

AFRICA RISK CONSULTING

Egypt Monthly Briefing April 2024

Egypt Summary 22 April 2024

President Abdel Fattah El-Sisi (2014-present) is sworn in for his third term on 2 April. A growing energy crisis risks draining the country's vital foreign currency reserves. The Central Agency for Public Mobilization and Statistics (CAPMAS) announces on 8 April that inflation in Egypt slowed slightly to 33.3% in March from 35.7% in February. The World Bank revises its economic forecast for Egypt downwards to 2.8%, its lowest growth forecast in 11 years as the International Monetary Fund (IMF) forecasts that Egypt's economy, ranked as Africa's largest in 2023, will slip to second behind South Africa this year.

Sisi starts third term pledging more investment, social spending...

President **Abdel Fattah El-Sisi** (2014-present) was officially sworn in for his third term on 2 April, extending his reign until 2030.¹ The ceremony took place in the country's \$58 billion New Administrative Capital, the largest of El-Sisi's multibillion-dollar megaprojects, which have come to symbolise his rule while stretching the country's finances.² El-Sisi won the December presidential elections with 89.6% of the vote, a win that came 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 (*see ARC Briefing Egypt Jan 2024*).³ 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.⁴ Following a 2019 referendum, presidential terms in Egypt were extended from four to six years.

Addressing lawmakers, religious and military officials during his inauguration, El-Sisi noted the challenges that Egypt has withstood in recent years,

"The past few years have shown that the path of nation-building is not paved with roses ... between terrorist attempts at home, sudden global crises abroad, fierce wars around us".⁵

He subsequently called on Egyptians to be proactive "*because we are in a race with time*".⁶ El-Sisi also promised investment in several key sectors, including energy, continuation of the building of new cities and increased social spending on programmes targeting the poor.⁷ He also vowed to engage the private sector in line with commitments that helped the country secure an expanded \$8 billion deal with the **International Monetary Fund (IMF)** in March (*see ARC Briefing Egypt Mar 2024*).⁸

Since El-Sisi assumed power in 2014, a year after he was part of a military-backed uprising that ousted then-president **Mohammed Morsi** (2012-2013), Egypt has embarked on an ambitious infrastructure splurge spearheaded by the military. In addition to the New Administrative Capital in the desert east of Cairo, El-Sisi's government has expanded the **Suez Canal** and constructed thousands of kilometres of roads and bridges.⁹ Critics blamed these projects for contributing to Egypt's economic troubles, noting that they diverted resources away from urgent needs, increased the

¹ Reuters, 3 Apr 2024; Aljazeera, 2 Apr 2024

² Bloomberg, 2 Apr 2024; Reuters, 3 Apr 2024

³ Reuters, 20 Dec 2023

⁴ The Africa Exchange, 19 Dec 2023

⁵ SABC, 2 Apr 2024; Reuters, 3 Apr 2024

⁶ Bloomberg, 2 Apr 2024

⁷ SABC, 2 Apr 2024; Reuters, 3 Apr 2024

⁸ Reuters, 3 Apr 2024

⁹ SABC, 2 Apr 2024; Reuters, 3 Apr 2024

debt burden and contributed to a foreign currency crunch.¹⁰ However, Egypt secured a \$50 billion international bailout last month, which warded off the country's worst economic crisis in decades.

While El-Sisi was buoyed by the major investment during his inauguration address, for many Egyptians, the international intervention is a sign of just how far the **Arab** country has fallen. Going forward, El-Sisi's focus will be directed to dealing with an impending energy crisis (see below), near-record inflation caused by the devaluation of the pound currency and massive domestic and foreign debt. The threat of social unrest due to widespread hardships could also test El-Sisi, as it did his last two predecessors whose regimes were subsequently toppled.

Egypt's gas shortage brings new risks

While a \$50 billion international intervention handed the country a fresh start and fended off an economic crisis, a growing energy crisis risks draining the country of vital foreign currency reserves needed to pull off a recovery.¹¹ It has become of urgent importance for the El-Sisi regime to tackle the power blackouts that gripped the country last year and caused widespread public discontent.¹² Once an exporter of liquefied natural gas exports, Egypt is no longer producing enough to keep its electricity systems afloat during hot seasons due to a natural decline in its fields. Last year's summer was the hottest on record, necessitating two-hour daily rolling blackouts that forced the country to stop gas exports, with experts forecasting that this year will be hotter.

