

AFRICA RISK CONSULTING

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Egypt Summary 13 June 2024

President Abdel Fattah El-Sisi (2014-present) reappoints prime minister Mostafa Madbouly on 3 June and instructs him to form a new government. The International Monetary Fund (IMF) reaches a staff-level agreement with authorities on its third review of its Extended Fund Facility (EFF). The Central Bank of Egypt's (CBE) Monetary Policy Committee (MPC) opts on 23 May to hold interest rates at an all-time high of 27.75%, displaying caution despite a slowdown in inflation to 28.1%. The S&P Global Purchasing Managers' Index reaches its highest level in May, approaching growth territory for the first time since April 2021.

El-Sisi orders new government formed with economy in focus

President **Abdel Fattah El-Sisi** (2014 - present) reappointed prime minister **Mostafa Madbouly** on 3 June, shortly after the premier submitted his cabinet's resignation on the same day.¹ El-Sisi appointed Madbouly as prime minister in 2018 and his cabinet was the longest serving in Egypt since the 2011 uprising that saw the ousting of long-time strongman **Hosni Mubarak** (1981-2011).²

Following Egypt's chronic foreign exchange shortage and high inflation over the past two years, there was speculation that Madbouly would be replaced, but it is evident that he has the ongoing support of El-Sisi.³ El-Sisi instructed Madbouly to select a new cabinet with "*competency and experience*" and directed the new government to prioritise lowering inflation, regulating markets, developing human capital and attracting and increasing local and foreign investments.⁴ El-Sisi also said the new cabinet members must focus on preserving Egypt's national security in light of regional and international challenges and counter-terrorism.⁵

There was no clear or immediate indication of when the new cabinet would be announced or which ministers would be replaced in the long-awaited reshuffle.⁶ But once appointed, they face a daunting task in managing the country as it pushes ahead with wide-ranging economic reforms after securing more than \$57 billion in aid and investments.

IMF and Egypt reach staff-level agreement for \$820m disbursement

The **International Monetary Fund (IMF)** confirmed on 6 June that it reached a staff-level agreement on the third review of Egypt's \$8 billion **Extended Fund Facility ((EFF)**.⁷ The agreement, which is pending executive board approval, will give Egypt access to approximately \$820m. An IMF mission visited **Cairo** between 12 and 26 May and then met virtually with Egyptian officials after returning to **Washington (United States)**.

The IMF noted that Egypt's efforts to restore macroeconomic stability have helped in improving domestic economic conditions, but the regional environment remains difficult.⁸ The IMF Egypt mission chief, **Vladkova Hollar**, said in a statement,

¹ Al Jazeera, 3 Jun 2024

² Al Jazeera, 3 Jun 2024

³ Al Jazeera, 3 Jun 2024

⁴ Egyptian Presidency, 3 Jun 2024

⁵ Egyptian Presidency, 3 Jun 2024

⁶ Al Jazeera, 3 Jun 2024

⁷ IMF, 6 Jun 2024; Reuters, 6 Jun 2024

⁸ IMF, 6 Jun 2024; Reuters, 6 Jun 2024

“While geopolitical tensions and their impact on Egypt remain challenging, the authorities have stayed the course to preserve macroeconomic stability through fiscal discipline, tight monetary policy, and a shift to a flexible exchange rate regime”.⁹

Hollar also said that those government efforts are now starting to deliver an improved economic outlook, improved forex availability, a slowdown in inflation and signs of recovery in private sector sentiment.¹⁰ Despite that, Hollar said that it will still be necessary for officials to tighten monetary conditions in the short term to further slow inflation, maintain prudent fiscal policies, continue the divestment of state enterprises and ensure that a flexible exchange rate remains key to the government’s economic plans.¹¹

Egypt’s EFF more than doubled on 6 March after the IMF agreed to increase the country’s rescue programme from \$3 billion to \$8 billion (*see ARC Briefing Egypt Mar 2024*).¹² The announcement of the EFF agreement followed Egyptian authorities’ decision to float the Egyptian pound, which devalued it by 38%, but helped it meet a longstanding reform the IMF demanded.¹³

Egypt’s ability to unlock the IMF loan was further accelerated by the **United Arab Emirates (UAE)** \$35 billion cash injection via its **Abu Dhabi**-based wealth fund, **ADQ** (*see ARC Briefing Egypt Feb 2024*). While Egyptian officials will be buoyed by the IMF disbursement, the country is still wrestling with the economic effects of the **Israel-Hamas** conflict and a significant decline in **Suez Canal** revenues caused by **Yemeni Houthi** rebels on **Red Sea** shipping vessels.

