

The potential economic and humanitarian impacts of the escalating conflict in Gaza and tensions in the Red Sea

OVERVIEW

The latest political, economic, and conflict developments in the Middle East and North Africa region – from the conflict in Gaza to the Red Sea tensions – are likely to further deepen Egypt's financial crisis. An even more weakened economy, alongside concerns around security and the potential displacement of Gazan refugees to the Sinai Peninsula, is likely to drive humanitarian needs. This is especially true for people already living below the national poverty line, residing primarily in Upper Egypt's rural governorates, such as Al Minia, Assiut, Qena, and Sohag (UNFPA 21/11/2021; WB 25/01/2021; El Nidaa 07/2019). In the event of the mass displacement of Gazan refugees to the Sinai Peninsula, the residing population will likely experience increased pressure on resources and security concerns arising from the possible formation of armed groups aligned with Hamas.

Since 7 October 2023, when Hamas launched a military operation on Israeli settlements near the Gaza Strip, Israel has responded with aerial bombardments and ground operations in Gaza. As a result of its geographical proximity to Gaza and the constant risk of the forced mass displacement of Gaza's population to the Sinai Desert, Egypt's economy has been suffering. The partial blockade of the Red Sea by the de-facto authority (DFA) in the north of Yemen (also known as the Houthis), in response to Israel's military campaign in Gaza, has also been affecting Egypt's economy. Tourism and Suez Canal revenues (fees on the passage of ships) have been the sectors most affected (ICG 30/01/2024).

The potential humanitarian needs of households living below the poverty line include access to food and services addressing malnutrition, livelihood assistance, and protection. A further deterioration of the economic situation resulting from the conflict in Gaza and the Red Sea tension is likely to give rise to such needs. The displaced Gazan population will also need assistance, alongside Egypt's other refugee populations, including those from Sudan and Syria.

ABOUT THIS REPORT

Aim:

This report aims to provide an overview of the anticipated impacts of the conflict in Gaza and the Red Sea tensions on Egypt's economy, including analysis of the factors and events with the potential to trigger a deterioration in affected people's humanitarian situation, alongside existing socioeconomic vulnerabilities. This report also explains the possible resulting humanitarian conditions for affected Egyptian households, existing refugees, and newly displaced Gazans.

Methodology:

this report is primarily based on a review of publicly available secondary data, including analytical reports by humanitarian organisations, think tanks, and media articles. The report employs the ACAPS Risk Analysis Methodology, critical to our assessment of different triggers' potential for driving socioeconomic deterioration in Egypt and the level of humanitarian impact.

Limitations

- There is limited publicly available analysis of the humanitarian impact of the conflict in Gaza and the Red Sea tensions on households in Egypt.
- Recent data on tourism revenues is not available.
- There is limited up-to-date data on malnutrition and poverty rates in Egypt for 2022 and 2023, alongside a lack of information on the areas most affected by food insecurity.
- The most recent data on child labour is from 2022.
- This report is an anticipatory analysis based on publicly available data, including economic projections. No access to data not publicly available or widely shared was obtained.
- The report is a forward-looking analysis that considers the fluid, rapidly changing dynamics of the conflict in Gaza and the Red Sea tensions.

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KEY FINDINGS

The impact of both the conflict in Gaza and the Red Sea tensions on Egypt's economy and humanitarian situation will likely be moderate.

Economic impacts

- **Worsening overall economic conditions:** if the conflict in Gaza and the Red Sea tensions last up to six months (until 7 April 2024), GDP is projected to decrease by up to 1.8% (ESCWA/UNDP 23/02/2024). Real GDP growth is likely to decline from 3.8% in 2023 to 3% in 2024 (IMF 31/01/2024). Six months of conflict in Gaza are expected to push at least 387,000 more people below the poverty line in Egypt (ESCWA/UNDP 23/02/2024). About 30% of the population was living below the national relative poverty line in 2019, prior to the COVID-19 pandemic. Estimates indicate that this figure increased to 60% in 2023 (62.4 million people) (Reuters 08/12/2023; The Guardian 08/05/2023; ESCWA/UNDP 23/02/2024).
- **Reduced tourism:** the instability and insecurity in southern Sinai resulting from the conflict in Gaza will likely have a moderate impact on tourism revenues. Estimates suggest that tourism revenues across Egypt decreased by nearly 5% in 2023 and may decrease by a further 6% in 2024 (ESCWA/UNDP 23/02/2024).
- **Reduced natural gas imports:** power outages across Egypt will likely continue throughout 2024, further aggravating the power cuts already an issue since August 2023. Even though natural gas exports from Israel's Tamar field (used to generate electricity) resumed in early November 2023, they are still reduced in volume as compared to before 7 October (ICG 30/01/2024; ESCWA/UNDP 23/02/2024).
- **Refugee influx further straining the economy:** since 7 October, the start of the conflict, the likelihood of the mass displacement of Gaza's population to the Sinai Desert has been

low, at least until the Israeli Government's 7 February 2024 announcement of its intent to start a ground invasion of Rafah city (UN 06/02/2024; AJ 08/02/2024). Mass displacement could trigger several risks for Egypt, including social unrest as a result of perceived government inaction in response to the situation in Gaza or the possibility of Palestinian armed groups' infiltration of or formation in the country. Potential insecurity can affect the economy and further jeopardise tourism and economic investment.

