

# Egypt Risk Assessment (Excerpt)

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Executive Summary	3
Geopolitics (Excerpt)	4
Politics	7
Economics (Excerpt)	12
Security (Excerpt)	25
Risks and Opportunities (Excerpt)	29

# Executive Summary

**Over the next five years**, Egypt will remain an attractive investment destination due to its reforms and political stability, but the country faces a small risk of a currency crisis and a slight risk of a deteriorating security situation. In the coming years, Egypt's leaders aim to defend and broaden the geopolitical reputation of their country, which sits at the crossroads of Asia and Africa, as regional mediator and cultural leader of the Arab world. Egypt's leaders will also deepen its relationships with China and Russia despite the tensions this will create with the United States, with which Egypt will maintain close security ties. The Middle Eastern country's demographic profile in the coming years will reflect its high birth rate, poverty and struggling educational system, factors that will negatively impact the quality of its sizable labor market for years to come.

Politically, Egypt's military-backed presidential system is well-positioned to withstand external and domestic threats, despite the reputational and human rights risks the authoritarian system creates for foreign businesses working closely with Cairo. Civil society organizations and political parties not closely aligned with the agenda of President Abdel Fattah al-Sisi are likely to remain weak in the coming years, while the military — specifically the Supreme Council of Armed Forces, or SCAF — is likely to maintain its position at the top of the Egyptian political system.

Meanwhile, Egypt's economy will remain at risk of a balance of payments and currency crisis over the next few years, but its \$3 billion International Monetary Fund program — and the al-Sisi government's history of implementing IMF reforms — suggests it will manage to avoid one. Egypt's large, diversified economy demands significant amounts of natural gas, particularly in the power generation

sector, and pricing reforms that have enabled the Egyptian government to pay higher prices to domestic producers will likely continue. Its economy is heavily dependent on imports of food and oil products, making it vulnerable to global economic shocks, as the Ukraine-Russia war has shown.

Reforms to the oil and gas sector over the last decade, as well as successful drilling operations in the Eastern Mediterranean Sea, will propel a renaissance of the country's upstream oil and gas industry. Interest by major international oil companies (IOCs) — including Eni, BP, Shell and Chevron — is high: All of them are engaging in new exploration or increasing production output. The Egyptian government is likely to remain flexible when it comes to offering generous investment terms, and high natural gas prices are likely to keep gas-focused investments in Egypt very profitable. Still, IOCs operating in Egypt face some risks of reputational blowback, as Egypt's military plays a minor role in the sector (and a larger role in the industrial and downstream sectors that IOCs may interact with). This means IOCs could face reputational damage given the military's human rights record and the country's limited space for public opposition and personal freedoms.

Finally, Egypt will face significant security risks in the coming years, particularly in terms of social unrest driven by economic factors, persistent terrorism worsened by Egypt's geography, and operational hazards like poor infrastructure that can make maintaining business continuity a challenge. This will be somewhat ameliorated, however, by Egypt's capable and powerful security forces, including police, intelligence and military forces, which frequently neutralize serious threats to citizens and foreigners. □

## Geopolitics (Excerpt)

**Over the next three to five years, Egypt will focus on defending and consolidating its role** as a regional mediator and source of security, political and cultural leadership in the Arab world during what is likely to be a period of rapprochement between major regional governments. Beyond the Middle East and North Africa, Cairo will seek to maintain close security and political ties with Russia and to build closer commercial and investment ties with China, while also nurturing fragile but long-standing security ties with the United States. Egypt will seek to leverage its strategic geographic position and court foreign investment to become a more significant energy hub in the Eastern Mediterranean, but Egypt's economic and social crises driven by a growing population and continued struggles with poverty will limit its ability to project regional influence.

### **Egypt's Strategic Location Underlies Its Geopolitical Environment**

Egypt uses its highly strategic geography as a land bridge between the African and Asian continents to encourage foreign commercial investment on Egyptian soil and to transit goods using Egyptian ports and waterways like the Suez Canal. Egypt has the largest population in the Arab world (104 million) and a high birth rate (3.5 births per woman) that has increased in recent years more than in some regional Arab peer countries. Its demographics are a double-edged sword, however. The large Egyptian population creates an enormous labor market and

pool of potential consumers, but also creates an economic liability and cost for the government, which has subsidized most basic goods for most of the last several decades. Egypt's most important geographic feature — the Nile River — is also a double-edged sword. This is because while it waters some of the most fertile and arable land in the world, Egypt does not control its source. This forces Egypt to be dependent — and at times in conflict with — its southern upriver neighbors, Ethiopia and Sudan. Their cold conflict over water security is likely to continue in the coming years, but is unlikely to turn hot.

