

## AFRICA RISK CONSULTING

### Egypt Monthly Briefing August 2024

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#### Egypt Summary 19 August 2024

*This week international mediators will continue negotiations in Cairo on a proposed ceasefire between Palestinian militant group, Hamas, and Israel. The Central Agency for Public Mobilization and Statistics (CAPMAS) announces on 8 August that annual inflation slowed for a fifth consecutive month to 25.7% in July from 27.5% in June. The International Monetary Fund (IMF) announces on 29 July that its executive board has completed the third review of Egypt's Extended Arrangement under the Extended Fund Facility (EFF), allowing authorities to withdraw \$820m.*

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#### Gaza ceasefire talks to resume in Cairo

This week international mediators will continue negotiations in **Cairo** on a proposed ceasefire between **Palestinian** militant group, **Hamas**, and **Israel** following the two-day conclusion of talks on 16 August in **Doha (Qatar)**.<sup>1</sup> In a joint statement released on 16 August, Egypt, Qatar and the **United States (US)** said that negotiations were “*serious and constructive*” and they had made a proposal to bridge the remaining gaps between the parties:

*“This proposal builds on areas of agreement over the past week, and bridges remaining gaps in the manner that allows for a swift implementation of the deal”.*<sup>2</sup>

Egypt was represented by intelligence chief **Abbas Kamel**, the US by **Central Intelligence Agency (CIA)** director **William Burns**, Qatar by prime minister Sheikh **Mohammed bin Abdulrahman Al Thani** and Israel by **Mossad** spy service chief **David Barnea**.<sup>3</sup> Hamas did not have representatives present in Doha but its mediators were briefed on the outcome of the gatherings.<sup>4</sup> The various mediators worked on a three-stage proposal presented by US President **Joe Biden** (2021-present) at the end of May, which seeks to end hostilities, transfer more aid to **Gaza** (Palestine) and release more than 100 hostages held by Hamas in exchange for Palestinian prisoners.<sup>5</sup> Speaking on the Doha round of mediations, Biden said on 16 August that while “*we are closer than we’ve ever been*” to reaching an agreement, “*we’re not there yet but much, much closer than it was three days ago*”.<sup>6</sup>

Negotiators have struggled in previous rounds to resolve a major rift between Hamas and Israel, which vows to fight until the Palestinian armed group is destroyed.<sup>7</sup> Meanwhile, Hamas demands that any ceasefire must result in a cessation of fighting and a complete withdrawal of Israeli troops from Gaza. The current war in Gaza broke out on 7 October after Hamas fighters launched an attack on southern Israel and killed approximately 1,200 people. In response, Israel launched a ground and air assault which Gaza health officials estimate has left more than 40,000 dead.

It is positive that the Doha negotiations were the most productive in months, but gaps still remain over the withdrawal of Israeli troops, particularly from the **Philadelphi Corridor**, the southern portion of Gaza that runs along the border with Egypt.<sup>8</sup> Additionally looming over the negotiations are

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<sup>1</sup> Reuters, 17 Aug 2024; Bloomberg, 16 Aug 2024

<sup>2</sup> Egypt, Qatar, US Joint Statement, 16 Aug 2024

<sup>3</sup> Reuters, 17 Aug 2024; Al Jazeera, 16 Aug 2026

<sup>4</sup> Al Jazeera, 16 Aug 2026; Bloomberg, 16 Aug 2024

<sup>5</sup> Al Jazeera, 16 Aug 2026

<sup>6</sup> Reuters, 17 Aug 2024

<sup>7</sup> Al Jazeera, 16 Aug 2026; Bloomberg, 16 Aug 2024

<sup>8</sup> Bloomberg, 16 Aug 2024

fears that Israel could face an **Iran**-led attack, potentially threatening any proposed Gaza truce.<sup>9</sup> Iran has vowed to retaliate against Israel following the assassination of Hamas leader **Ismail Haniyeh** in **Tehran** on 31 July.