- **Reduced Suez Canal revenues:** the partial blockade of the Red Sea led to an over 40% decrease in the number of ships going through the Suez Canal from December 2023 to January 2024 (UNCTAD 26/01/2024). More extreme tensions' escalations in the Red Sea could result in a complete halt of traffic, reducing Egypt's foreign currency revenues and increasing the prices of imported goods, such as fuel and some food items.
- **Increased prices of imported goods:** overall, commodity and imported goods prices are projected to increase by 5–8% in early 2024, a result of tensions' escalations in the Middle East. This will coincide with the upcoming Ramadan and Eid seasons in March and April, when consumption usually increases by 50% (TNA 26/12/2023).

Possible humanitarian impact

- **Reduced food access:** in 2024, food access will likely decrease further for households in Egypt living below the poverty line. The impact of the Red Sea tensions and the consequences of the conflict in Gaza are driving shortfalls in foreign currency revenues. This, coupled with food supply shortages and increasing poverty rates, will likely further reduce consumers' purchasing power and limit food access, particularly for those living below the poverty line. Food inflation rates, including for staple foods such as rice and wheat, are projected to steadily increase throughout 2024 (CNN 27/12/2023; Al Hurra 23/12/2023).
- **Continued malnutrition:** the further deterioration of the economic situation is likely to reverse or slow down the projected improvement in anaemia and chronic malnutrition among children under five (UNICEF 09/09/2023).
- **Reduced livelihood access:** economic forecasts suggest an increase in unemployment rates in the first quarter of 2024, likely driven by a worsening economy (TE accessed 12/02/2024).
- **Comprehensive support required for Gazan refugees:** mass displacement to the Sinai Desert will result in extensive needs for Gazan refugees.
- **Increased needs for the wider refugee population:** Egypt already hosts refugees from other countries, including Syria and Sudan. Insecurity and food inflation will also likely affect them alongside the host community.

- **Increased protection needs:** rising poverty levels and reduced food access often lead households to resort to coping strategies with adverse consequences, such as child labour and forced marriage (WFP 18/05/2023; US DOL accessed 21/02/2024). If Gazan refugees are unable to register as refugees they also could face protection concern. UNWRA is currently not operating in Egypt and the UNHCR does not register Palestinian refugees. Such circumstances could also limit Gazan refugees' access to services and basic rights (ECFR 14/12/2023; TNA 15/06/2023).

FACTORS AFFECTING EGYPT'S ECONOMY PRIOR TO THE CONFLICT IN GAZA AND THE RED SEA TENSIONS

Throughout the years, Egypt's economy has faced several global shocks, including the COVID-19 pandemic, the war in Ukraine, and, most recently, the conflict in Gaza and the Red Sea tensions. The COVID-19 pandemic affected the tourism sector the most, prior to which tourism accounted for 12% of the GDP, 10% of employment, and 4% of the GDP in foreign currency earnings. The partial and total lockdown measures taken to mitigate the spread of COVID-19 reduced tourism activity and corresponding revenues. The economic slowdown during the pandemic also reduced tax revenues, stretching the Government's budget (IMF 14/07/2021).

Egypt depends on imports from other countries, especially Ukraine and Russia, for wheat, and the country is expected to become the largest wheat importer in 2024 (Ahram 22/06/2023). Global supply chain disruptions following the start of the conflict in Ukraine in early 2022 have contributed to high inflation rates in Egypt. The country reached a record high of 38% inflation in September 2023. Since March 2022, the Egyptian pound has also lost nearly half its value, leading to currency depreciation (ESCWA/UNDP 23/02/2024; FE 11/11/2023; Reuters 10/10/2023). Currently, high inflation and a foreign exchange crisis resulting from reduced foreign currency revenues limiting the country's imports are challenging the country's economy (WB accessed 09/02/2024).

The military's influence over civilian sectors – such as transportation, telecommunications, and the media – is a key contributing factor to Egypt's financial crisis, as it affects private sector investment (IISS 10/12/2023). Military loyalists have been obtaining increasingly lucrative positions and contracts, while many non-military businesses are suppressed. Over the past decade, monopolies controlled by the military and its allies have been diverting public funds towards military interests, aggravating economic challenges (The Economist 01/02/2024). The military's economic influence extends to tax-exempt, military-owned enterprises, further complicating financial transparency. The current administration's militarisation of economic policy has been contributing to Egypt's increasing debt crisis (CEIP 21/09/2023).

DRIVERS OF THE ANTICIPATED SOCIOECONOMIC DETERIORATION

Alongside the already existing economic deterioration and the influx of refugees from Sudan since mid-April 2023, the conflict in Gaza and the partial Red Sea blockade will be among the main drivers of the country's potential socioeconomic deterioration. These factors are triggering, or are expected to trigger, trade and economic disruptions, mass displacement, and insecurity.