### **Egypt Leverages Its Strengths to Promote Its Growing Regional Leadership Role**

Egypt's vast history, deep cultural traditions that are shared across the region, huge population, and strong military have made it a natural leader within the Arab world. In modern Arab history, Egypt generally has had the largest army, and has always been a participant or mediator in conversations around stabilizing regional conflicts. Though not a powerful political organization, the Arab League — the main body through which Arab states debate regional issues and convey shared political positions on geopolitical conflicts — is headquartered in Cairo, which historically has given Egypt some influence over the league, though this has diminished over the years. □

**The Egyptian government's main political challenge** for the next three to five years is ensuring political continuity and social stability amid economic strain. The military-backed presidential government has sufficient control over the levers of power — including the use of force via the military, police and intelligence, and influence over the economy — to keep the system stable even as social discontent about the economic situation grows. The military-backed government and the police forces it controls will not hesitate to use force to disperse anti-government demonstrations that could arise due to the fragile economy. The government will also use economic incentives to try to satisfy Egyptians' basic economic demands to prevent anti-government sentiment from brewing in the first place.

### A Centralized and Authoritarian System

Egypt is a semipresidential republic with a popularly elected parliament and president. The president is the head of state, holds most political power, and has executive oversight of every aspect of domestic and foreign policy. A prime minister appointed by the president is technically the head of government, has some power to shape domestic policy and is often the mouthpiece for tactical policy changes, while the president speaks to large or strategic policy news.

Beyond the centralized federal government seated in Cairo, Egypt's government system is divided into 27 governorates, each with its own local governments and courts. Four governorates are large cities: Cairo, Alexandria, Suez and Port Said governorates are entirely confined to city boundaries, and each has multiple subdistricts. In the late 1970s, President Anwar Sadat prioritized decentralization and backed

legislation that awarded local governorates more authority, changes that remain in place to this day. In the following decades, President Hosni Mubarak continued decentralization and awarded more budget drafting power and domestic security policy decision-making power to the local governorates rather than the central government. Still, the central government exercises significant control over local affairs.

The government's structure and the strong presidency mean that there is a medium level of policy-making continuity risk within Egypt's current system under al-Sisi because the presidential system ensures authoritarian decision-making. Policy direction can be predictable thanks to the top-down system and the reality that whatever al-Sisi and his military advisers want is what will happen, but the top-down, authoritarian control also means that policies can be quickly changed and implemented if a top official in the presidential or military office wants it, which can lead to uncertainty.

### The Military Leads the Domestic Center of Power

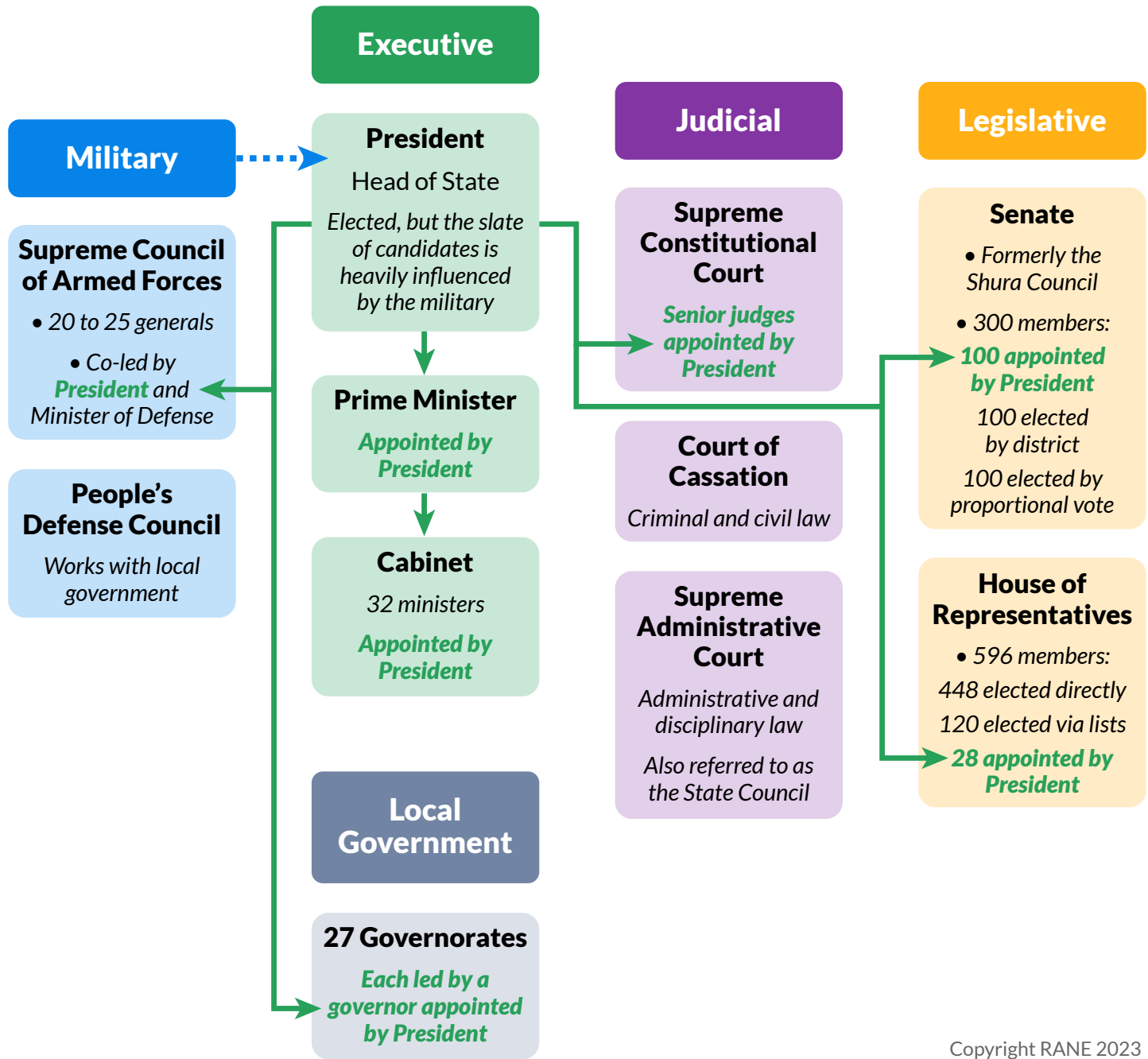
The military — specifically the Supreme Council of the Armed Forces, or SCAF — the political body that makes executive decisions for the Egyptian military — has been the most powerful political actor for the last several decades, and its power is poised to remain strong in the coming years. Ever since a military officers' revolution ended the monarchy in 1952, Egypt has been a republic under the control of strongmen backed by military officers. Over the decades, the military has grown as the primary political force in Egypt, typically backing the president as a largely unseen but deeply influential political actor who

