

AFRICA RISK CONSULTING

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Egypt Summary 16 May 2024

United States (US)-based credit rating agency Fitch Ratings raises Egypt's credit outlook from stable to positive on 3 May. The Central Agency for Public Mobilization and Statistics (CAPMAS) announces on 9 May that annual inflation slowed for a second consecutive month to 32.5% in April from 33.3% in March, as greater availability of foreign currency eases some price pressures. The foreign ministry announces on 12 May that the country will formally join the case filed by South Africa against Israel with the International Court of Justice (ICJ), citing the growing scale of Israel's operations in Gaza and their impact on civilians.

Egypt's outlook raised by Fitch after \$57 billion global bailout...

United States (US)-based credit rating agency **Fitch Ratings** raised Egypt's credit outlook from stable to positive on 3 May, weeks after the country secured a massive international bailout of \$57 billion for its cash-strapped economy.¹ Fitch affirmed Egypt's B- rating, leaving the country six notches below investment grade.²

The outlook upgrade comes weeks after Egyptian officials agreed to a landmark \$35 billion investment deal with the **United Arab Emirates (UAE)**, and further financial support from the **International Monetary Fund (IMF)** (\$8 billion), **European Union** (\$8.1 billion) and **World Bank** (\$6 billion) (See *ARC Briefing Egypt Feb & Apr 2024*). In its statement announcing the new outlook, Fitch said on 3 May that Egypt's near-term financing risks have "markedly reduced" due to its deal with specifically the UAE.³

The ratings company also said that Egypt was helped by its move to adopt a flexible exchange rate and its monetary policy tightening.⁴ The \$57 billion international investment pledges and massive record interest hike of 600 basis points allowed Egypt to let its currency devalue as part of its efforts to mitigate its worst foreign currency shortage in decades (See *ARC Briefing Egypt Feb 2024*). Egyptian officials struggled to reverse the impact of years of a managed currency, the economic pressures from irresponsible government expenses on ambitious projects, and an exodus of foreign capital in the local debt market after **Russia** invaded **Ukraine** in 2022. The **Israel-Hamas** war in **Gaza** and **Yemeni Houthi** militant attacks in the **Red Sea** have also added significant economic pressures.

Authorities are now working on selling off more than 30 state-owned firms and assets, a key programme that is seeing some gradual progress.⁵ Other initiated reforms also include curbing government spending and promoting private-sector growth, in part through minimising the role of the country's powerful military in the economy.⁶ The credit outlook upgrade signals that the perception of Egypt's ability to repay its debts is improving and there's less risk of Egypt defaulting on its external debts. It is also a signal of confidence in the government's economic reforms. The positive outlook now also matches fellow US rating houses - **S&P Global Ratings** has assigned the country a B- credit rating with a positive outlook and **Moody's Ratings** a Caa1 rating with a positive outlook.⁷

¹ Reuters, 3 May 2024

² Fitch, 3 May 2024

³ Fitch, 3 May 2024

⁴ Fitch, 3 May 2024

⁵ Bloomberg, 3 May 2024

⁶ Bloomberg, 3 May 2024

⁷ Bloomberg, 3 May 2024

However, Fitch's B- rating outlook is still six notches below investment grade, which means investors still perceive it as a risky borrower.

Inflation slows for second consecutive month as foreign-currency crunch eases...

The **Central Agency for Public Mobilization and Statistics (CAPMAS)** announced on 9 May that annual inflation slowed for a second consecutive month to 32.5% in April from 33.3% in March, as greater availability of foreign currency after a recent currency flotation appeared to ease some price pressures.⁸ Food and beverage prices, which is the largest single component of Egypt's inflation basket, increased at a slower rate of 40.5% compared to 45% in March.⁹