Egypt has been receiving refugees from Syria since the start of the conflict in the country in 2011. Until the conflict in Sudan erupted in April 2023, Syrians comprised the largest number of registered refugees in Egypt (UNHCR accessed 18/02/2024). Since 15 April 2023, however, escalating fighting between the Sudanese Armed Forces and Rapid Support Forces has been driving the displacement of people both inside and outside Sudan, including to neighbouring Egypt. The Sudanese refugee population in Egypt already requires substantial humanitarian assistance.

A potential influx of refugees from Gaza could put pressure on existing resources and require additional capacities to meet growing needs. A deterioration in Egypt's socioeconomic conditions could also result in the emergence of humanitarian needs among the residing population, especially among poorer households and host communities.

Current and expected consequences of the conflict in Gaza

Decline in tourism

The start of the conflict between Israel and Palestine on 7 October 2023 is directly affecting Egypt's tourism sector, especially in southern Sinai touristic locations (Ahram 29/10/2023). Previous conflicts in Gaza in 2008 and 2013 only had short-term impacts on tourism in neighbouring countries, including Egypt, and the current conflict will likely result in the same. Projections suggest that revenues decreased by nearly 5% in 2023 and may decrease by a further 6% in 2024 (ESCWA/UNDP 23/02/2024; Ahram 29/10/2023; CNN 31/10/2023).

In 2022, tourism comprised 7.7% of Egypt's GDP and 8.5% of employment (ESCWA/UNDP 23/02/2024). Even a short-term decline in tourism will likely burden Egypt's economy, as it will lead to both a reduction in foreign currency revenue and the loss of livelihoods for those dependent on the sector for income.

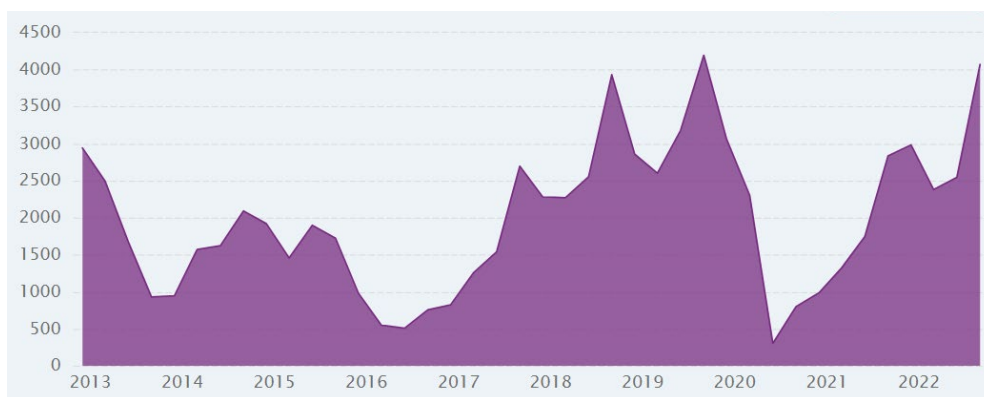
Figure 1 shows Egypt's quarterly tourism revenue over ten years. The deterioration in 2014 was a result of the political instability following the 2011 Arab Spring¹ (NYT accessed 26/02/2024;

¹ The Arab Spring was a 2011 social uprising demanding better living conditions, political reforms, an end to corruption, and improved human rights. The Arab Spring swept across many Arab countries, including Egypt, where it resulted in mass demonstrations and the eventual

TRT 29/06/2020). In October 2015, an armed group in Sinai claimed to have planted a bomb in a Russian aeroplane, causing it to crash in the Sinai Peninsula, killing 224 people. This event led to a decrease in tourism revenues from 2015–2016 (Reuters 25/04/2016; MEMO 05/01/2017). In 2020, there was another decline in revenues as a result of the COVID-19 pandemic's impact on tourism (IMF 14/07/2021).

While no steep tourism revenue declines have been associated with past conflicts in Gaza, none of the previous escalations lasted five months, unlike the current one. For example, the 2014 conflict in Gaza, which started on 8 July, lasted about 50 days (The Guardian 18/11/2014). While Figure 1 shows a relative decline in tourism revenues in 2014, it is not comparable to the steep declines observed following periods of political and social instability inside Egypt. Unless social unrest arises, triggered by the conflict in Gaza and the Red Sea blockade, the projected impact on tourism will likely continue to be moderate.

Figure 1. Egypt's quarterly tourism revenues between December 2013 and September 2023 (in USD million), which fell in 2014, 2016, and 2021 as a result of factors not related to previous conflicts in Gaza



Source: CEIC (accessed 10/02/2024)

The impact is likely to be most felt in the Sinai Peninsula, which accounts for 32% of Egypt's total tourism bookings. Gaza's geographical proximity to the Sinai Peninsula, and the consequent fear of insecurity resulting from the conflict's possible spread or the infiltration of armed groups, led to the cancellation of 25% of November 2023 bookings (ICG 30/01/2024). Sinai has been hit in a few incidents of accidental Israeli shelling, such as incidents on 22 and 27 October 2023, which injured seven and six people, respectively (AJ 22/10/2023 and

27/10/2023). Still, according to the Ministry of Tourism, arrivals in the first three weeks of November 2023 were 5–10% higher year-on-year (Enterprise 07/11/2023; Reuters 06/11/2023). Some sources mention, however, that cancellations will likely continue throughout 2024 as the conflict escalates (ESCWA/UNDP 23/02/2024; Reuters 06/11/2023). The Government may not be able to handle an extended period of continued cancellations.