In early April, Egypt began buying liquefied natural gas (LNG) cargoes, unusually early in the year, to potentially avoid chronic power interruptions this year.¹³ The gas imports are used to produce electricity for air conditioning that millions of Egyptians use to escape extreme heat. In addition to meeting the demand for cooling, gas is also required for energy-intensive industries such as fertiliser producers. A consecutive summer of massive rolling power cuts would add further pressure on the Egyptian population and businesses that are operating in a tough environment.¹⁴ **Egyptian Natural Gas Holding Company (EGAS)** is reportedly planning to import at least one LNG shipment a month through July or August, and the country is expected to require at least five cargoes for the upcoming summer. Global gas prices have eased significantly, making it easier for price-sensitive buyers to secure supplies but prices are expected to rise as summer in Egypt coincides with the start of winter in **South America**, where countries including **Argentina** import LNG, pushing up demand.¹⁵

Even if Egypt is about to ward off the power crisis through the acquisition of five LNG cargoes, the large purchases threaten to drain foreign currency reserves received from its recent bailouts.¹⁶ In addition to securing energy, Egyptian officials also need to use their dollars to settle arrears with international companies, clear an import backlog and ease capital restrictions. It is evident that despite a massive \$50 billion influx, Egypt will still face a foreign currency crunch in the short to medium term.

Egyptian inflation eases slightly to 33.3% despite currency devaluation...

The **Central Agency for Public Mobilization and Statistics (CAPMAS)** announced on 8 April that annual inflation slowed to 33.3% in March from 35.7% in February despite a dramatic floatation of the pound targeted at turning around the troubled economy.¹⁷ Monthly inflation, which was recorded at 1%, was the lowest since October and food and beverage prices, the largest single component of the inflation basket, was recorded at 45% compared to 50.9% in February.¹⁸ According to the **Central**

¹⁰ Reuters, 3 Apr 2024; SABC, 2 Apr 2024

¹¹ Bloomberg, 8 Apr 2024; Akhbar, 8 Apr 2024

¹² Bloomberg, 8 Apr 2024; Akhbar, 8 Apr 2024

¹³ BNN Bloomberg, 8 Apr 2024

¹⁴ Bloomberg, 8 Apr 2024; Akhbar, 8 Apr 2024

¹⁵ Bloomberg, 10 Apr 2024

¹⁶ Akhbar, 8 Apr 2024; Bloomberg, 8 Apr 2024

¹⁷ CAPMAS, 8 Apr 2024

¹⁸ CAPMAS, 8 Apr 2024

Bank of Egypt (CBE), core inflation also slowed to 33.7% on an annual basis versus 35.1% the previous month.¹⁹

Egyptian officials on 6 March took the long-anticipated step to float the Egyptian pound, which devalued it by 38% but helped seal a new \$8 billion deal with the IMF (see *ARC Briefing Egypt Mar 2024*). Fresh financing pledges from the EU and World Bank also followed the decision.²⁰ Egypt's ability to unlock the IMF loan was further accelerated by a \$35 billion cash injection from ADQ (see *ARC Briefing Egypt Feb 2024*). Since the pound's devaluation, there has been much debate on its impact on consumer costs, with authorities wary about the social impact of fuelling another surge in costs, prompting authorities to implement certain precautionary measures in recent months, including raising the monthly minimum wage by 50% to EGP 6,000 (\$194) from 1 March as part of an "urgent social protection package".²¹ The CBE's **Monetary Policy Committee (MPC)** also announced its largest-ever interest rate hike on 6 March, raising interest rates by 600 basis points (bps) to 27.25% and lifting the overnight deposit rate and overnight lending rate to 28.25% and 27.75% respectively.²² The CBE said in its statement that the record hike is focused on curbing inflation and duelling exchange rates that have crippled the local economy.²³ The move to increase the rate was interpreted locally as an attempt to soften the economic blow to consumers.

However, despite a slight ease in inflation, the rate is still very high at 33.3%, much higher than the CBE's target band of between 5% and 9%. The easing in inflation has also not brought about any noticeable relief to citizens who are still under severe economic pressure. – many households have had to cut their consumption of food, particularly meat, clothing and other goods.²⁴ A local resident told **Africa Risk Consulting and Briefing (ARC)** that the situation is "almost unbearable" for millions of households and that rather than being a cause for celebration, the \$50 billion cash injection has not really resulted in easing citizen's "pain",

"For many families, it's become about how much pain they can handle without breaking".²⁵

But authorities remain convinced that in the long term, the reforms will attract foreign investors back into Egypt and bring to an end its worst economic crisis in decades.²⁶ Prime minister **Mostafa Madbouly** also said on 18 March that he expects prices to decline as more foreign currency becomes available.²⁷

World Bank revises economic growth downwards as economy drops to 2nd in Africa...

