

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing February 2024

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#### Egypt Summary 26 February 2024

**The United Arab Emirates (UAE) on 23 February signs a major deal with Egypt to invest \$35 billion in the development of Ras El-Hekma. Central Agency for Public Mobilization and Statistics (CAPMAS) announces on 8 February that inflation in Egypt slowed for a fourth consecutive month, decreasing to 29.8% in January from 33.7% in December. Central Bank of Egypt (CBE) Monetary Policy Committee (MPC) increases its key rate by 200 basis points to 21.25% and the lending rate to 22.25% on 1 February. Turkey's President Recep Tayyip Erdogan (2014-present) makes his first visit to Egypt in more than a decade on 14 February.**

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#### Egypt seals \$35 billion investment deal with UAE

The **United Arab Emirates (UAE)** on 23 February signed a major deal with Egypt to invest \$35 billion in the development of **Ras El-Hekma**, a 170 million square meter premium area on Egypt's **Mediterranean** coast, providing a major breakthrough in **Cairo's** efforts to end its worst foreign exchange crisis in decades.<sup>1</sup> The **Abu Dhabi** wealth fund, **ADQ**, said it would purchase the development rights for Ras El-Hekma for \$24 billion and the UAE will also convert its \$11 billion of deposits held in the **Central Bank of Egypt (CBE)** to fund the plans.<sup>2</sup> ADQ also said that it will lead a consortium that will develop the Ras El-Hekma region and expects to attract more than \$150 billion in investments for the projects.<sup>3</sup> Under the deal, Egypt is expected to receive 35% of the profits while the UAE also agreed to a joint venture that intends to build an international airport in the region.<sup>4</sup> The project is expected to include a financial and business district to attract international firms, as well as hospitals, schools, universities and a marina for cruise ships and yachts.<sup>5</sup> Egyptian authorities expect that once complete, the city will attract an additional eight million tourists annually.

Prime minister **Mostafa Madbouly** on 23 February described the project as the biggest in his country's history.<sup>6</sup> Madbouly also said that the deal is "*a message of confidence*" from the UAE and "*will be the beginning of correcting the course of the Egyptian economy*".<sup>7</sup> Madbouly divulged that the UAE is expected to make upfront payments in two tranches - \$15 billion within a week, of which a third of the amount will come from the UAE's deposits and another \$20 billion in two months.<sup>8</sup> The second tranche of \$20 billion will include \$14 billion in fresh financing and \$6 billion from the UAE's remaining deposits.<sup>9</sup>

Madbouly added that the funds from the UAE will help Egypt unify the official exchange rate with its level on the black market and leave the country "*very, very few steps*" from striking a new deal with the **International Monetary Fund (IMF)**.<sup>10</sup> The financing from the UAE could help Egypt move forward

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<sup>1</sup>Middle East Monitor, 23 Feb 2024; Bloomberg, 23 Feb 2024

<sup>2</sup> Bloomberg, 23 Feb 2024; Middle East Monitor, 23 Feb 2024

<sup>3</sup> Middle East Monitor, 23 Feb 2024; Bloomberg, 23 Feb 2024

<sup>4</sup> Middle East Monitor, 23 Feb 2024; Bloomberg, 23 Feb 2024

<sup>5</sup> Bloomberg, 23 Feb 2024

<sup>6</sup> Middle East Monitor, 23 Feb 2024

<sup>7</sup> Middle East Monitor, 23 Feb 2024

<sup>8</sup> Bloomberg, 23 Feb 2024

<sup>9</sup> Bloomberg, 23 Feb 2024

<sup>10</sup> Middle East Monitor, 23 Feb 2024

with its expected currency devaluation, which would be its fourth since early 2022. While the IMF has been recommending the measure for months, Egyptian authorities were likely awaiting an influx of foreign currency that would make it possible for them to manage such an adjustment.<sup>11</sup> Outside of the economic benefits, the deal also represents a deepening of relations between Cairo and the UAE. The oil-rich **Gulf** country is a major backer of President **Abdel-Fattah El-Sisi** (2014-present) and has already provided more than \$7 billion in investments and other assistance to the Egyptian economy over the past two years.<sup>12</sup> ADQ expects work on the Ras El-Hekma project to commence in early 2025.