# Egypt's Government Structure

Egypt officially is a semipresidential government, but the military heavily controls most political workings behind the scenes, as evidenced by the military's gatekeeping of the slate of presidential candidates, and the president's heavy control of the judicial and legislative functions of the state.

**Military** .....➔  
Heavily influences presidency

**President** —➔  
Heavily influences judicial and legislative functions



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keeps Egyptian domestic priorities heavily focused on securitization and stability.

According to a 2020 law that amended the 1968 Law on Popular Defense Organizations, the military's role in civilian government institutions expanded. The 2020 law stipulates that the defense minister must appoint a military adviser and assistants for each governorate; each military adviser reports directly to the Defense Ministry about developments in the governorate. The military's People's Defense Council works to ensure optimal communication between the SCAF and local governorate governments on all foreign and domestic matters. Meanwhile, the military's role in the economy has increased substantially throughout al-Sisi's tenure, in part because al-Sisi is a retired military officer, giving him the incentive to continue allowing the organization to which he belongs to enrich itself politically and economically over the coming years.

The military has also been a major player in the economy under al-Sisi's tenure, especially in state-backed companies supporting al-Sisi's infrastructure and megaproject construction goals. For example, Egypt's new administrative capital — a major government complex outside of Cairo that al-Sisi wants to replace existing, aging government buildings — was built via substantial involvement from military-linked companies. Dozens of state-owned companies have murky connections to military officers or directly to the SCAF, which creates some uncertainty for foreign companies trying to enter the economy. This will pose a particular transparency challenge for companies seeking to get involved in the Egyptian government's public-private partnership push over the coming years, as some foreign companies will struggle to acquire a full picture of Egyptian company ownership in the event of a company having links to the military that the military does not want publicly disclosed.

Private sector companies and business leaders play a somewhat powerful political role in al-Sisi's Egypt,

especially because Egypt's economy is rather diversified compared to other regional economies and because former President Hosni Mubarak presided over a significant privatization push in the 1990s and 2000s. The private sector could even play a more important role going forward in the al-Sisi government's public-private partnership push. More broadly, Cairo will rely heavily on the private sector to support its economic reform plans and will work to adjust its regulatory environment in ways that encourage more foreign investor involvement.

## Civil Society is a Minor Actor

Civil society organizations play a minimal role in shaping Egyptian politics, in part because a strict emergency law has been in place for decades that limits civil society, including public gatherings and what is allowed in terms of political activity by non-governmental organizations. Major issues of concern for the country's most powerful civil society organizations align with Egypt's main social issues and include poverty alleviation, family planning to control overpopulation and conserve scarce economic resources, rural education, and improving rural land rights. Purely political civil society organizations face significant scrutiny from the government, and can only operate if they do not threaten to confront or oppose the government.

Human rights violations have proliferated under al-Sisi, with political activists arrested in large numbers. Egyptian journalists and independent media organizations face heavy government scrutiny and intense censorship pressure that has resulted in a largely pro-government media. The Egyptian government under al-Sisi regularly accuses media organizations of supporting terrorism or working against the government, and more journalists have been arrested during al-Sisi's eight years in power than during Mubarak's nearly 30-year tenure. This reality presents considerable reputational risks to companies working closely with the al-Sisi government, as activist investors or

# Tightening Control Over Political Parties and Civil Society Organizations

Since the Arab Spring in 2011, the Egyptian government has passed legislation that has constrained the actions of civil society organizations and political parties.

**July 2011** Egyptian government launches investigation into the funding of local and foreign civil society groups, the so-called “Case 173.”

**September 2014** An amendment to the penal code allows for a sentence of life imprisonment for accepting foreign funding without government authorization.

**2014** Parliament passes new election law that favors individual candidates and minimizes the role of political parties.