As tourism revenues are a main source of foreign currency, the Government has been trying to reduce the impact of the conflict by directing tourists to other locations in Egypt. This attempt may not be successful, however, as the beach resorts and seaside camps on offer in southern Sinai differ greatly from the more historical experiences on offer in Luxor and Aswan (Ahram 29/10/2023).

Reduced natural gas imports

Since 2020, Egypt has been importing natural gas from Israel's Tamar field, about 80km west of Haifa, to both produce a portion of its own electricity and re-export to other countries in Africa, Europe, and the Middle East. Egypt uses nearly 60% of imported natural gas to generate electricity. To strengthen ties with the country, Israel agreed in August 2023 to increase natural gas exports to Egypt (Al Arabiya 10/10/2023; ESCWA/UNDP 23/02/2024). At the start of the conflict in Gaza in October 2023, Israel closed the Tamar field for over a month for security reasons (Leaders 18/11/2023).

While the field was closed, natural gas exports to Egypt dropped by 20%, forcing the Egyptian Government to extend daily electricity blackouts from one to two hours and export less natural gas to other countries. As Egypt charges fees to transit natural gas from Israel to other regions, such as the EU and the Middle East, the decrease in exports led to reduced revenues (OT 11/10/2023; Al Arabiya 10/10/2023; ICG 30/01/2024). Exports from the Tamar field resumed in early November 2023, but they remain at reduced volumes as compared to before October (ICG 30/01/2024; ESCWA/UNDP 23/02/2024). Power outages continue to affect Egyptian households, especially where poverty rates are the highest, such as in rural Upper Egypt governorates (Al Minia, Assiut, Qena, and Sohag) (UNFPA 21/11/2021; WB 25/01/2021; El Nidaa 07/2019). Rural and non-central areas, which also tend to have higher poverty rates, often face longer power cuts than urban areas and cities, as there is unequal electricity access in Egypt (TIMEP 12/02/2024; HRW 08/08/2023).

Egypt had been dealing with power cuts before the conflict in Gaza, starting in the summer of 2023 (June–September), when high temperatures led to increased electricity consumption (TIMEP 12/02/2024). The conflict in Gaza and reduced natural gas imports have aggravated a pre-existing issue. Despite government insistence that the blackouts would not affect hospitals, in August 2023, doctors – including in Cairo – reported that they had to care for

patients and deliver babies using only the light on their mobile phones. Some medical services have also been suspended or limited during power cuts, such as dialysis units, neonatal intensive care units, and emergency units (AI Manassa 29/08/2023; TIMEP 12/02/2024). As for the food sector, power cuts have damaged frozen meat and vegetables, causing financial losses (TIMEP 12/02/2024). The current situation will likely worsen as the conflict in Gaza escalates further, possibly disrupting natural gas supplies again.

The forced displacement of Gazans to Egypt and subsequent economic effects

Since 7 October 2023, the likelihood of a prolonged Israeli military operation in Gaza, one that ends up pushing parts of the population into the Sinai Desert, has been low, at least until the Israeli Government's announcement on 7 February 2024 of its intent to start a ground invasion of Rafah city. An estimated 1.2 million people, the majority of whom are IDPs, are staying in Rafah, which the Israeli army has previously designated as a safe zone (UN 06/02/2024; AJ 08/02/2024). Rafah is the city immediately adjacent to the Egyptian border. Many families will likely be unable to flee to anywhere other than Egypt, as other cities in the Gaza Strip have already been heavily bombarded and seen Israeli military tanks on their streets. Unconfirmed reports suggest that Egypt has started to construct isolated security zones in eastern Sinai designated to receive refugees from Gaza (Sinai FHR 14/02/2024; TNA 23/02/2024). The Government, however, has denied these reports (Reuters 16/02/2024).

Social unrest: in the case of the forced displacement of Gazan refugees to the Sinai Peninsula, several concerns will likely arise, with the possibility of creating sociopolitical instability in Egypt and potentially affecting the country's economy. Increasing Israeli attacks may force at least half of Gazans (over one million) to escape to Egypt. This could trigger outrage and protests among parts of the Egyptian population, who may criticise the Government's inaction to stop the attacks on Gaza and prevent the displacement of its population. Some of the Egyptian population may see the Government as complicit in another Palestinian Nakba (i.e. the mass displacement of 1948) (ACW 06/12/2023 and 07/02/2024).

Social unrest is likely to increase amid growing criticism of President Abdel Fattah el Sisi's handling of the worsening economic situation, increasing food prices, and the 2013 law restricting protests issued as a consequence of the Arab Spring (ACW 07/02/2024). Although of very low likelihood, a military coup to remove President el Sisi (who is also a military general) and restore order in the country is not unimaginable in this context (AJ 02/11/2023). There may be growing dissent within the military, especially as some senior military officials strongly oppose the displacement of Palestinians and have fought at least one war (the 1973 war) against Israel to restore Egyptian land occupied in 1967 (Crisis24 28/12/2023; AC 03/11/2023). In January 2024, the Government began increasing security near the border with Gaza, deploying more military personnel to prevent cross-border displacement or conflict spillover (Reuters 09/02/2024; Crisis24 28/12/2023).

