

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing June 2023

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#### Egypt Summary 16 June 2023

*Egypt and Iran are set to normalise relations this year and will appoint ambassadors as part of mediation overseen by Oman, whose sultan Haitham bin Tarek (2020-present) held diplomatic talks in Cairo with President Abdel Fattah El Sisi (2014-present) on 22 May. Central Bank of Egypt's latest figures show Egypt's annual core inflation rose to 40.3% in May from 38.6% in April. Inflation has seen continuous spikes in the last year as the economic fallout from the war in Ukraine as well as post-Covid hikes in global commodity prices highlight Egypt's vulnerability to external shocks. Israel's prime minister, Benjamin Netanyahu (1996-1999, 2009-2021, 2022-present), has told Egypt he expects an "exhaustive and thorough" investigation to be conducted after an Egyptian border police officer who crossed the Egypt-Sinai border into Israel killed three Israeli soldiers.*

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#### Egypt to normalise relations with Iran

**Egypt** and **Iran** are set to normalise relations this year and to appoint ambassadors as part of mediation overseen by **Oman**.<sup>1</sup> The sultan of Oman, **Haitham bin Tarek** (2020-present), held diplomatic talks in **Cairo** with President **Abdel Fattah El Sisi** (2014-present) on 22 May. While the foreign ministry said the talks were on "*various regional and international developments*", local media have suggested that rapprochement between the nations will be forthcoming, following a pattern of shake-ups this year that reflect shifting power dynamics in a region that perceives **United States (US)** influence to be on the decline.

Following his visit to Cairo, bin Tarek met with Iran's supreme leader, **Ayatollah Ali Khamenei** (1989-present), who said he welcomes better diplomatic relations with Egypt,<sup>2</sup> which have been fraught since the 1970s when Egypt hosted exiled Iranian leader, **Reza Pahlavi** (1941-1979), until his death in 1980. For Cairo, the deal has an economic imperative. Amid an economic crisis, Egypt's government is seeking to increase trade and economic ties with **Syria** and **Iraq**, both of which have close ties with Shia Iran.

Cairo is eager to assert its relevance in a region of shifting allegiances. While the Arab world's most populous nation was once the centre of gravity when it came to political developments, **Saudi Arabia** has largely taken over that role. In March, Saudi Arabia ended a years-long feud with an entente brokered by **China**.<sup>3</sup> Much of these shifts in regional dynamics can be attributed to the regional perception that the US is pulling back from its involvement in the region. 2019 was seen as a turning point in relations: the US accused Iran of launching a series of drone strikes against Saudi oil facilities, against which it later refused to take any direct action.<sup>4</sup>

The situation deteriorated further recently after Iran seized two oil tankers in the **Persian Gulf**. The first, belonging to US-headquartered oil company **Chevron**, was seized on 27 April carrying oil from **Kuwait** to **Houston** (US). On 3 May, the **Islamic Revolutionary Guard Corps** stopped **Panama**-flagged tanker **Niovi** while it was sailing around the coast of the **United Arab**

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<sup>1</sup> The National, 24 May 2023.

<sup>2</sup> Reuters, 29 May 2023.

<sup>3</sup> Politico, 6 Apr 2023

<sup>4</sup> The New York Times, 31 May 2023

**Emirates (UAE)**.<sup>5</sup> On 31 May, the UAE said it would cease being a member of the **Combined Maritime Forces**, a US-led naval task force in the region after an “*ongoing evaluation of effective security cooperation with all partners*”.<sup>6</sup> This was in response to an article in **The Wall Street Journal**, which said the UAE’s withdrawal came after Emirati officials raised the issue of the seizures with the US and questioned the task force’s capacity to enforce its mandate to protect commercial activity in the Persian Gulf, **Red Sea** and **Horn of Africa**.<sup>7</sup>

Sources in Egypt say Cairo needs to diversify allegiances to guarantee its long-term financial and security interests. Improving relations with Iran has the potential to benefit both; on a trade level, Iran represents a potential export market for Egypt and on a security level Iranian support for militant groups in **Gaza** is a security risk for Egypt. Greater diplomatic ties mean that Egypt can reduce current security risks to its border while demonstrating to the US that it has further leverage to broker future ceasefires with **Palestinian** nationalist movement **Hammas**, which is currently supported by Iran.