**2017** Egyptian government issues NGO law heavily regulating the work of all NGOs in the country.

**July 2019** Egyptian parliament approves law prohibiting contact between NGOs and foreign organizations or experts.

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concerned citizens could view any company working alongside a state-backed firm as complicit with Egyptian government objectives.

Hundreds of political parties exist in Egypt, and though they are largely powerless to execute policy — which is formed by the president’s office and the SCAF — they do influence policy debates in the rubber-stamp parliament by offering ideas for domestic social and economic policies; notably, they do not participate in security policy deliberations. The

largest party in parliament, the Nation’s Future Party, is closely aligned with al-Sisi and his agenda.

## An Opaque Legal System

Egypt’s legal system is a combination of Islamic law and the French civil code, an influence dating back to Napoleon Bonaparte’s occupation of Egypt in 1798 that led to an overhaul of Ottoman Egyptian civil institutions. In 2011, following the ouster of the long-time president, Hosni Mubarak, the SCAF assigned itself some legislative powers that allowed the military to oversee more of the civilian court system (in the name of ensuring stability). These powers were consolidated further in 2014 in the aftermath of the 2013 military coup that unseated Islamist President Mohammed Morsi; they exist to this day, and are unlikely to be stripped from the military.

The Egyptian courts and law enforcement organizations have a poor reputation for cooperating with foreign counterparts on investigations or court cases. Egypt’s judiciary suffers high levels of corruption and is closely aligned with the presidential office, which limits the implementation of a fair rule of law. The rule of law is in general weak in Egypt, with limits on speech and hundreds of political prisoners detained without due process. Cairo has a poor record of dealing with litigation between the Egyptian government and a foreign company in a timely and efficient manner.

## Political Stability High Under al-Sisi

Overall political stability over the next few years is likely to be high, as al-Sisi could easily be in office until as late as 2034 under current electoral laws. Regardless of what most Egyptians think of al-Sisi, so long as the SCAF wants him in place, he is likely to remain in place. Although parliament is popularly elected, the Egyptian political system is not truly democratic and thus presents a reputational and

business continuity risk to foreign companies working in Egypt. Technically, Egypt has a tradition of democratic power transfers, but in reality, Egypt's next president is largely selected by the military via heavily engineered elections and the SCAF barring most candidates from running. This means that while leadership transitions appear transparent, actually, they are directed via behind-the-scenes measures. It is possible that if al-Sisi were to start losing enough popularity to become a liability and the SCAF wanted to replace him, they could do so. The opaque military's strong influence over the civilian government actually creates a risk of sudden instability, catching outside observers not privy to power dynamics by surprise. This scenario does not seem likely, however, since available indicators suggest the SCAF values al-Sisi and the political stability over which he has presided for several years; to the extent that internal

political dynamics between SCAF and the presidency can be understood by outsiders, al-Sisi seems secure.

Among the al-Sisi government's priorities are diversifying Egypt's economic and security partnerships; reducing exposure to global conflicts that can create economic damage for Egypt; eliminating the political and security threat posed by the Muslim Brotherhood and other Islamist political groups; and maintaining the military's power to ensure domestic stability, but balancing this with efforts to keep Egypt an appealing destination for foreign investment. Cairo under al-Sisi seeks to maintain domestic peace above all else given the memory of how the Arab Spring and its ensuing disruptions saw mass protests oust Mubarak, a more democratic but chaotic system emerge, and an Islamist government elected — all of which stoked economic uncertainty and saw foreign and regional investor interest plummet. □

## Economics (Excerpt)

**Over the next three to five years the Egyptian economy will be fragile** as Cairo implements a number of reforms associated with its latest \$3 billion IMF External Fund Facility approved by the IMF in December 2022. Egypt faces tough economic and financial conditions, as its dependence on imported fertilizer and other commodities left it highly exposed to the aftershocks of the Russian invasion of Ukraine and forced Egypt to devalue the Egyptian pound twice in 2022. Egypt under al-Sisi, however, has a strong record of implementing structural economic reforms in coordination with the IMF, as the authoritarian government can push through unpopular reforms with little public blowback. This trend is likely to continue and, by the end of the next five-year period, Egypt's macroeconomic outlook will likely be more promising.

### Egypt Seeks to Improve Embattled Economy With Reforms

Egypt's economy has been rocked by Russia's invasion of Ukraine, creating financing challenges and placing the country at risk of a currency crisis due to the country's large current account deficit, which currently stands at about 3.5%. Oil products, grains, fertilizers and plastics — all goods that experienced significant price increases due to the Ukraine invasion — are all among Egypt's top ten imports, putting pressure on Egypt's foreign exchange reserves, terms of trade, balance of payments and inflation rate, the latter of which currently stands at about 15%. Prior to the invasion, around 85% of Egypt's imported wheat came from Ukraine or Russia. Amid Egypt's struggles, portfolio investors pulled about \$22 billion from the country in 2022. The Central Bank