Egypt is deeply invested in the Gaza conflict ending for both humanitarian and strategic reasons. Sharing a border with Gaza at the **Rafah** crossing, Egypt is directly affected by the humanitarian crisis there, including the loss of life, destruction, and displacement. The conflict has also destabilised the region, negatively impacting Egypt's economy, including significant revenue losses from the **Suez Canal** due to disruptions such as **Yemeni Houthi** attacks on shipping vessels.

Egypt on 12 May also formally joined 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 (See *ARC Briefing Egypt May 2024*). Given that Egypt is also a major supporter of the Palestinian cause, the conflict has greatly strained bilateral relations with Israel, which are expected to worsen the longer the conflict continues.

### **Inflation drops for fifth month to 25.7% despite subsidy cuts...**

The **Central Agency for Public Mobilization and Statistics (CAPMAS)** announced on 8 August that annual inflation slowed for a fifth consecutive month to 25.7% in July from 27.5% in June, its lowest level recorded since late 2022. Prices gained 0.4% month-on-month from a previous 1.6% in June.<sup>10</sup> Food and beverage prices, the largest single component of Egypt's inflation basket, increased by an annual 29.7% from 31.9% in June and 31% in May.<sup>11</sup> On a monthly basis, food and beverage prices increased by 0.3% versus 2.6% in June.

Inflation has continued its steady decline from a record 38% in September 2023 despite the government's historic decision in May 2024 to increase the cost of subsidised bread by 300%. In addition to this, the government implemented a 15% increase in the price of fuel on 25 July. The recent shortages in domestic gas supplies, which have been causing power blackouts, also did not have a major impact on inflation. However, power tariffs and fares for metro and some train services in Cairo are widely expected to increase in the next few weeks.

The slowdown in inflation is a result of authorities' shift to an inflation-targeting model and a flexible exchange rate.<sup>12</sup> Authorities devalued the pound in the first quarter, causing it to plunge by more than 40% against the US dollar. The country did this to secure more than \$57 billion in foreign investments and aid from the **United Arab Emirates (UAE)**, **International Monetary Fund (IMF)**, **European Union (EU)** and **World Bank** (see *ARC Briefing Egypt Mar 2024*).

Local financial services company **EFG Hermes** has predicted that consumer costs will continue to cool for the rest of the year, citing that the bread price increase, along with the gradual phasing-out of fuel-product subsidies and a rise in power tariffs, will have a "*relatively small effect*" on inflation<sup>13</sup>. The IMF forecast that inflation in Egypt will fall to 15.3% by the end of June 2025.<sup>14</sup> A local analyst also told **Africa Risk Consulting Briefing (ARC Briefing)** that although inflation has declined from a record 38% last year and is forecast to decline further, "*it is still over 25% and piling immense pain on average Egyptians*".<sup>15</sup>

In the short term, the fifth straight month of cooling inflation increases the likelihood that the **Central Bank of Egypt (CBE)** will make its first interest-rate cut since 2020 as early as its next meeting on 5 September. After its last meeting on 18 July, the **Monetary Policy Committee (MPC)** announced that it would maintain the benchmark deposit rate at 27.25% and the lending rate at 28.25%.<sup>16</sup> The

<sup>9</sup> Reuters, 17 Aug 2024

<sup>10</sup> CAPMAS, 8 Aug 2024

<sup>11</sup> CAPMAS, 8 Aug 2024

<sup>12</sup> Reuters, 18 Aug 2024

<sup>13</sup> Bloomberg, 8 Aug 2024

<sup>14</sup> Bloomberg, 8 Aug 2024

<sup>15</sup> ARC Source, Local Analyst

<sup>16</sup> Central Bank of Egypt, 18 Jul 2024

decision was taken to ensure a slowdown in inflation continues after the dramatic currency devaluation. However, it is widely expected that a monetary easing cycle will begin in the fourth quarter.

### Egypt unlocks \$820m in IMF funding after third review...

The IMF announced on 29 July that its executive board had completed the third review of Egypt's **Extended Arrangement** under the **Extended Fund Facility (EFF)**, allowing authorities to withdraw \$820m.<sup>17</sup> Egypt's 46-month IMF loan programme was initially approved in 2022 but more than doubled on 6 March from \$3 billion to \$8 billion following its economic crisis marked by high inflation and severe foreign currency shortages.<sup>18</sup> The announcement of the agreement followed Egyptian authorities' decision to float the Egyptian pound and secure its additional \$57 billion in investment.