Annual core inflation, a gauge used by the **Central Bank of Egypt (CBE)** that strips out volatile items, cooled further to 31.8% in April from 33.7% in March.¹⁰ The leading Egyptian financial services company **EFG Hermes** and the leading US-based global investment banking institution, **Goldman Sachs**, said that the annual deceleration in inflation in Egypt is an indication that the worst may be over for Egyptian consumer costs in the wake of the pound's dramatic depreciation of almost 40% against the US dollar in early March.¹¹

There were fears that the move to weaken the pound would stoke inflation that had begun to cool from a record high of 37%. Four devaluations since early 2022 have also amassed immense economic pressure on Egyptians, forcing many households to cut back on the consumption of certain foods, clothing, and other essentials. Despite two consecutive months of declining inflation, the rate is still very high at 32.5%, 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 reported at the end of April that they had to cut their consumption of food, particularly meat, clothing and other goods as the situation is “almost unbearable”.¹²

Authorities who 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, have enacted wage hikes and vowed to monitor prices in a bid to soften the economic blow.¹³ The IMF, in its latest estimate for Egypt, also forecasted that inflation in Egypt will ease slightly to 32.1% by the end of June and then drop significantly to 15.3% by the end of June 2025, the conclusion of the next financial year. While consumers are currently under immense pressure, things could improve significantly within a year if the IMF's projections are validated.

The CBE is due to make its next interest rate decision on 23 May but it is expected that its **Monetary Policy Committee (MPC)** will hold rates steady for the next few months as the current rate is still reverberating across the economy.

Egypt to intervene in ICJ case as Israel tensions rise...

The foreign ministry announced on 12 May that the country will formally join the case filed by **South Africa** against **Israel** with the **International Court of Justice (ICJ)**, a decision driven by the growing scale of Israel's operations in Gaza. The foreign ministry did, however, not specify what its intervention in the case would entail.

Egypt's move highlights the growing tensions between the two neighbouring countries, as Israel's military operations in the border town of **Rafah (Palestine)** test their long-term agreements and security cooperation.¹⁴ Egyptian security sources have notified Israel that they balme its actions in

⁸ CAPMAS, 9 May 2024

⁹ CAPMAS, 9 May 2024

¹⁰ CAPMAS, 9 May 2024

¹¹ Bloomberg, 9 May 2024

¹² ARC Source, Local Resident

¹³ Bloomberg, 6 Mar 2024

¹⁴ Aljazeera, 12 May 2024; Reuters, 12 May 2024

Rafah for the strained bilateral relations and the breakdown of ceasefire discussions held in Cairo between delegations from **Hamas**, the US, Israel and **Qatar**.¹⁵ Hamas, the Palestinian militant group that governs Gaza, welcomed Egypt's decision to join the case, noting in a statement,

"We appreciate the announcement by the sister Arab Republic of Egypt of its intention to join the lawsuit filed by the Republic of South Africa".¹⁶

When asked about the 1979 treaty between the two countries in light of the Rafah military operation, foreign ministry **Sameh Shoukry** said that it was necessary to ensure security and had mechanisms to deal with any violations, however, he did not go into detail.¹⁷ The 1979 treaty between Egypt and Israel, which is formally known as the **Egypt-Israel Peace Treaty**, was a landmark agreement signed that marked the end of decades of conflict between the two countries that had existed since 1948, establishing peace between them. It also normalised relations between them, including diplomatic ties, trade and cultural exchanges. From the outbreak of the Israel-Hamas conflict, the issue of the 1979 treaty has been brought up, but Egyptian officials have constantly emphasised its significance. They have also insisted that joining the ICJ case does not signify an invalidation of the treaty.