### Selected Economics Statistics

■ GDP (2021) .....	\$404.1 billion
■ GDP per capita (2021) .....	\$3,876
■ Current account balance, %/GDP (2021)	-4.6%
■ Gross government debt, %/GDP (2022)....	87%
■ Fiscal deficit, %/GDP (2022).....	-6.1%
■ Oil, kBOE per day-2018,(2021) .....	1,778
■ Personal remittances, %/GDP (2020).....	8.1%
■ Population (2022) .....	107.3 million
■ Unemployment (2022) .....	7.4%
■ Youth unemployment (2022).....	9.3%

Sources: World Bank; ILO; Central Agency for Public Mobilization and Statistics (CAPMAS); Central Bank of Egypt; BP

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of Egypt's (CBE) foreign exchange reserves fell by \$7.5 billion to \$33.5 billion from January to the end of November 2022. To help alleviate pressure, the CBE devalued the Egyptian pound by 14% in March and by another 14.5% in October. As a part of the October devaluation, the CBE announced it would move toward a more flexible exchange rate system. Previously, it tried to fix the value of the pound by intervening in currency markets, but it remains to be seen how much the CBE will refrain from defending the currency and how much it will allow the pound to truly float. Since the October change, the pound has depreciated by about 6% as of mid-December.

- Egypt faces high fiscal deficits, with the IMF projecting the government's overall deficit to reach 6.5% of GDP in 2022 and widen to 7.4% and 7.5% in 2023 and 2024.

- Egypt faces significant financing challenges, as 40% of its projected revenue for 2023 will be tied up in interest payments and Egypt has \$15 billion in external public debt maturing in 2023 and 2024.
- Egypt's currency woes have hit most Egyptian industrial sectors — including domestic consumers of natural gas — hard, but oil and gas companies operating in Egypt have been relatively insulated from the crisis. This is because high global energy prices and the fact that their contracts with Egypt (as well as financing, etc.) are priced in dollars mean that the decline in the Egyptian pound has reduced domestic costs, such as for labor and raw materials.

To help address its financing and currency challenges, the Egyptian government and the IMF reached an agreement on a \$3 billion External Fund Facility in October. The 46-month deal was approved by the IMF's Board of Directors and will begin being disbursed and implemented in the coming months. The IMF program should help the Egyptian government unlock more external financing, and the Egyptian Finance Ministry estimates that it will need to fill a projected \$16 billion financing gap over the next four years. In addition to the \$3 billion from the IMF, Egypt has also secured \$5 billion in assistance from other multilateral organizations. Although wealthy Gulf countries will also help prop up Egyptian spending, Cairo also plans to boost bond issuance, hoping that the IMF deal will improve the terms that Egypt can borrow on with international investors, but thus far Egypt's credit default swaps — which can be viewed as a proxy as to how risky investors are viewing Egyptian debt — still trade at high levels.

- Egypt's series of political and economic crises from 2008-2016 caused it to fall behind on payments to oil companies operating in Egypt and resulted in a peak of \$6.5 billion in arrears owed to oil companies. Egypt's subsidy reforms and the al-Sisi government's desire to keep oil

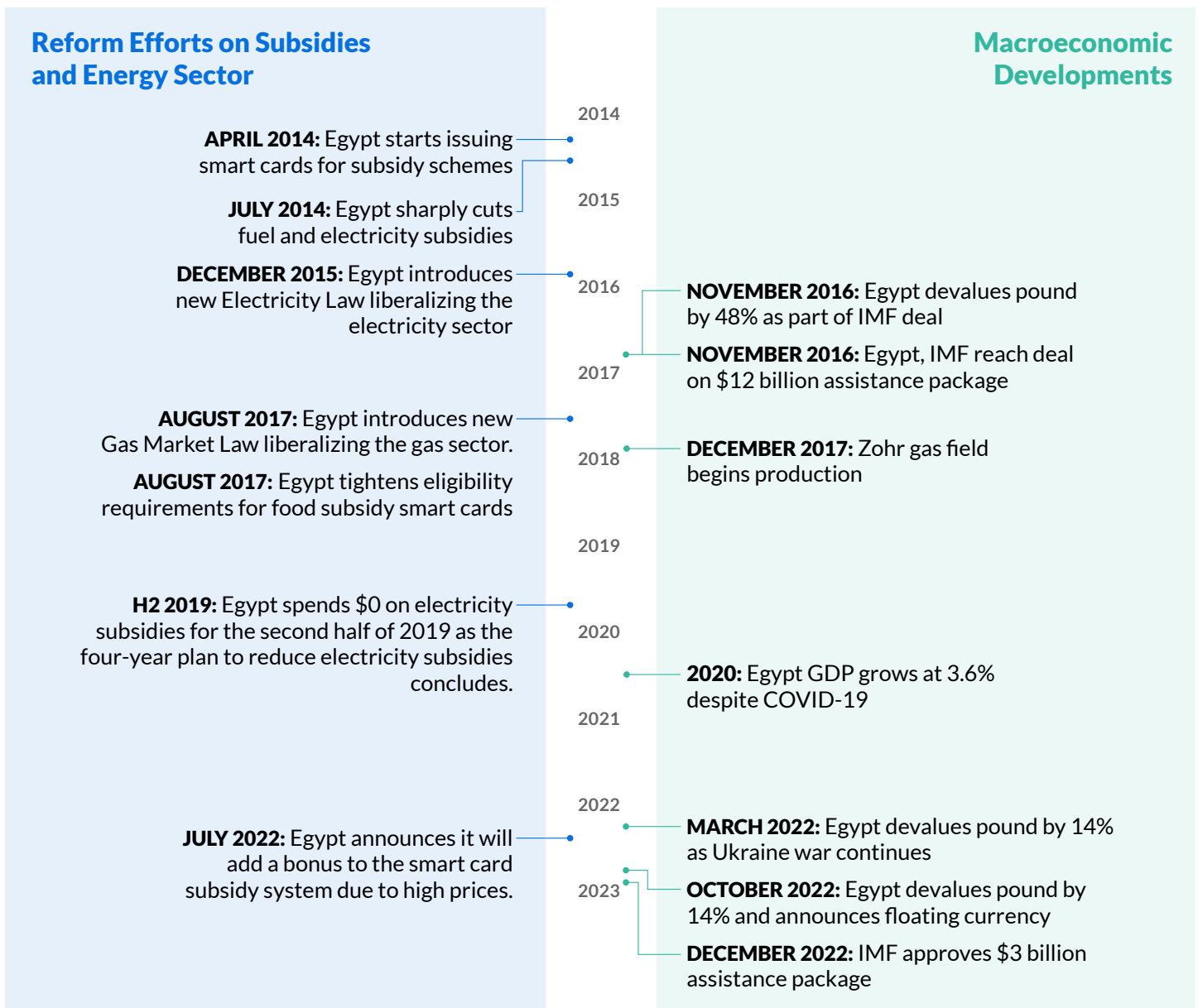
and gas companies investing in Egypt have led to Cairo still trying to reduce arrears owed to oil companies. By June 2021, the arrears backlog had been cut by 87% to \$850 million. As of mid-2022, Egypt had been expected to pay off the remaining by the end of the year, but has not publicly made more announcements. That said, no reports that Egypt has fallen behind on current payments to oil companies for local gas and oil sales have emerged.