### Inflation slows but interest rates hiked

**Central Agency for Public Mobilization and Statistics (CAPMAS)** announced on 8 February that inflation in Egypt had slowed for a fourth consecutive month, decreasing to 29.8% in January from 33.7% in December.<sup>13</sup> The cost of food and beverages, the largest component of the inflation basket, increased by 1.4% in January, down from 2.1% in December while food prices in the year to January, increased by 47.5%, down from 60.5% in the year to December.<sup>14</sup> Monthly inflation was recorded as 1.6% in January, compared to 1.4% in December, and core inflation, which excludes fuel and some volatile food items, dropped to 29.% in January from 34.2% in December.<sup>15</sup> While inflation fell below market expectations of 32.5%, this may only be a temporary reprieve as expectations mount for another major devaluation of the Egyptian pound.<sup>16</sup> Inflation pressure is also expected to come from increased consumer demand due to Ramadan, which starts on 10 March, as Egyptians tend to stock up on food supplies and essentials before the period.<sup>17</sup>

Adding to speculation that a devaluation is imminent, the CBE's **Monetary Policy Committee (MPC)** on 1 February increased its key rate by 200 basis points to 21.25% and the lending rate to 22.25%.<sup>18</sup> The move was unexpected given that inflation had slowed down for three months prior to the hike and the MPC would have expected the decline in January. However, the decision to raise the key rate is an indication that the government is creating the conditions for a breakthrough in discussions with the IMF.<sup>19</sup> Egypt is in currently talks with the IMF to increase its current loan from \$3 billion, little of which has been disbursed, to a larger package that could exceed \$10 billion.<sup>20</sup> The deal is dependent on certain conditions, such as authorities devaluing the pound. On 23 February, the pound was valued at EGP 30.9 to the **United States (US)** dollar and closer to EGP 60 on the local black market, highlighting the country's chronic foreign exchange shortage.<sup>21</sup>

Alongside raising the key rate, El-Sisi on 7 February raised the monthly minimum wage by 50% to EGP 6,000 (\$194) from 1 March as part of an "*urgent social protection package*".<sup>22</sup> The move is an attempt by the government to ease the cost of living for Egyptians as the country prepares for another major currency devaluation. Talks between the IMF and Egypt are currently progressing positively as IMF **Julie Kozack** confirmed on 22 February.<sup>23</sup> Kozack added that Egypt needs a "*very comprehensive support package*" to deal with economic challenges, including pressures from the **Israel-Hamas** conflict.<sup>24</sup>

### Türkiye's Erdogan rebuilds relations with Egypt in landmark visit...

<sup>11</sup> Bloomberg, 23 Feb 2024

<sup>12</sup> Bloomberg, 23 Feb 2024

<sup>13</sup> CAPMAS, 8 Feb 2024; Reuters, 8 Feb 2024

<sup>14</sup> CAPMAS, 8 Feb 2024

<sup>15</sup> Reuters, 8 Feb 2024

<sup>16</sup> Reuters, 8 Feb 2024

<sup>17</sup> Bloomberg, 8 Feb 2024

<sup>18</sup> Central Bank of Egypt, 1 Feb 2024

<sup>19</sup> Bloomberg, 8 Feb 2024

<sup>20</sup> Reuters, 8 Feb 2024

<sup>21</sup> Bloomberg, 8 Feb 2024

<sup>22</sup> Egypt Independent, 7 Feb 2024

<sup>23</sup> Reuters, 22 Feb 2024

<sup>24</sup> Reuters, 22 Feb 2024

**Turkey's** President **Recep Tayyip Erdogan** (2014-present) made his first visit to Egypt in more than a decade on 14 February, signalling that the two countries have moved past years of animosity and vowed to work together on economic and security matters.<sup>25</sup> Erdogan met with El-Sisi for talks in Cairo focused on the need for an immediate cease-fire in **Gaza** and the provision of more humanitarian assistance to the war-torn region.<sup>26</sup> They also discussed more cooperation in the energy-abundant eastern Mediterranean and conflict-torn **Libya**.<sup>27</sup> In televised comments made following their meeting, El-Sisi said that Erdogan's visit means "*together we can open a new page between our countries*" and set relations "*on the right track*".<sup>28</sup> He also revealed that Erdogan has invited him to visit Türkiye in April to continue rebuilding relations.<sup>29</sup>

El-Sisi and Erdogan signed a joint declaration on 14 February, pledging to cooperate in various fields including, politics, trade, security and culture.<sup>30</sup> Egypt is Turkey's top trade partner in **Africa** and the two countries are seeking to boost trade volumes to \$15 billion in a few years.<sup>31</sup> Earlier this year, the two countries also signed an agreement for Turkey to provide Egypt with drones.