CBE maintains record high interest rate even as inflation slows

The **Central Bank of Egypt’s (CBE) Monetary Policy Committee (MPC)** on 23 May opted to hold the deposit rate at 27.25% and the lending rate at 28.25%, an all-time high despite a slowdown in inflation in recent months.¹⁴ While a record high, the cautious rate hold marks a breather for the economy which was battered by the 6% hike in March 2024. This highly dramatic first quarter was marked by the pound plunging by more than 40% against the US dollar and the country securing more than \$57 billion in foreign investments and aid from the UAE, IMF, **European Union** (\$8.1 billion) and **World Bank** (\$6 billion).

Weeks following the rate hold, inflation slowed to its slowest pace recorded in a year and a half, even after a currency plunge and the historic move by authorities to enact a 300% hike on the cost of subsidised bread effective 1 June.¹⁵ The **Central Agency for Public Mobilization and Statistics (CAPMAS)** announced on 10 June that annual inflation slowed for a third consecutive month to 28.1% in May, down from 32.5% in April and 33.3% in March.¹⁶ The slowdown was mainly driven by a 3% decrease in food and beverage prices, which is the largest single component of Egypt’s inflation basket.¹⁷ On an annual basis, food and beverage prices increased by 31% in May compared to 40.5% in April. Annual inflation dropped by 0.7% month-on-month, its biggest decline since June 2019.¹⁸ Annual core inflation, a gauge used by the CBE that strips out volatile items, cooled further to 27.1% in May versus 31.8% in the previous month.

The fact that the Egyptian consumer price growth slowed for a third month in May, defied expectations the pound’s fall would spark another inflationary surge. That such a surge did not materialise suggests that many items in Egypt may have already been priced much closer to the pound’s much lower pre-devaluation black-market rate, with a greater supply of foreign exchange

⁹ IMF, 6 Jun 2024; Reuters, 6 Jun 2024

¹⁰ Reuters, 6 Jun 2024

¹¹ IMF, 6 Jun 2024; Bloomberg, 7 Jun 2024

¹² International Monetary Fund, 6 Mar 2024

¹³ Al Jazeera, 6 Mar 2024

¹⁴ Central Bank of Egypt, 23 May 2024

¹⁵ CAPMAS, 10 Jun 2024

¹⁶ CAPMAS, 10 Jun 2024

¹⁷ CAPMAS, 10 Jun 2024

¹⁸ CAPMAS, 10 Jun 2024

also slowing down costs.¹⁹ The annual deceleration in inflation is also an indication that the worst may be over for Egyptian consumer costs. However, millions of households already reeling from the two-year economic crisis will be concerned and impacted by the hike in the cost of subsidised bread.

However, **Mohamed Abu Basha**, head of research at the leading Egyptian financial services company **EFG Hermes**, said the bread price hike, along with the gradual phasing-out of fuel-product subsidies and a possible rise in power tariffs, will have a “*relatively small*” effect on inflation, predicting that inflation will continue to cool this year.²⁰ While trimming subsidies is part of the government’s plan to cut spending and is part of a broader economic reform programme, history shows that citizens never take a hike in bread prices well.

For decades authorities have steered clear of rising bread prices, as a similar move ignited riots in the late 1970s and forced then-president **Anwar Sadat** (1970-1981) to reverse course.²¹ While it may be too early to gauge the full social impact of the bread price increase, a local resident told **Africa Risk Consulting Briefing (ARC Briefing)** that Egyptians will be “*deeply unhappy*” with the hike as bread is a basic staple for survival for millions.²²

Egypt business gauge hits highest since 2021 after currency devaluation...

The US-based **S&P Global Purchasing Managers’ Index**, which measures the performance of the private sector, increased to 49.6 in May from 47.4 in April, its highest level since August 2021.²³ The index measures the performance of the private sector with any score above 50 marking expansion. While still below 50, Egypt’s score is approaching growth territory as inflation slowed and foreign currency became more available following the devaluation of the pound.²⁴

S&P also revealed that input costs for businesses in Egypt increased in May at their lowest pace since March 2021 and purchase-price inflation was registered at its weakest in four years.²⁵ New export orders also climbed for the second time in three months, indicating increasing overseas demand for Egyptian goods.²⁶ The increase in activity in Egypt’s index is the first indication that the easing in price pressures is bolstering the non-oil private sector.²⁷

In addition to inflation cooling from a record high, the marginal decline in operation conditions confirms that an economic turnaround is beginning to take hold in Egypt.²⁸ S&P’s data indicates a promising outlook for businesses in Egypt and suggests that the domestic economic conditions are improving.