Reframing the changing axis of power in the Persian Gulf and Egypt’s recent overtures to Syria, as well as its growing ties to China, one source noted:

*“Given its fraught relationship with the US administration, Egypt has been using the current moment to make inroads with previous foes as well as making new friends.”*<sup>8</sup>

On 25 May, it was reported that Egypt is in talks with China’s **Chengdu Aircraft Industry Group** to purchase a dozen J-10C fighter jets, while Saudi Arabia is looking to acquire Chinese drones and air defence systems.<sup>9</sup>

### **Inflation continues to soar amid economic crunch**

Latest **Central Bank of Egypt (CBE)** figures show that Egypt’s annual core inflation rose to 40.3% in May from 38.6% in April.<sup>10</sup> Inflation has seen continuous spikes in the last year amid the economic fallout from the war in **Ukraine**. Post-**Covid** hikes in global commodity prices have highlighted how vulnerable the country is to external shocks, with a series of currency devaluations and a foreign currency crisis that have been painful for a nation dependent on food imports. US-based **Johns Hopkins** applied economics professor **Steve Hanke**, who studies inflation in emerging markets, estimated in June that Egypt’s real inflation rate amounted to an equivalent 74% hike year-on-year, more than double the CBE’s estimates.<sup>11</sup>

As millions of Egyptians struggle with sky-rocketing food costs, the government said it would allocate 127.7 billion Egyptian pounds (EGP) (\$4.14 billion) for food subsidies out of a EGP3 trillion (\$97.1 billion) budget for the new financial year, which begins on 1 July.<sup>12</sup> The new allocations are symbolic of an ongoing dilemma for the government; while they have made promises under the terms of a 46-month \$3 billion loan agreement with the **International Monetary Fund (IMF)** signed in October to curb spending including on subsidies, multiple sources told **ARC Briefing** that there is a very real threat of social unrest should subsidies be curbed and inflation left unchecked. Residential electricity rates were set to rise last financial year by 21% as part of the government’s commitments to overhaul electricity prices by 2025.<sup>13</sup> However, these have remained unchanged, given concern about the cost-of-living crisis.

<sup>5</sup> The New York Times, 31 May 2023

<sup>6</sup> Al Jazeera, 31 May 2023

<sup>7</sup> The Wall Street Journal, 31 May 2023

<sup>8</sup> Source, columnist, Cairo

<sup>9</sup> The South China Morning Post, 24 May 2023.

<sup>10</sup> Central Bank, 2023.

<sup>11</sup> Steve Hanke, June Index via Twitter.

<sup>12</sup> Reuters, 13 Jun 2023.

<sup>13</sup> Enterprise, 16 June 2022.

A **World Bank** report published on 6 April noted the long-term effects of rising food costs, suggesting that economies in the **Middle East and North Africa (MENA)** region will grow at a slower rate in 2023 given pressure from double-digit food inflation on low-income households. It added that the effects of food insecurity could last for generations.

Cost hikes continue to cause pain for business, as the effect is threefold: imports, which fuel the local economy, have been stalled due to currency shortages, wage costs have increased as employees struggle with inflationary pressure, while Egypt's consumer market, although still presenting huge potential has been curtailed as citizens have cut their spending given the climate of uncertainty.

Sources noted that the amount of debt Egypt has accrued continues to be concerning. In the 2023/2024 budget published on 9 May, the government earmarked 50% of allocations for debt service and projected that nearly half of all revenues will come from further debt.<sup>14</sup> The amount Egypt owes to multilateral lenders has more than quadrupled over the past decade, rising from \$11.4 billion in Q1 2012-2013 to \$49.7 billion at the end of Q1 2022-2023.<sup>15</sup>

### Egyptian border policeman kills three Israeli soldiers

**Israeli** prime minister **Benjamin Netanyahu** (1996-1999, 2009-2021, 2022-present) has told Egypt it expects an "*exhaustive and thorough*" investigation to be conducted after an Egyptian border police officer who crossed the Egypt-Sinai border into Israel between the Mediterranean coast and the Red Sea Israeli resort of **Eilat** killed three Israeli soldiers on 3 June.<sup>16</sup> The incident is a rare outbreak of violence on the border between the two nations, which have been allies since signing a peace treaty in 1978.<sup>17</sup>

The Egyptian defence ministry has said the shootings of the Israeli soldiers and the death of the Egyptian, whom Israeli troops later killed in a shoot-out, were connected to a thwarted drug trafficking mission. Israeli media have reported that the Egyptian policeman cut open an emergency access point in the border fence and walked 5 kilometres before he shot the two Israeli soldiers. Later, as more soldiers arrived, another battle saw a third Israeli soldier killed as well as the death of the Egyptian.<sup>18</sup>