In its statement, the IMF noted that officials' recent efforts to restore macroeconomic stability have begun to "*yield positive results*".<sup>19</sup> The IMF also said that Egypt's decision to shift to a flexible exchange rate regime remains key to its programme, crediting the policy change for "*gradually abating*" inflationary pressure, eliminating foreign exchange shortages and contributing to meeting fiscal targets, including those related to spending on large infrastructure projects.<sup>20</sup> Despite progress made on some key structural reforms, the IMF said that greater efforts are needed to implement further critical reforms, particularly given persisting domestic policy challenges and the difficult regional environment.<sup>21</sup>

The reforms include accelerating the programme of divestment of state-owned enterprises and carrying out reforms to prevent them from using unfair competitive practices.<sup>22</sup> The IMF also said that Egypt, where declining natural gas production has contributed to daily power cuts since last year, needs to contain fiscal risk from the energy sector.<sup>23</sup> The lender further called for fiscal consolidation alongside strengthening revenue mobilisation to create the space required to expand social programmes.<sup>24</sup> Accelerating structural reforms to help raise private sector growth will also be key.

The \$820m is much-needed cash in hand and will help contribute to meeting the aforementioned policy reforms the IMF requires. The funds should also boost the economy amid concerns that conflict in Gaza and the region could exacerbate the country's financial issues. What is also noticeable is that both the IMF and Egyptian 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 a decade.

Furthermore, the government on 19 August extended the term of CBE head **Hassan Abdalla** by a year, a move which will assure investors that the country is fully committed to its reform programme and is willing to take decisive actions to realise them.

### Planner

2024 **Cairo (Egypt)** Further subsidy reductions expected;  
 Jul - Oct 2024 **Cairo (Egypt)** Egypt to purchase 17 liquefied natural gas (LNG) cargoes;  
 5 Sep 2024 **Cairo (Egypt) Central Bank of Egypt Monetary Policy Committee (MPC)** to meet;  
 2025 **Ras El-Hekma (Egypt)** Construction to begin on the \$35 billion Ras El-Hekma project;

### Chronology

<sup>17</sup> IMF, 29 Jul 2024

<sup>18</sup> IMF, 6 Mar 2024

<sup>19</sup> IMF, 29 Jul 2024

<sup>20</sup> IMF, 29 Jul 2024

<sup>21</sup> Reuters, 29 Jul 2023; IMF, 29 Jul 2024

<sup>22</sup> Reuters, 29 Jul 2023; IMF, 29 Jul 2024

<sup>23</sup> IMF, 29 Jul 2024

<sup>24</sup> Reuters, 29 Jul 2023; IMF, 29 Jul 2024

19 Aug 2024 **Cairo (Egypt)** *Jerusalem Post*. **Lebanese** outlet **Al-Akhbar** says that Egyptian officials accepted **Israel's** request not to set a date for the **Israel Defense Forces (IDF)** withdrawal from the **Philadephi** corridor, which borders **Gaza** and Egypt;

19 Aug 2024 **Cairo (Egypt)** *Bloomberg*. Egypt extends **Hassan Abdalla's** term as **Central Bank of Egypt (CBE)** governor by another year, a move that may reassure investors the country is committed to its monetary policies after a dramatic interest-rate hike and currency devaluation earlier this year.

15 Aug 2024 **Cairo (Egypt)** *Bloomberg*. **Minouche Shafik**, the Egyptian president of the **United States (US)**-based **Columbia University** resigns after a tumultuous period sparked by protests over the war in **Gaza**, becoming the third leader of an Ivy League school to depart over turmoil tied to the conflict;

14 Aug 2024 **Cairo (Egypt)** *Middle East Monitor*. Egypt and **Saudi Arabia** hold talks on ways to enhance military cooperation;

12 Aug 2024 **Cairo (Egypt)** *Daily News Egypt*. **Egyptian Exchange (EGX)** and **Iraqi Stock Exchange (ISX)** sign a cooperation protocol to enhance investment ties;