Egypt and Turkey have been at odds since the 2013 military-led overthrow of El-Sisi's predecessor, **Mohammed Morsi** (2012-2013), an Islamist favoured by Turkey.<sup>32</sup> Erdogan, who has supported Islamist causes including Morsi's **Muslim Brotherhood** organisation, was an outspoken critic of El-Sisi long after Morsi's removal, even cutting formal diplomatic relations with Egypt after the coup.<sup>33</sup> Both countries have also supported rival sides in regional conflicts, such as the battle for **Tripoli** (Libya) that ended with a cease-fire in 2020.<sup>34</sup> Speaking on the historical tensions between the two countries, Turkish foreign minister **Hakan Fidan** said earlier in February that "*these two nations staying upset at another is a historical anomaly*".<sup>35</sup>

It should be highlighted that the decision to resume diplomatic ties was not made in a political vacuum but involved very serious and calculated steps over the past four years of steady rapprochement.<sup>36</sup> There are reports that as early as September 2019 and at Cairo's request, negotiations were ongoing between Egyptian and Turkish intelligence agencies. Despite the decade of tensions, both countries were pushed to make a pragmatic decision to renew relations and present a united front in the face of challenges that impact both their national interests, including promoting stability in Libya, similar external economic pressures and common security challenges, including maritime insecurity in the **Red Sea**.<sup>37</sup> A major improvement in relations between the countries will also help restore some stability in the very volatile Middle East region.

Erdogan's visit to Egypt is also part of Turkey's broader efforts to normalise relations across the Middle East and seek investments from countries such as **Saudi Arabia** and the UAE.<sup>38</sup> In recent years, Turkey has dramatically increased its diplomatic footprint, trade volume and cultural influence across Africa as it seeks to become a major economic player, diplomatic heavyweight and a cultural bridge between continents.

## Planner

<sup>25</sup> Middle East Monitor, 14 Feb 2024

<sup>26</sup> Middle East Monitor, 14 Feb 2024

<sup>27</sup> Anadolu Agency, 14 Feb 2024

<sup>28</sup> Anadolu Agency, 14 Feb 2024

<sup>29</sup> Middle East Monitor, 14 Feb 2024

<sup>30</sup> Aljazeera, 14 Feb 2024

<sup>31</sup> Anadolu Agency, 14 Feb 2024

<sup>32</sup> Middle East Monitor, 14 Feb 2024

<sup>33</sup> Middle East Monitor, 14 Feb 2024

<sup>34</sup> Bloomberg, 14 Feb 2024

<sup>35</sup> Bloomberg, 14 Feb 2024

<sup>36</sup> Middle East Monitor, 14 Feb 2024; Middle East Monitor, 10 Jun 2023

<sup>37</sup> Middle East Monitor, 14 Feb 2024; Middle East Monitor, 10 Jun 2023

<sup>38</sup> Middle East Monitor, 14 Feb 2024; Reuters, 14 Feb 2024

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

2025 **Ras El-Hekma (Egypt)** Construction to begin on the \$35 billion Ras El-Hekma project;

## Chronology

25 Feb 2024 **Cairo (Egypt)** *Middle East Monitor*. Egyptian media reports the resumption of negotiations between **Hamas** and **Israel** over a ceasefire in **Gaza** and hostage exchange talks;

23 Feb 2024 **Cairo (Egypt)** *Middle East Monitor*. A hoax bomb threat is made against the **United States (US)**, **Israeli** and Egyptian embassies in **Athens (Greece)**;

22 Feb 2024 **Cairo (Egypt)** *Egypt Independent*. Petroleum minister **Tarek El-Molla** meets with **Tanzania's** deputy energy minister, **Judith Kapinga**, to discuss enhancing cooperation in the natural gas and green hydrogen sectors;

20 Feb 2024 **Cairo (Egypt)** *Anadolu Agency*. **Hamas** chief **Ismail Haniyeh** arrives in **Cairo** to hold talks on the ongoing **Israeli** bombardment in **Gaza**;

20 Feb 2024 **Cairo (Egypt)** *Middle East Monitor*. Trade and industry minister **Ahmed Samir** says commodity imports declined by 40% in January, reaching \$4.4 billion compared to \$7.5 billion during the same month in 2023, given the dollar scarcity crisis and import;

20 Feb 2024 **Dar es Salaam (Tanzania)** *The Citizen*. Tanzania's transport minister **Makame Mbarawa** says the government is actively engaging **Egyptian** investors to undertake the construction of three additional berths at the **Dar es Salaam port**, aiming to enhance efficiency at Tanzania's primary maritime hub, which is currently facing challenges due to increased cargo volumes;