Under the 1978 **Camp David** accords, Egypt was the first Arab country to make peace with Israel. The two nations have been involved in joint operations to secure the border since. In recent years they have become closer, with then Israeli prime minister **Naftali Bennett** (2021-2022) meeting President Sisi in the Red Sea resort town of **Sharm El Sheikh** in September 2021.<sup>19</sup> This was the first meeting between any Israeli prime minister and Egyptian president since Netanyahu visited **Hosni Mubarak** (1981-2011) shortly before the **2011 Revolution**. On the same visit, weekly flights between **Tel Aviv** (Israel) and Cairo were announced.

The outbreak of violence brings into question the state of fragile peace given that the Egyptian public remains generally hostile to the idea of normalisation with Israel, as the occupation of Palestine continues alongside the failure of the **Oslo Accords** to facilitate the creation of two states. Egypt has been key to guaranteeing Israeli security having negotiated almost every major ceasefire between Hamas and Israel since the 1980s and has a particular interest in keeping its role as chief mediator. Sources suggest that Egypt's extension of its hand to assist in

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<sup>14</sup> Al Monitor, 23 May 2023

<sup>15</sup> Central Bank, 2023

<sup>16</sup> AP, 3 Jun 2023

<sup>17</sup> AP, 3 Jun 2023

<sup>18</sup> Times of Israel, 15 Jun 2023

<sup>19</sup> AP, 13 Sep 2021

the Israeli-Palestinian conflict is a way for the government to demonstrate its relevance to the US administration, a major source of aid to the country.

The recent killings are also symbolic of wider anxiety in Egypt that under the new Israeli government, arguably the most hard-right government in the country's history, the threat of violence poses a real threat to the stability of relations. In Egypt, the border police officer was identified, and his picture went viral on social media where he was celebrated as a martyr. Such responses point to deeper currents of frustration brewing in Egypt: the idea that Egypt's security relationship with Israel is a betrayal of the Palestinian cause for statehood, as well as more domestic concerns. For many Egyptians, the officer represents someone who took action in a society where repressive domestic government policies mean that acts of agency, debate or protest come with the risk of prison or disappearance.

Several Egypt watchers say the incident represents wider social frustrations. The border officer had no formal education after middle school and was reportedly an unwilling conscript who had tried to leave the border police service. However, he was forced to stand for hours in the heat protecting the border next to a country that many Egyptians consider hostile. One source commented to ARC:

*"There is a sense of collective humiliation in Egypt about the current situation. A frustration that can only be vented in senseless acts of violence like this one."*

Sources have previously told ARC that there is significant concern among Egyptian officials about the potential of an all-out war that could force other Arab nations to intervene. In June, Palestinian prime minister **Mohammed Shtayyeh** (2019-present) warned Israeli authorities against submitting a bill to the **Knesset** (Israel's legislature) that would seek to divide the area of **Al-Aqsa Mosque**, and called on Muslim countries to intervene after a member from a right-wing party proposed legislation that would divide the site into separate areas for Palestinians and Israeli settlers. The proposed legislation would give Palestinians access to only 30% of sacred area, with the rest reserved for Israeli settlers.<sup>20</sup>

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<sup>20</sup> Al Ahram, 13 Jun 2023

## Planner

Jun 2023 **Cairo (Egypt)** *Al Mal*. **Indian** representatives to discuss prospective investments in the **Suez Canal**;

Jul 2023 **Cairo (Egypt)** *Enterprise*. **Egyptian Exchange** to launch a Sharia-compliant index;

Sep 2023 **(Egypt)** *Al Mal*. **Japanese** business leaders of 30 companies, through the **Japan External Trade Organization (JETRO)**, will visit Egypt;

2023 **Cairo (Egypt)** *Enterprise*. Government to sign agreements with a consultant for the **EuroAfrica** electricity interconnector;

2023 **Cairo (Egypt)** *Press statement*. President **Abdel Fattah El Sisi** and **Turkey's** President **Recep Erdogan** expected to hold a summit;

2023 **Cairo (Egypt)** **Egyptian Stock Exchange** to launch its new futures exchange.