11 Aug 2024 **Cairo (Egypt)** *Daily News Egypt*. Foreign affairs minister **Badr Abdelatty** travels to **Rwanda** to attend the inauguration of President **Paul Kagame** and to hold bilateral talks;

8 Aug 2024 **Cairo (Egypt)** *Reuters*. Egypt, **Qatar** and **United States** call on **Israel** and **Hamas** to meet for cease-fire negotiations on 15 August;

6 Aug 2024 **Cairo (Egypt)** *Bloomberg*. According to the **African Union (AU)**, Egypt and **Djibouti** have offered to support a new AU peacekeeping mission to **Somalia** that will replace a similar force being retired at the end of this year;

7 Aug 2024 **Cairo (Egypt)** *AP*. Civil aviation ministry says it ordered airlines to avoid **Iranian** airspace for three hours on 8 August due to military drills;

6 Aug 2024 **Cairo (Egypt)** *Bloomberg*. Egypt takes advantage of the current dip in wheat prices to buy up nearly a third of its yearly requirement of the grain in one go;

4 Aug 2024 **Djibouti (Djibouti)** *Daily News Egypt*. **Egyptian** authorities say they will import large quantities of live sheep and goats from Djibouti and **Somalia** for immediate slaughter, in a bid to curb meat prices following an influx of tourists and expatriates;

4 Aug 2024 **Cairo (Egypt)** *Daily News Egypt*. Military production minister **Mohamed Salah El-Din** meets with **Tanzania's** ambassador to Egypt, **Richard Mottayoba Makanzou** to discuss potential collaborations between the two countries;

3 Aug 2024 **Cairo (Egypt)** *Bloomberg*. An **Israeli** delegation led by the country's intelligence chief **David Barnea** visits Egypt, seeking to make progress on long-stalled talks over a possible **Gaza** truce, but returns with no immediate sign of a breakthrough;

1 Aug 2024 **El Alamein (Egypt)** *Asharq Al-Awsat*. Investment minister **Hassan El-Khatib** meets with his **Saudi Arabian** counterpart, **Khalid bin Abdulaziz Al-Falih**, to discuss investment opportunities in Egypt;

28 Jul 2024 **Cairo (Egypt)** *Middle East Monitor*. Foreign ministry warns of the risks of a new conflict breaking out in **Lebanon**, stating it could "drag the region into an all-out regional war";

28 Jul 2024 **Cairo (Egypt)** *Asharq Al-Awsat*. Petroleum and mineral resources ministry signs two agreements worth \$340m to boost oil and gas production – one with **United Kingdom**-headquartered **Shell** subsidiary **Shell Egypt** and one with **Malaysia's** **Petronas**

25 Jul 2024 **Cairo (Egypt)** *Reuters*. Government raises petrol prices by 15% ahead of the **International Monetary Fund's (IMF)** third review of Egypt's expanded \$8 billion loan programme;

22 Jul 2024 **Cairo (Egypt)** *Middle East Monitor*. **Joint Organisations Data Initiative** data reveals that Egypt's natural gas production reached its lowest level in May since February 2018, indicating that Egypt may move from being an exporter to an importer;

21 Jul 2024 **Cairo (Egypt)** *Egypt Today*. Prime minister **Mostafa Madbouli** says Egypt is ready to help deepen economic integration among **African** countries and promote development efforts to improve life for all people across the continent;

17 Jul 2024 **Cairo (Egypt)** *Reuters*. Prime minister **Mostafa Madbouli** says load shedding will stop as of Sunday after natural gas shipments arrived;

16 Jul 2024 **Cairo (Egypt)** *Anadolu Agency*. President **Abdel Fattah El-Sisi** discusses with **French** President **Emmanuel Macron** via phone the need to intensify international efforts to prevent further conflict in the **Middle East**;

15 Jul 2024 **Cairo (Egypt)** *NY Times*. **Israeli** officials say Israel and Egypt have discussed the possible withdrawal of Israeli soldiers from **Gaza's** border with Egypt, which could remove one of the main obstacles to a ceasefire deal;

### About Africa Risk Consulting:

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