Historically, social unrest is not uncommon in Egypt and has happened several times in the past, including the Arab Spring in 2011 and its consequences. The latter included further social unrest against President Mohamed Morsi and the subsequent election of President el Sisi, whose strong ties to the military meant that his election was also viewed as a military coup. Social unrest in Egypt is often driven by economic deterioration. Strong sentiments linked to Arab causes, however, also contribute to unrest. Although the Palestinian issue has never been a main trigger of social unrest in Egypt, it has been an aggravating factor, alongside economic triggers (IEMed 2012; Britannica accessed 26/02/2024). The Egyptian population has widely criticised Egypt's control over the Rafah border crossing and enforcement of the siege on Gaza – sentiments that could escalate into unrest should the situation deteriorate further (MEPC accessed 20/02/2024; Reuters 01/11/2023).

Perceived government inaction and complicity may also contribute to protests and mass mobilisation among displaced Gazans, creating political and social instability in Sinai (ICG 30/01/2024). In previous escalations in Gaza, such as in 2008, Palestinian refugees in Egypt protested near the Rafah border crossing in solidarity with Gaza, calling on the Governments of Israel and Egypt to end the siege (AJ 21/01/2008). Such protests are also likely to further affect tourism, as social unrest can bring insecurity, or at least the perception of insecurity in the eyes of tourists. Previous conflicts in Gaza caused a relative decline in tourism revenues, as detailed above.

Expansion of armed groups and security threats in the Sinai Peninsula: it is likely that either new armed groups may form or Hamas may re-form within a Gazan refugee population in Egypt and aim to retaliate by targeting southern Israeli borders, which could contribute to insecurity and further economic deterioration in Egypt (ACW 07/02/2024; ICG 30/01/2024). Such was the case in Lebanon and Jordan when Palestinian refugees faced mass displacement in 1948 and 1967. In the 1970s and 1980s, resistance movements formed, many of which have since been repressed, especially in Jordan. Others remain to this day, however, such as Hamas-aligned armed groups in Lebanon who fight alongside Hezbollah (Palquest accessed 22/02/2024; Journal of Palestine Studies accessed 22/02/2024; Inkstick 23/10/2023).

There is already an armed group presence in Sinai, such as the group Wilayat Sinai, considered Egypt's branch of what is referred to as the Islamic State. Wilayat Sinai opposes the Egyptian Government. It is unlikely, however, that Wilayat Sinai would join forces with Hamas-affiliated armed groups, as they differ in political goals and ideologies. On the other hand, the Muslim Brotherhood in Egypt has been an ally of Hamas and would likely aim to support the group if they establish a presence in Sinai (AC 03/11/2023). In such a case, clashes in border areas between newly formed Palestinian armed groups and the Israeli military are possible. This could also lead Israel to attack Egyptian land while targeting armed groups in Sinai (ACW 06/12/2023; AJ 02/11/2023). Such escalations could jeopardise the peace treaty between the two countries, which allows for economic projects and the import of natural gas from the Tamar field (AC 03/11/2023).

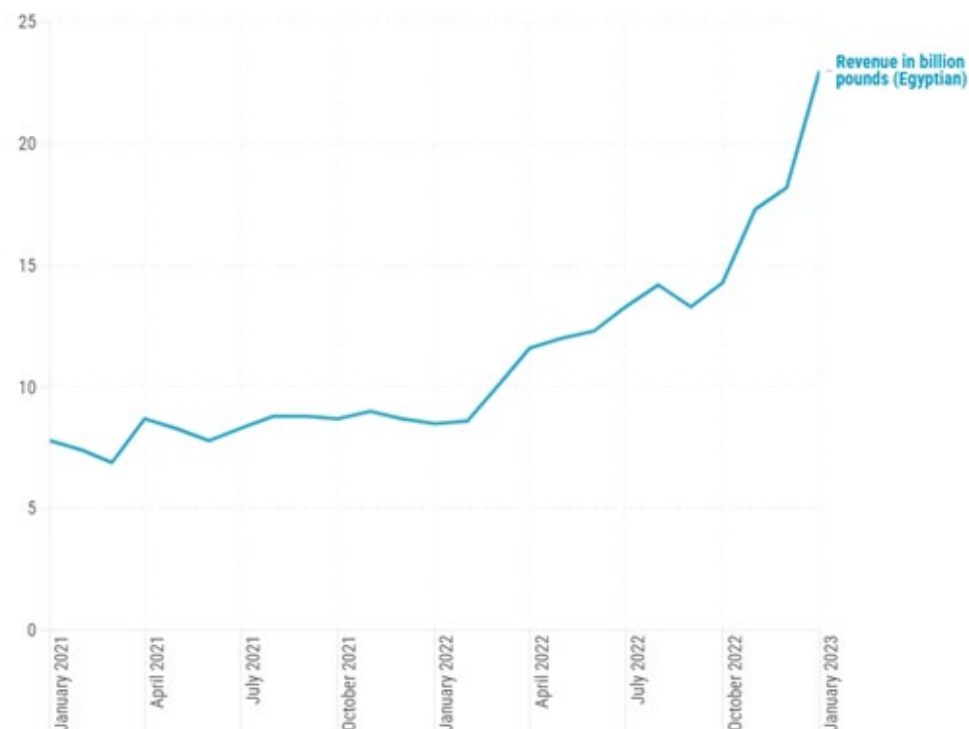
A possible spillover of the conflict into Sinai could also disrupt El-Arish International Airport's operations, which, since 7 October 2023, has been designated to receive humanitarian aid for delivery to Gaza (Crisis24 28/12/2023). Such disruption would lead to aid shortages and delays in the provision of humanitarian assistance to the people in Gaza who remain in need.