The **World Bank** in its latest **Middle East and North Africa (MENA)** economic update published on 16 April, revised Egypt's economic forecast for the current fiscal year downwards to 2.8%, its lowest growth forecast in 11 years despite the recent investment in the country.²⁸ This is the third time this year that the global lender has lowered Egypt's growth projections. The World Bank attributed "sluggish industrial sector performance", the high inflation rate and the effects of the **Israel-Gaza** war for its cut of 0.7 percentage points in its prediction for Egypt's growth.²⁹

The World Bank also warned that of all the economies in the MENA region, Egypt could "suffer the largest fiscal effects from the combined effect" of the conflict in the Middle East and the crisis in the Suez Canal due to lower revenues and tourism receipts.³⁰ El-Sisi said in February that revenues from the Suez Canal, one of Egypt's key sources of foreign currency, had declined by almost half following

¹⁹ Bloomberg, 8 Apr 2024

²⁰ Al Jazeera, 6 Mar 2024; Bloomberg, 6 Mar 2024

²¹ Egypt Independent, 7 Feb 2024

²² Central Bank of Egypt, 6 Mar 2024; Business Live, 6 Mar 2024

²³ Central Bank of Egypt, 6 Mar 2024

²⁴ ARC Source, Local Resident

²⁵ ARC Source, Local Resident

²⁶ Bloomberg, 6 Mar 2024

²⁷ Bloomberg, 8 Apr 2024

²⁸ World Bank, 17 Apr 2024

²⁹ Arabian Gulf Business Insight, 17 Apr 2024; New Arab, 17 Apr 2024

³⁰ World Bank, 17 Apr 2024; Arabian Gulf Business Insight, 17 Apr 2024

the ongoing attacks by the **Yemeni Houthis** rebels on international cargo vessels crossing the **Red Sea**, with the World Bank warning that the economic impact on Egypt could be greater if the conflict deteriorates any further or continues for an extended period.³¹ The World Bank also noted that it expects the budget deficit to widen from 6% to 6.5% as the tax revenues shrink from a slowing economy while its interest payments increase due to a devalued currency and monetary tightening.³²

Despite the aforementioned issues, the World Bank believes the \$50 billion Egypt received last month from the IMF, World Bank, **European Union (EU)** and the **United Arab Emirates (UAE)**-based wealth fund, **ADQ**, will gradually help the foreign currency crisis.³³ The downgrade of Egypt's economy indicates that it is struggling to overcome its economic crisis but the economy is expected to rebound to a respectable 4.2% in the 2024/2025 fiscal year.³⁴ The World Bank also expects the Middle East as a whole to rebound slightly this year, reaching pre-pandemic growth levels of 2.7%, despite rising debt and increasing uncertainty around the conflict in Gaza.³⁵

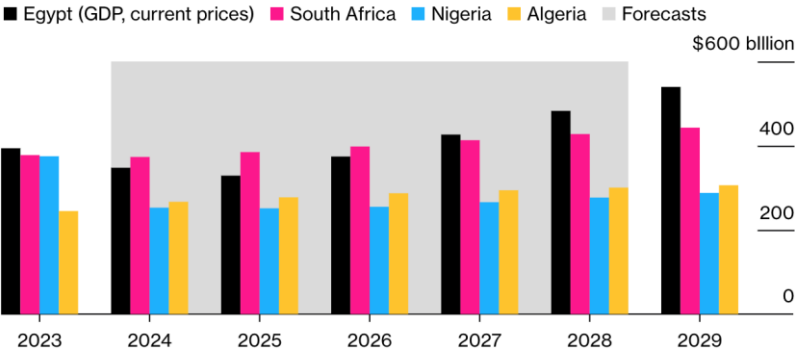
Further highlighting Egypt's economic challenges this year, recent IMF forecasts published on 16 April indicate that Egypt's economy, ranked as Africa's largest in 2023, is projected to slip to second behind **South Africa** this year.³⁶ According to IMF's **World Economic Outlook**, Africa's top-ranking countries by gross domestic product (GDP) this year are,

- South Africa - \$373 billion
- Egypt - \$348 billion
- **Algeria** - \$267 billion
- **Nigeria** - \$253 billion

South Africa, which is Africa's most industrialised country, is forecast to remain in the top spot until 2027 when Egypt will regain the mantle (see below).³⁷ Nigeria, which was the continent's largest economy in 2022, is expected to remain in fourth place for at least the next five years. Both Egypt and Nigeria have seen their economic fortunes dim as they struggle with high inflation and a plunge in their local currencies.