19 Feb 2024 **Cairo (Egypt)** *Anadolu Agency*. President **Abdel-Fattah Al-Sisi** says that **Suez Canal** revenues have dropped 40-50% amid tensions in the Red Sea;

18 Feb 2024 **Cairo (Egypt)** *Anadolu Agency*. Egypt says it will give an oral argument before the **International Court of Justice (ICJ)** on 21 February regarding **Israeli** practices in the occupied **Palestinian** territories;

16 Feb 2024 **Cairo (Egypt)** *Associated Press*. Satellite images reveal that Egypt is building a wall and is levelling land near its border with **Gaza** ahead of a reported planned **Israeli** offensive targeting the border city of **Rafah**;

14 Feb 2024 **Cairo (Egypt)** *Bloomberg*. **United Kingdom**-headquartered **BP** and the **United Arab Emirates (UAE)** energy firm **Abu Dhabi National Oil Co.** agree to form a joint venture in Egypt to focus on natural gas, giving the UAE access to production in a country that supplies the fuel to **Europe**;

12 Feb 2024 **Cairo (Egypt)** *Anadolu Agency*. Egypt slams statements by **Israeli** finance minister, **Bezalel Smotrich**, holding Egypt responsible for **Hamas'** 7 October cross-border attacks against Israel;

11 Feb 2024 **Cairo (Egypt)** *Associated Press*. Officials reportedly state that if **Israel** sends soldiers into the **Palestinian** town of **Rafah**, it would violate the **Camp David Accords** peace deal signed between Egypt and Israel in 1978;

9 Feb 2024 **Cairo (Egypt)** *Al Jazeera*. **United Arab Emirates (UAE)** says it is in advanced talks with Egypt to purchase and develop a large piece of land on the **Mediterranean Coast** that could bolster Egypt's tourism sector;

6 Feb 2024 **Cairo (Egypt)** *France24*. **United States (US)** secretary of state **Anthony Blinken** arrives in Egypt as part of another **Middle East** tour aimed at seeking a ceasefire in the **Israel-Hamas** conflict;

4 Feb 2024 **Cairo (Egypt)** *Africa.com*. President **Abdel Fattah El-Sisi** meets with **France's** foreign affairs minister, **Stéphane Séjourné**, to discuss cooperation;

4 Feb 2024 **Cairo (Egypt)** *Reuters*. **Turkey's** foreign affairs minister, **Hakan Fidán**, says Turkey has agreed to provide drones to Egypt following the normalisation of ties between the two countries;

4 Feb 2024 **Cairo (Egypt)** *Bloomberg*. **Suez Canal Authority** chief **Osama Rabie** says the canal's revenue plunged by almost half in January after attacks by **Yemeni** militants on **Red Sea** vessels forced major shipping firms to avoid the waterway. Rabie said income was about \$428m last month, compared with \$804m for the same period in 2023, and the number of ships navigating the canal fell 36%;

2 Feb 2024 **Washington DC. (United States)** *Bloomberg*. **International Monetary Fund (IMF)** managing director **Kristalina Georgieva** says the lender is close to agreeing on a new financial package for Egypt;

31 Jan 2024 **Cairo (Egypt)** *Bloomberg*. Egypt's cabinet backs a proposal to slash spending on state investments and halt new projects until at least July, as the cash-strapped country looks to increase the size of its **International Monetary Fund (IMF)** rescue package;

31 Jan 2024 **Cairo (Egypt)** *Daily News Egypt*. The government and the **International Monetary Fund (IMF)** have reportedly agreed on a deal contingent on the devaluation of the Egyptian pound and the adoption of a managed float system instead of the current full-fledged flotation of the currency;

30 Jan 2024 **Cairo (Egypt)** *Bloomberg*. Egyptian billionaire **Naguib Sawiris** criticises delays in enacting a long-awaited devaluation of the pound, suggesting authorities match the spiralling black market rate to end the country's chronic foreign-currency shortage;

29 Jan 2024 **Cairo (Egypt)** *Al Jazeera*. **Qatar's** prime minister, Sheikh **Mohammed bin Abdulrahman bin Jassim al Thani**, says intelligence officials from Egypt, **Israel** and the **United States** met over the weekend to discuss a possible deal to secure a truce in the **Israel-Hamas** conflict and the release of captives being held in **Gaza**;

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