As long as Egypt follows through with the reforms included as a part of the IMF program, investor confidence in Egypt should be restored. Al-Sisi's government was in a similar position in 2016 when it received a \$16 billion financial package from the IMF and embarked on a number of reforms, including gas market reforms, subsidy reforms and labor market reforms from 2016-18 generally well-received by global investors. Egypt's reform push, like many others globally, slowed down during the COVID-19 pandemic as it prioritized the health crisis and economic challenges associated with it. Egypt's shift toward a more liberalized exchange rate has been one of the IMF's main reform demands, so the CBE will maintain its more flexible exchange rate. The specific reforms and milestone criteria for the IMF package have not been made public. When the staff-level agreement was reached in October, the IMF said Egypt would make reforms related to governance, transparency and competition, and would reduce the size of state-owned enterprises in the economy. More details are likely to be released as the IMF disburses funds. Nevertheless, Cairo's deal with the IMF signals the government's intent to follow through with the reforms and, given the limited ability of opposition forces to block the reforms, Egypt will likely implement most of them, akin to its 2016-18 implementation of the previous IMF deal.

Although the Egyptian government has been dealing with balance of payments and currency challenges, the country's macroeconomic growth performance

# Egyptian Reforms and Macroeconomic Developments Since 2014

Since al-Sisi formally took office in 2014, Egypt has introduced dozens of subsidy, labor, energy and other reforms in order to reduce pressure on the government's budget. Despite a relatively strong macroeconomic performance, Egypt has had to resort to three assistance packages with the IMF to help implement its reforms and will spend the next four years implementing another agreement with the IMF.



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has been relatively strong, driven by a boost in natural gas production and fewer COVID-19 restrictions. The IMF projects Egypt's real GDP will grow by 6.6% in 2022 and 4.4% in 2023. Nevertheless, despite the strong performance in GDP growth, the crises that the government has faced this year highlight Egypt's vulnerability to external factors, which will impact

Egypt's overall macroeconomic environment and investment attractiveness moving forward. The top remaining external risks are dependence on imported food and fuel; exposure to drought and water shortages along the Nile; global economic conditions and investor appetite to invest in emerging markets; and direct reliance on trade with Russia and Ukraine. □

## Security (Excerpt)

**Over the next three to five years, Egypt's security environment risks deteriorating slightly**, driven by an increased risk of civil society protests motivated by the poor economic situation and a high but stable risk of anti-government militancy throughout the country. Egypt faces a serious jihadist insurgency in the Sinai Peninsula, and borders insecure regions including eastern Libya, the Gaza Strip, Sudan, and the Red Sea and Yemen civil war theater.

### Egypt's Long Battle with Terrorism Will Continue

Egypt's military and domestic intelligence service have fought domestic terrorist cells for decades, and though mostly contained to specific geographic areas — the Sinai Peninsula, the Western Desert and areas near the national borders in rural desert territory — away from Egypt's main urban areas, the threat of terrorist attacks remains a security challenge throughout the country. The 1990s through mid-2010s witnessed upticks in terrorist attacks against Egyptian government targets as well as tourists and Egyptian civilians, but years of concerted military and intelligence action have managed to limit the risk of terrorism in urban areas in Egypt at present. The Sinai Peninsula is now the main risk area for terrorism due to the Islamic State Wilayat Sinai, which frequently attacks security forces and military checkpoints. Since 2012, following a jihadist attack on Egyptian soldiers near the Egyptian-Israeli border, Egypt has deployed forces in Sinai under the ongoing "Operation Sinai." Despite the ongoing operation,

Egypt has struggled to exert a monopoly on violence in Sinai and remains heavily engaged in guerrilla-style operations against jihadist forces there.

