to Egyptian officials at the **Rafah** border to get family members out to safety;

11 Jan 2024 **New York (United States)** *African Markets*. The **United States (US)** multinational financial services firm, **JPMorgan Chase**, citing problems for investors when it comes to converting pounds to foreign exchange, will soon exclude Egypt from local-currency bond indexes tracked by billions of dollar's worth of funds;

10 Jan 2024 **Cairo (Egypt)** *Egypt Independent*. Prime minister **Mostafa Madbouly** meets with officials from global shipping group **Maersk** to discuss cooperation and recent security and safety of the **Red Sea**;

<sup>32</sup> China Global South Project, 15 Jan 2024

<sup>33</sup> English Almayadeen, 14 Jan 2024; China Global South Project, 15 Jan 2024

<sup>34</sup> China Global South Project, 15 Jan 2024

8 Jan 2024 **Rafah (Egypt)** *National Post*. The **United States (US)** secretary of state **Antony Blinken** warns the **Israel-Hamas** war could “*easily*” turn into a full-blown **Middle East** conflict, as he travels across the region to calm tensions and urge **Israel** to do more to protect civilians in **Gaza**;

5 Jan 2024 **Washington (United States)** *United States State Department*. The **United States (US)** secretary of state **Antony Blinken** arrives in **Turkey** for his fourth trip to the **Middle East** since October, which will include a stop in **Cairo (Egypt)**;

3 Jan 2024 **Cairo (Egypt)** *Bloomberg*. Egyptian officials raise prices for a range of key services, heaping new pressure on consumers as the government looks to raise revenue and potentially boost the size of its rescue package from the **International Monetary Fund (IMF)**;

1 Jan 2024 **Cairo (Egypt)** *Daily News Egypt*. Egypt, **Iran**, the **United Arab Emirates** and **Ethiopia** officially accept invitations to join the **BRICS** group;

30 Dec 2024 **Cairo (Egypt)** *Bloomberg*. Analysts say that **Israeli** officials’ suggestions encouraging **Gaza**’s population to emigrate, remarks that could worsen tensions with Egypt and other friendly **Arab** states;

28 Dec 2024 **Cairo (Egypt)** *Aljazeera*. As **Israel** broadens its offensive, fleeing **Palestinians** have packed into areas along the Egyptian border and the southern **Mediterranean** coastline, where shelters and tent camps are overflowing;

14 Dec 2023 **Cairo (Egypt)** *Anadolu Agency*. Egypt announces it will increase the volume of fuel sent daily to **Gaza** from 129,000 litres to 189,000 litres as part of a broader agreement with **Israel**;

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