Current and expected consequences of the Red Sea tensions

On 9 December 2023, in response to the humanitarian crisis and Israeli military intervention in Gaza, the DFA in Yemen declared their intent to target all ships heading to Israel through the Bab Al Mandab Strait, in the Red Sea, until Gaza received enough food and medicine (Reuters 09/12/2023). On 12 January 2024, the situation escalated following US and UK air and missile strikes over DFA-controlled areas in Yemen, with the DFA announcing its intent to target US and UK ships (The Guardian 12/01/2024).

Despite the DFA announcing its targeting of only Israeli, UK, and US ships, the general insecurity has led many shipping companies to avoid transiting through the Red Sea altogether, decreasing shipping traffic in the Suez Canal (UNCTAD 26/01/2024). The revenue from shipping vessels passing through the canal is key to Egypt's economy. The Suez Canal generates about 2.2% of the GDP in annual balance-of-payment receipts and 1.2% of the GDP in fiscal revenue (IMF 31/01/2024). The canal contributes one-quarter of Egypt's currency earnings (Time 19/12/2023). Between 2021–2023, Egypt launched expansion and development projects that helped bump revenues from the canal, making it key to the country's economy (Ahram 30/11/2023; Ecofin Agency 23/06/2023). The conflict in Ukraine and disruption to transiting liquefied natural gas (LNG) from Russia to Europe through the Black Sea had increased the transit of LNG from the Gulf countries to Europe through the Suez Canal, contributing to increasing Egypt's revenues (EOG 10/06/2022; Ecofin Agency 23/06/2023).

Figure 2. Suez Canal monthly revenues between January 2021 and January 2023 (in EGP billion)

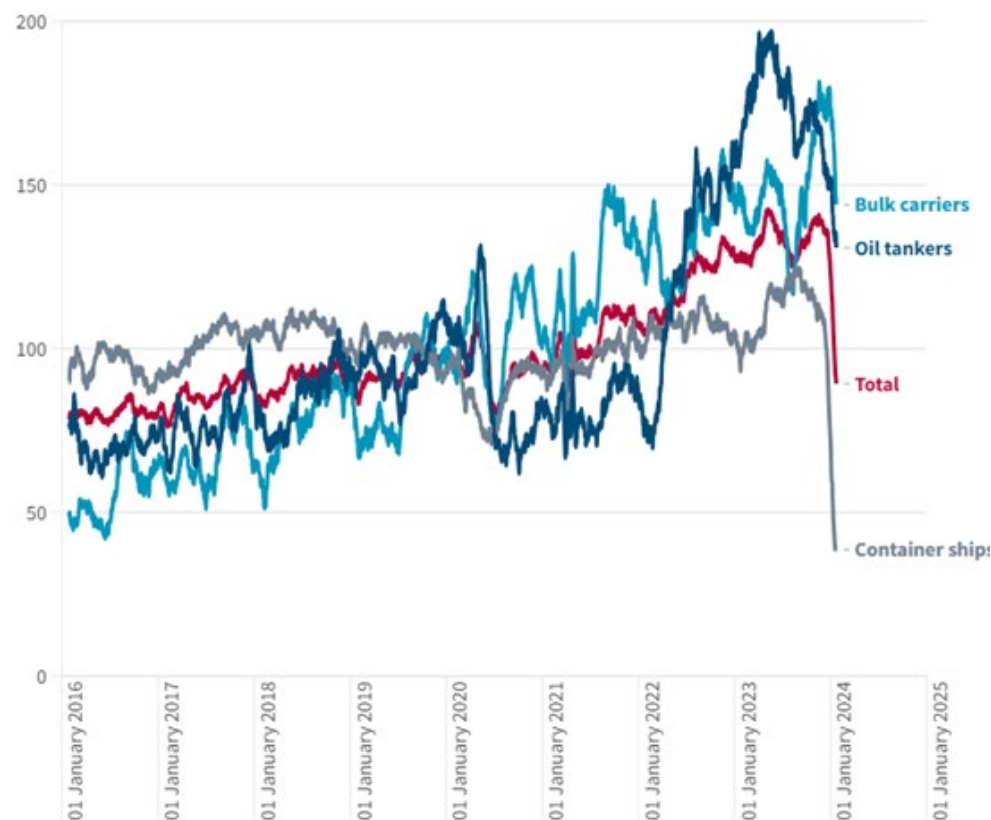


Source: ACAPS using data from Statista (accessed 10/02/2024)

Between December 2023 and January 2024, the number of ships going through the Suez Canal decreased by more than 40% (UNCTAD 26/01/2024). When comparing the ten-day cumulative shipping volume that transited through the Suez Canal between January 2023 and January 2024, a 50% drop was recorded, directly affecting Egypt's economy (IMF 31/01/2024). Further escalations in the Red Sea could result in a complete halt in traffic, reducing Egypt's foreign currency revenues to nil and burdening the economy (Container News 16/01/2024).