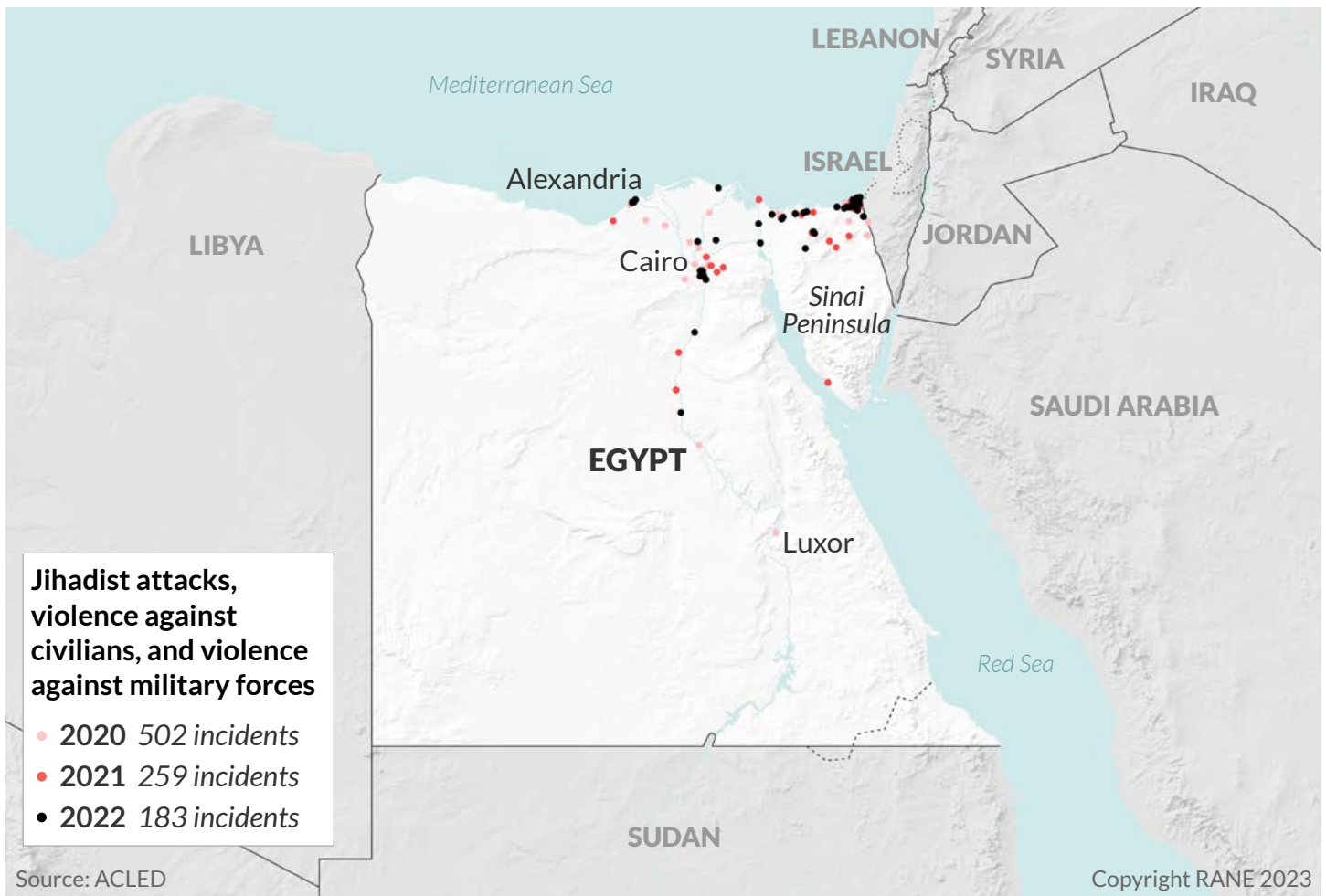
Egypt's economic malaise is one of the factors motivating individuals to join militant groups. Chronic poverty and grievances against the government can fuel recruitment into militant groups, which offer a steady, if small, salary. Egypt is also largely homogenous in its core urban areas but becomes a more tribal society in rural areas, particularly in the Sinai Peninsula. The region is home to dozens of tribes, with security implications for nearby business operations. The central government has frequently experienced tension with tribal leaders as it pursues development work in ways some tribes view as inequitable to local tribes. Foreign companies working alongside Egyptian government ministries or state-backed companies should be aware of the sensitivity of tribal dynamics. Tribal dynamics are especially important in rural areas including Sinai as well as the Western Desert, where tribal relations matter alongside overall government relations.