South Africa Economy to Become Africa's Largest in 2024

Nigeria's falls to fourth place and Egypt's to second



Source: International Monetary Fund, World Economic Outlook Database, April 2024

³¹ World Bank, 17 Apr 2024; Arabian Gulf Business Insight, 17 Apr 2024
³² World Bank, 17 Apr 2024
³³ World Bank, 17 Apr 2024; Arabian Gulf Business Insight, 17 Apr 2024
³⁴ Arabian Gulf Business Insight, 17 Apr 2024
³⁵ Arabian Gulf Business Insight, 17 Apr 2024
³⁶ IMF, 16 Apr 2024
³⁷ IMF, 16 Apr 2024

Planner

Apr -Aug 2024 **Cairo (Egypt)**. Egypt to purchase five LNG cargoes;
 2025 **Ras El-Hekma (Egypt)** Construction to begin on the \$35 billion Ras El-Hekma project;

Chronology

17 Apr 2024 **Cairo (Egypt)** *Bloomberg*. Egypt is trying to push back the date on which some of its domestic debt comes due, part of efforts to ease a burden on its finances even further after securing more than \$50 billion in global aid this year;

16 Apr 2024 **Cairo (Egypt)** *Arab News*. Finance minister **Mohamed Maait** says the government's main priority is to reduce inflation, which reached 33.3% in March, to a figure within the **Central Bank of Egypt's** target of between 5% and 9%;

14 Apr 2024 **Cairo (Egypt)** *Egypt Independent*. Egypt reportedly declares a state of maximum alert following escalation of tensions between **Israel** and **Iran**, forming a crisis cell to monitor the situation;

13 Apr 2024 **Cairo (Egypt)** *Daily News Egypt*. Egypt expresses concern over the escalating tensions between **Iran** and **Israel**, calling for maximum restraint in a bid to avert further instability in the region;

10 Apr 2024 **Cairo (Egypt)** *IOL*. **South Africa**-headquartered **Standard Bank** applies for a banking licence in Egypt as it looks to grow its **Africa** operations;

9 Apr 2024 **Cairo (Egypt)** *Bloomberg*. Egypt's foreign ministry steps in after a disagreement between **Russia's** agriculture regulator and a key grain trader held up two ships carrying wheat destined for Egypt;

4 Apr 2024 **Cairo (Egypt)** *Bloomberg*. **Russian** authorities are holding up two Egyptian ships loaded with wheat for export, in the latest sign that a domestic dispute between a key grain trader and the agriculture regulator is hindering deliveries abroad;

4 Apr 2024 **Cairo (Egypt)** *Reuters*. A senior **Hamas** leader says Egypt presented a new ceasefire proposal to end the conflict in **Gaza** but that it did not include anything new and new talks may be held next week;

3Apr 2024 **Cairo (Egypt)** *Yahoo*. Egypt's net international reserves surged to \$40.4 billion in March from \$35.3 billion a month earlier, their highest level in about two years following a landmark investment deal with the **United Arab Emirates (UAE)**;

31 Mar 2024 **Cairo (Egypt)** *Africanews*. Foreign minister **Sameh Shoukry**, alongside his **Jordanian** and **French** counterparts, warns **Israel** against undertaking an offensive on the city of **Rafah**;

29 Apr 2024 **Cairo (Egypt)** *International Monetary Fund*. The **International Monetary Fund (IMF)** approves a \$5 billion augmentation to its loan program for Egypt, part of a wave of global aid pledged to bolster a stumbling economy put under added pressure by the war in **Gaza**. The executive board's assent increases the **Extended Fund Facility** arrangement from the \$3 billion originally approved in December 2022 to \$8 billion. It will enable an immediate disbursement of about \$820m;

27 Mar 2024 **Cairo (Egypt)** *Daily News Egypt*. Prime minister **Mostafa Madbouly** confirms that government is working on settling its outstanding debts to foreign oil companies, with an initial payment to cover 20% of total arrears;

25 Mar 2024 **Cairo (Egypt)** *Anadolu Agency*. Egypt calls for the immediate implementation of a **United Nations Security Council (UNSC)** resolution demanding a ceasefire in **Gaza**;

20 Mar 2024 **Cairo (Egypt)** *Central Bank of Egypt*. The **Central Bank of Egypt (CBE)** cancels the next meeting of its **Monetary Policy Committee** scheduled for 28 March, saying an unscheduled rate hike two weeks ago on 6 March was sufficient;

18 Mar 2024 **Cairo (Egypt)** *Bloomberg*. **United States (US)** ratings house, **S&P Global Ratings** revises Egypt's credit outlook from stable to positive after a long-awaited currency devaluation was poised to ease foreign currency shortages.

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 whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)