Figure 3 shows that average daily transit totals dropped in December 2023, returning to 2020 levels, before Egypt's 2021–2023 expansion and development projects.

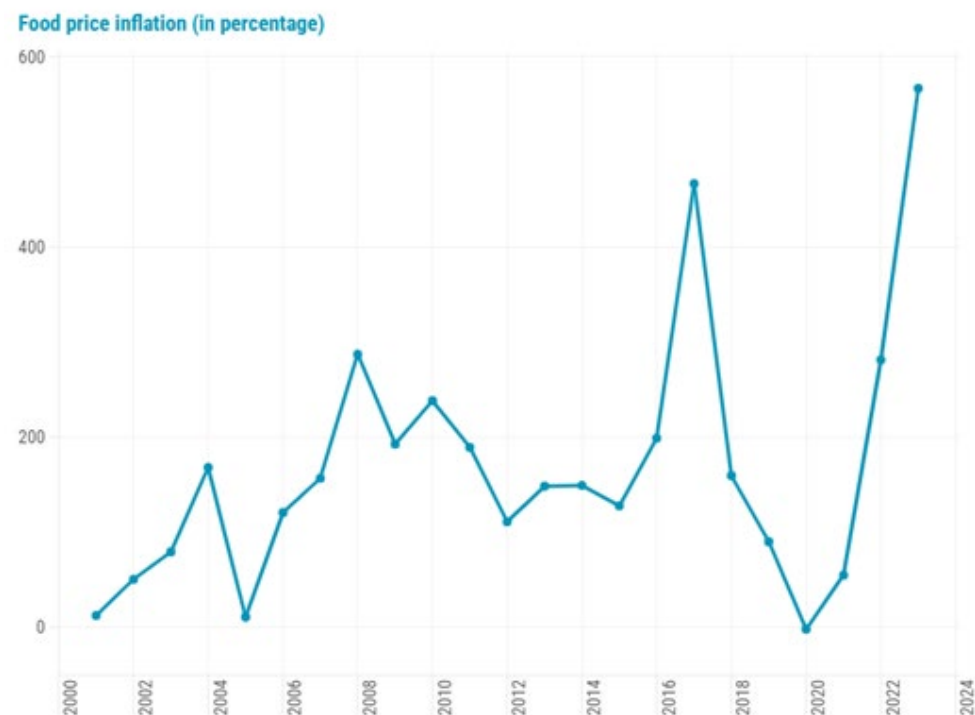
Figure 3. Average daily transits through the Suez Canal between January 2016 and January 2024



Source: ACAPS using data from UNCTAD (26/01/2024)

Even though some vessels still go through the Suez Canal, including those bound for Egypt, shipping costs have increased as a result of rising insurance costs. As at mid-January 2024, insurance premiums for war risks had increased by 1% of a ship's value, as compared to 0.7% before this crisis (Reuters 16/01/2024). It is also suggested that insurance premiums are likely to increase further, by between 15–20%, if the blockade continues (Hellenic Shipping News 08/01/2024). This means that the prices of imported fuel and food items are likely to increase even further in Egypt, restricting food access for households living below the poverty line.

Figure 4. Food price inflation in Egypt between 2001–2023 (in percentage)



Source: ACAPS using data from FAO et al. (accessed 20/02/2024)

Imports and commodity prices are projected to increase by 5–8% in early 2024, coinciding with the upcoming Ramadan and Eid seasons in March and April. Prices often increase at this time of year as consumption rises by up to 50%, while social gatherings and merchants' control of the market further aggravate food inflation (TNA 26/12/2023). An estimated 60% of the population lived below or close to the poverty line in 2023, up from 30% in 2019 (Reuters 08/12/2023; The Guardian 08/05/2023; ESCWA/UNDP 23/02/2024). About 14.4% of Egypt's total population is food-insecure (WFP accessed 11/02/2024). The economic impact of the partial blockade of the Red Sea, coupled with increasing food prices, is likely to increase poverty levels and worsen food insecurity.

ANTICIPATED HUMANITARIAN IMPACT

The additional drivers of economic deterioration and social instability highlighted in this report will likely lead to reduced foreign currency revenues and rising inflation rates, increasing humanitarian needs for households in Egypt living below the poverty line. The most affected areas will likely be the rural Upper Egypt governorates, including Al Minia, Assiut, Qena, and Sohag, where relative poverty rates have been highest (UNFPA 21/11/2021; WB 25/01/2021; El Nidaa 07/2019). Increased pressure on resources and security concerns arising from the possible formation or infiltration of armed groups will likely disproportionately affect those living in the Sinai Peninsula. If the conflict in Gaza lasts up to six months (until 7 April 2024), Egypt's GDP is projected to decrease by 1.6% (ESCWA/UNDP 23/02/2024). Real GDP growth is projected to decline from 3.8% in 2023 to 3% in 2024 (IMF 31/01/2024). The decline will likely push at least 387,000 people in Egypt below the relative poverty line (ESCWA/UNDP 23/02/2024). In 2019, before the COVID-19 pandemic, about 30% of the population was living below the national relative poverty line. In 2023, it was estimated that up to 60% of the population (62.4 million people) were living below or close to the poverty line as a result of accelerating inflation in 2022 and 2023 (Reuters 08/12/2023; The Guardian 08/05/2023; ESCWA/UNDP 23/02/2024).