### Egypt's Hesitance to Become Involved in Regional Wars Reduces Conflict Risk

Since Israel defeated Egypt in their 1967 war, forcing Egypt to cede territory to its then-enemy, and since its costly — in terms of soldiers and materiel — involvement in one of Yemen's civil conflicts in the 1980s, Egypt's military has been hesitant to deploy soldiers to conflicts outside of Egypt's borders. This

# Violent Incidents in Egypt

Jihadist violence and attacks are serious threats to the safety and security of Egyptians and foreigners alike, though such incidents are more heavily concentrated in Egypt's Sinai Peninsula than in Egypt's core urban areas.



hesitance reduces the conflict risk that Egypt faces over the coming years, despite the aforementioned tensions with multiple neighbors. Egypt's military – the largest in the Arab world – also creates a deterrence that helps protect Egypt from external threats. Its military is heavily involved in securing unstable border territory, including with Libya, Sudan and the Gaza Strip. □

# Risks and Opportunities (Excerpt)

## Geopolitics

### RISKS

- As Egypt seeks to defend its strategic independence and build out its economic and security relationships with China and Russia, Cairo's relationship with the United States is likely to become more fraught, which presents sanctions and reputational risks.
- Egypt's rivalry with its southern neighbors over its water supply is likely to intensify in the coming years as Ethiopia fills the GERD, driving the possibility of low-level conflict.
- Egypt's rivalries with other majority Sunni states, including Saudi Arabia, the United Arab Emirates and Turkey, could flare up if another Gaza Strip conflict escalates, which could create commercial disruptions in theaters like the Eastern Mediterranean.

### OPPORTUNITIES

- Egypt's strategic geography provides a land bridge connecting Asia and Africa that Egypt uses to provide foreign investors with access to both continents.
- Egypt is unlikely to become seriously involved in regional conflicts, limiting the conflict risks it faces; this means industrial operations in Egypt are unlikely to see business continuity disruptions due to conflict.
- Egypt is politically close to the United States, and the Cairo-Washington relationship is likely to remain functional and pragmatic in the coming years despite their misalignment on some regional national security priorities.

## Politics

### RISKS

- The dominance of the military in the political system leads to a lack of transparency that can make foreign companies' government relations a challenging task in Egypt, where the military ultimately has the final say on major policy and investment decisions.

### OPPORTUNITIES

- Egypt's authoritarian presidential system offers stability, political continuity and some predictability because of the low likelihood of transitions of power happening at each election.
- Egypt's government prioritizes seeking foreign investment and will use its authoritarian power

## Politics (cont.)

- The authoritarian government's poor human rights record and weak implementation of the rule of law present reputational risks to foreign companies.
- Economic contractions risk eroding popular support for al-Sisi, in an unlikely but impactful scenario forcing the military council to introduce a new president.

to make regulatory decisions that ease foreign companies' entry into the country.

- Egypt's heavily centralized government system can ease foreign companies' efforts to build relationships with local governments, as the central government is the primary political force with which companies must interact, even if they are establishing operations in governorates outside of Cairo.

## Economics

### RISKS

- Egypt's dependence on fuel and food imports leaves it highly exposed to currency and other external shocks when global economic conditions lead to energy and food price increases, as they are now due to the Ukraine-Russia war.
- Egypt has a mild risk of a balance of payments, currency and/or debt crisis over the next five years. The IMF plan is designed to help reduce the risk and/or impact of such a crisis, but another global economic crisis would make at least one of these crises more likely.
- Egypt is entering another period of reforms and, while many may be outside the energy sector, they create a latent risk of public opposition to unpopular reforms (such as the potential full removal of bread subsidies and/or letting the Egyptian pound depreciate).

### OPPORTUNITIES

- Despite Egypt facing financial challenges right now, the IMF plan and Egypt's history under al-Sisi of implementing reforms bode well for successful implementation and staving off a bigger economic crisis.
- Egypt's economic diversity leaves its economic growth relatively insulated from shocks affecting government finances and the currency so long as the crisis does not morph into a domestic liquidity or banking crisis. The IMF and reform program should help limit the chances of that.

## RISKS

- Security forces will likely never fully eliminate terrorist groups from Egyptian territory, especially since Egypt's geography places it adjacent to destabilized areas full of terrorist activity, including Libya and the Gaza Strip.
- Social unrest and connected protests and demonstrations are likely to worsen as Egypt's economy faces headwinds, and the government is highly likely to respond to any such demonstrations with heavy crackdowns that could become violent.
- Infrastructure development is uneven across the country, creating transportation and safety risks.

## OPPORTUNITIES

- Egypt has a strong military, police force and intelligence service, which all coordinate efficiently on counterterrorism and domestic security issues, helping ensure domestic stability and security, especially in major cities like Cairo.
- Egypt receives a significant amount of foreign external aid earmarked to help the country with its counterterrorism goals, which means no matter how poor Egypt's economic situation becomes, it will always have external assistance keeping counterterrorism initiatives running.
- The country's robust tourism sector means the government heavily prioritizes policing most areas foreign visitors frequent in order to deter terrorist, militant or criminal activity from undermining a major source of foreign currency for Egypt.

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