## Chronology

14 Jun 2023 **Cairo (Egypt)** *Reuters*. **Qatar's** sovereign wealth fund is in talks with Egypt about potentially investing in historic hotels in Cairo, in a landmark deal since the two countries restored diplomatic relations;

13 Jun 2023 **Cairo (Egypt)** *Times of Israel*. **Israeli** prime minister **Benjamin Netanyahu** has told Egypt he expects an “*exhaustive and thorough*” investigation into the killings of three soldiers by an Egyptian policeman who crossed the border;

13 Jun 2023 **Cairo (Egypt)** *Middle East Eye*. Palestinian prime minister **Mohammed Shtayyeh** has warned **Israeli** authorities against submitting a bill to the **Knesset** in the coming days that seeks to divide **Al-Aqsa Mosque** and called on Muslim countries to intervene;

13 Jun 2023 **Cairo (Egypt)** *Reuters*. Egypt is allocating 127.7 billion Egyptian pounds (\$4.14 billion) for its sprawling food subsidy programme out of a 3 trillion-pound (\$97.1 billion) budget for the financial year starting on 1 July;

12 Jun **Cairo (Egypt)** *BBC*. Three **British** nationals die in a fire on a boat in Egypt's **Red Sea**;

11 Jun 2023 **Cairo (Egypt)** *Central Bank of Egypt*. Egypt's annual core inflation rose to 40.3% in May from 38.6% in April;

11 Jun 2023 **Cairo (Egypt)** *Egypt Independent*. The Central Agency for Public Mobilization and Statistics (**CAPMAS**) publishes data revealing that annual inflation rose to 32.7% in May, an increase from 30.6% in April;

10 Jun 2023 **Cairo (Egypt)** *Africa News*. Egypt applies a visa exemption for women, children and people over the age of 50 fleeing neighbouring Sudan;

8 Jun 2023 **Cairo (Egypt)** *Egypt Independent*. Three new international airlines operate flights to Hurghada International Airport for the first time as part of revitalisation efforts for air and tourist traffic in the airports of Egyptian resorts;

7 Jun 2023 **Cairo (Egypt)** *Egypt Independent*. Three United Arab Emirates (UAE) companies – Masdar, Hassan Allam Utilities and Infinity Powers – attend a Cairo signing of a deal with Egypt's New and Renewable Energy Authority as part of cooperation to secure land for the largest wind farm in Africa – and one of the largest globally – at an estimated value of \$10 billion;

6 Jun 2023 Cairo (Egypt) Egypt Independent. Google notifies its users that Egypt's finance ministry will impose a 14% value-added tax on its electronic services in Egypt, starting July, in implementation of its decision to subject non-resident service providers to value-added tax;

4 Jun 2023 **Cairo (Egypt)** *Al Ahram*. Egyptian border police officer kills three **Israeli** soldiers on **Sinai** border;

29 May 2023 **Cairo (Egypt)** *Press release*. Egyptian solar utility company **KarmSolar's** water solutions arm has launched the first solar-powered water desalination plant in the red resort town of **Marsa Alam**, producing roughly 300 cubic metres of water a day, covering 100% of consumption at **Red Sea Diving Safari's Marsa Shagra** resort under a 25-year Water Purchase Agreement (WPA);

25 May 2023 **Cairo (Egypt)** *Reuters*. Egypt has deferred payments for its large wheat purchases, in some cases by months, according to a government official and traders, as the country grapples with a shortage of hard currency;

25 May 2023 **Cairo (Egypt)** *Tactical Report*. **China**-headquartered **Chengdu Aircraft Industry Group** is in talks with Egypt to purchase a dozen J-10C fighter jets while **Saudi Arabia** is looking to acquire Chinese drones and air defence systems as the countries seek to diversify their weapons supplies away from the **United States** and **Russia**;

24 Apr 2023 **Cairo (Egypt)** *Egypt Independent*. Presidency spokesperson **Ahmed Fahmy** reports that President **Abdel Fattah El Sisi** and **United Kingdom** prime minister **Rishi Sunak** discussed by phone coordinating efforts regarding the **Sudan** crisis;

23 May 2023 **Cairo (Egypt)** *The National*. Egypt and Iran will normalise ties this year and are set to appoint ambassadors in the coming months under a mediation process led by **Oman**;

22 May 2023 Cairo (Egypt) Egypt Independent. Central Agency for Public Mobilisation and Statistics reports a decrease in the value of Egyptian exports to the United States (US) from \$2.5 billion in 2021 to \$2.3 billion in 2022, representing 4.5% of Egypt's exports to the world;

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