Planner

2024 **Cairo (Egypt) International Monetary Fund (IMF)** executive board to approve \$820m disbursement for Egypt ;

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

12 Jun 2024 **Cairo (Egypt) Daily News Egypt. Russia’s ambassador to Egypt, Georgiy Borisenko**, says Egypt is Russia’s top trading partner on the continent, with trade reaching \$7.1 billion in 2023;

¹⁹ Bloomberg, 10 Jun 2024

²⁰ Bloomberg, 10 Jun 2024

²¹ Reuters, 6 Jun 2024

²² ARC Source, Local Resident

²³ S&P Global, 4 Jun 2024; Bloomberg, 4 Jun 2024

²⁴ Bloomberg, 4 Jun 2024

²⁵ S&P Global, 4 Jun 2024

²⁶ S&P Global, 4 Jun 2024

²⁷ S&P Global, 4 Jun 2024

²⁸ S&P Global, 4 Jun 2024; Bloomberg, 4 Jun 2024

- 11 Jun 2024 **Cairo (Egypt)** *Anadolu Agency*. Foreign ministry says it and **Qatar** have received a response from **Hamas** on a ceasefire proposal and will study it and coordinate the next steps;
- 10 Jun 2024 **Nizhny Novgorod (Russia)** *Daily News*. **South Africa's** international relations minister, **Naledi Pandor**, and **Egypt's** foreign affairs minister, **Sameh Shoukry**, arrive in Russia for the **BRICS Foreign Affairs Ministers' Meeting**;
- 6 Jun 2024 **Cairo (Egypt)** *IMF*. **International Monetary Fund (IMF)** confirms it reached a staff-level agreement with Egypt on the third review of its expanded IMF programme, allowing for a disbursement of \$820m pending executive board approval;
- 3 Jun 2024 **Cairo (Egypt)** *The Jordan Times*. Egypt hosts **Israeli** and **United States (US)** officials in Cairo to discuss the reopening of the **Rafah** crossing, a vital conduit for aid into **Gaza Strip**;
- 30 May 2024 **Dar es Salaam (Tanzania)** *Zawya*. **Rosetta for Energy Solutions**, a subsidiary of the **Abu Dhabi (United Arab Emirates)**-listed **TAQA Arabia**, signs a memorandum of understanding (MoU) with Egyptian industrial city developer **Elsewedy Industrial Development**, to supply natural gas to its **Tanzania**-based **El Sewedy Industrial City (EIC)**;
- 27 May 2024 **Cairo (Egypt)** *Al Jazeera*. Military spokesperson says authorities are investigating the death of a member of an Egyptian security team in a shooting near the **Rafah** border zone with **Israel** confirming earlier it is also investigating a shooting between Israeli and Egyptian soldiers near the crossing;
- 27 May 2024 **Cairo (Egypt)** *Bloomberg*. Egypt's **GV Investments** is partnering with **China's** second-largest state-owned automaker, **FAW Group**, in the latest effort to build affordable electric cars in the **Middle East's** most populous country;
- 22 May 2024 **Cairo (Egypt)** *Daily News Egypt*. Prime minister **Mostafa Madbouly** meets with **Tanzania's** parliamentary speaker, **Tulia Ackson**, to discuss bilateral relations and progress of the **Julius Nyerere Dam**, a major Tanzania hydropower project being implemented by an Egyptian cohort;
- 20 May 2024 **Cairo (Egypt)** *Egypt Today*. Foreign minister **Sameh Shoukry** extends condolences to **Iran** over the death of its president, **Ebrahim Raisi**, and foreign minister **Hossein Amir-Abdollahian** in a helicopter crash;
- 15 May 2024 **Cairo (Egypt)** *African Business*. Egypt's delegation attending the **Invest in Africa Energy (IAE) Forum in Paris (France)** discloses that the government is considering merging its petroleum and renewable energy ministries to create an energy ministry to streamline operations and regulations;
- 14 May 2024 **Cairo (Egypt)** *Bloomberg*. Egypt receives a further \$14 billion from its landmark investment deal with the **United Arab Emirates**, providing another surge of dollar liquidity about two months after a currency flotation;

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.

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

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