A new point of contention between the two countries emerged on 14 May when Israel said that it was up to Egypt to reopen the Rafah crossing and allow humanitarian relief into Gaza, prompting Egyptian officials to denounce what they called "*desperate attempts*" to shift blame for the blockage of aid.¹⁸ The Rafah crossing, which is situated between southern Gaza and Egypt, has been a key pathway for aid into the coastal region, where a humanitarian crisis has worsened, with many facing famine. But since Israeli forces assumed control of the Rafah crossing on 7 May as they ramped up their military operation, aid has accumulated on Egypt's side of the border. Israel's foreign affairs minister **Israel Katz** in a conference on 14 March acquitted his country of all blame stating,

"The key to preventing a humanitarian crisis in Gaza is now in the hands of our Egyptian friends".¹⁹

Egyptian authorities were justifiably frustrated by Katz's remarks, given that it is widely known that Israeli forces have taken control of Rafah's border for over a week now. Egypt's foreign ministry also rebutted the remarks by emphasising that Israel was responsible for the humanitarian crisis in Gaza and that Israel's military operations in Rafah were the main factor blocking aid. A local resident told **Africa Risk Consulting Briefing (ARC Briefing)** that while the conflict in Gaza "*will not lead to a termination of the 1979 treaty*", it will, test relations "*like never before*".²⁰

¹⁵ Reuters, 12 May 2024

¹⁶ Hamas, 12 May 2024

¹⁷ Reuters, 12 May 2024

¹⁸ Reuters, 14 May 2024

¹⁹ Reuters, 14 May 2024

²⁰ ARC Source, Local Resident

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

14 May 2024 **Cairo (Egypt)** *Egypt Foreign Ministry*. Egypt says that the **Rafah** crossing has remained open from its side throughout the conflict that began between Israel and **Hamas** on 7 October;

10 May 2024 **Cairo (Egypt)** *Reuters*. **Greece** will start bringing in workers from Egypt this summer to take on temporary farming jobs under a deal between the countries to tackle a labour shortage;

9 May 2024 **Cairo (Egypt)** *Reuters*. **Central Bank of Egypt (CBE)** data indicates foreign debt rose by \$3.5 billion in the three months to the end of December, reaching \$168 billion from \$164.5 billion at the end of September and \$162.9 billion at the end of December 2022;

7 May 2024 **Cairo (Egypt)** *AP News*. **Israel** begins an offensive in **Rafah**, the border crossing between **Gaza** and Egypt;

6 May 2024 **Cairo (Egypt)** *Bloomberg*. **Palestinian** militant group **Hamas** says it has agreed to a cease-fire proposal put forward by **Qatar** and **Egypt** to halt fighting with **Israel** in **Gaza**;

4 May 2024 **Cairo (Egypt)** *Middle East Monitor*. **Saudia Arabia**, Egypt and **Morocco** call for an immediate ceasefire in **Gaza** during the 15th session of the **Organisation of Islamic Cooperation**;

1 May 2024 **Cairo (Egypt)** *VOA*. **French** foreign minister **Stephane Sejourne** arrives in Cairo to join ceasefire talks between **Israel** and **Hamas**;

29 Apr 2024 **Cairo (Egypt)** *Reuters*. President **Abdel Fattah al-Sisi** receives a phone call from **United States** President **Joe Biden** to discuss the latest developments in negotiations over a ceasefire in **Gaza** and the dangers of a military escalation in **Rafah**;

29 Apr 2024 **Cairo (Egypt)** *AFP*. A **Hamas** delegation will arrive in Egypt today to respond to **Israel**'s latest proposal for a ceasefire in **Gaza** and hostage release;

28 Apr 2024 **Cairo (Egypt)** *Bloomberg*. The **International Monetary Fund** sees Egypt as likely to garner \$639m from the sale of two more state assets in the second quarter of 2024;

26 Apr 2024 **Cairo (Egypt)** *Associated Press*. Officials confirm Egypt is sending a high-level delegation to **Israel** in a bid to reach a cease-fire agreement with **Hamas** in **Gaza** while also warning of a potential Israeli offensive targeting **Rafah**, on the border of Egypt and Gaza;

24 Apr 2024 **Cairo (Egypt)** *Daily News Egypt*. **China** invites Egyptian companies to participate in the **China International Import Expo** in November;

22 Apr 2024 **Cairo (Egypt)** *Bloomberg*. Egypt expects to get \$400m in budget support from the **United Kingdom** over two years, the latest component of a vast global bailout for the country;

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