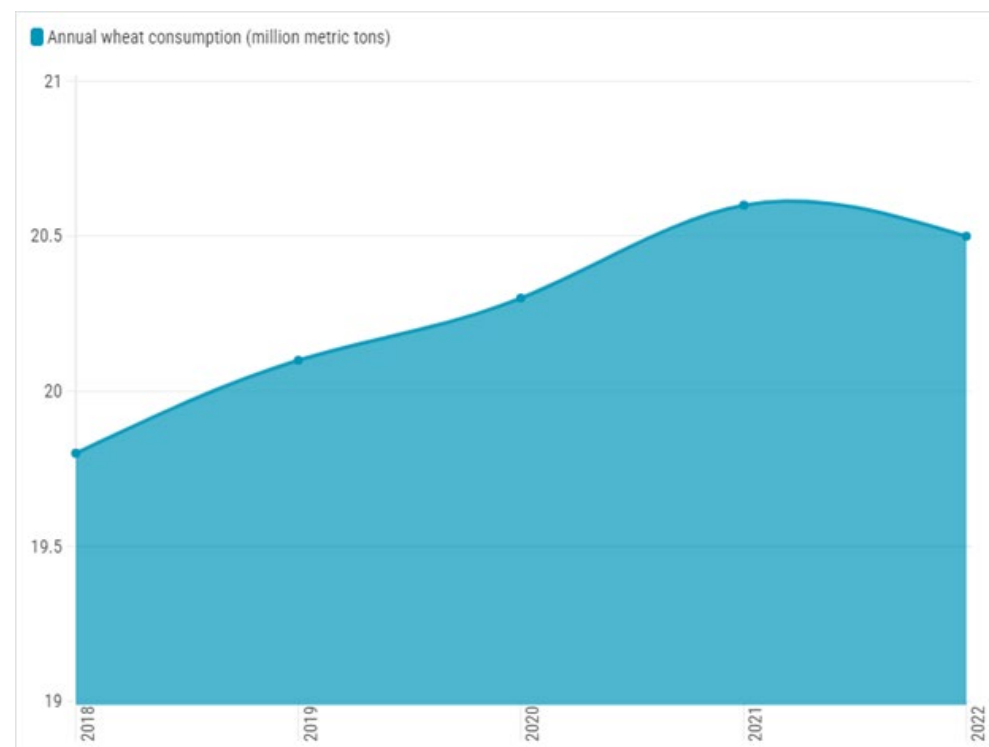
Reduced food access

As highlighted in this report, the impact of the Red Sea tensions and conflict in Gaza, alongside the current financial crisis, may drive shortfalls in Egypt's foreign currency revenues. This, coupled with a possible shortage of food supplies and an increase in poverty rates across the country, will likely further reduce people's purchasing power and limit access to food.

Around 14.4% of Egypt's total population is already food-insecure, sustaining a moderate level of hunger according to the 2023 Global Hunger Index (WFP accessed 11/02/2024; Concern/WHH 12/10/2023). Increasing poverty, economic crisis, and Egypt's heavy reliance on food imports are contributing to food insecurity for more economically disadvantaged people.

The economic crisis, characterised by the depreciation of the Egyptian pound alongside high inflation rates, increased food inflation rates from 48% in January 2023 to 74% in September. Many households responded by reducing food consumption and purchasing lower-quality food items (USAID 29/12/2023; FAO 07/02/2024). Wheat access has also been restricted in response to the Russian invasion of Ukraine and the global increase in wheat prices. Between 2022–2023, Egypt's wheat imports from Ukraine decreased from 30% to 13%, while imports from Russia increased from 46% to 80% to compensate for the shortfall. Wheat imports for the 2023–2024 marketing year, however, are still projected to be 4% less than the 2022–2023 marketing year (FAO 07/02/2024). Wheat is a staple food in Egypt, as shown in the consumption patterns highlighted in Figure 5.

Figure 5. Egypt's annual wheat consumption between 2018–2022 (in million metric tons)



Sources: ACAPS using data from CNN (27/12/2023) and Statista (accessed 11/02/2024)

With reduced foreign currency revenues, supply shortages, and increasing shipping prices, food inflation rates are projected to steadily increase throughout 2024. Rice and wheat prices will likely increase as a result of rising shipping costs and El Niño's stymieing of harvests in India (a large exporter of both crops) (CNN 27/12/2023; Al Hurra 23/12/2023).

In January 2024, shortfalls in foreign currency revenues had already driven an increase in food prices as compared to the end of 2023. For example, the price of pasta increased by nearly 2.5%, lentils by 2.2%, and tomatoes by 3.9% (CNN 29/01/2024). The price of buffalo meat witnessed a sharp increase of 10% between November 2023 and January 2024 (Tridge 30/01/2024).

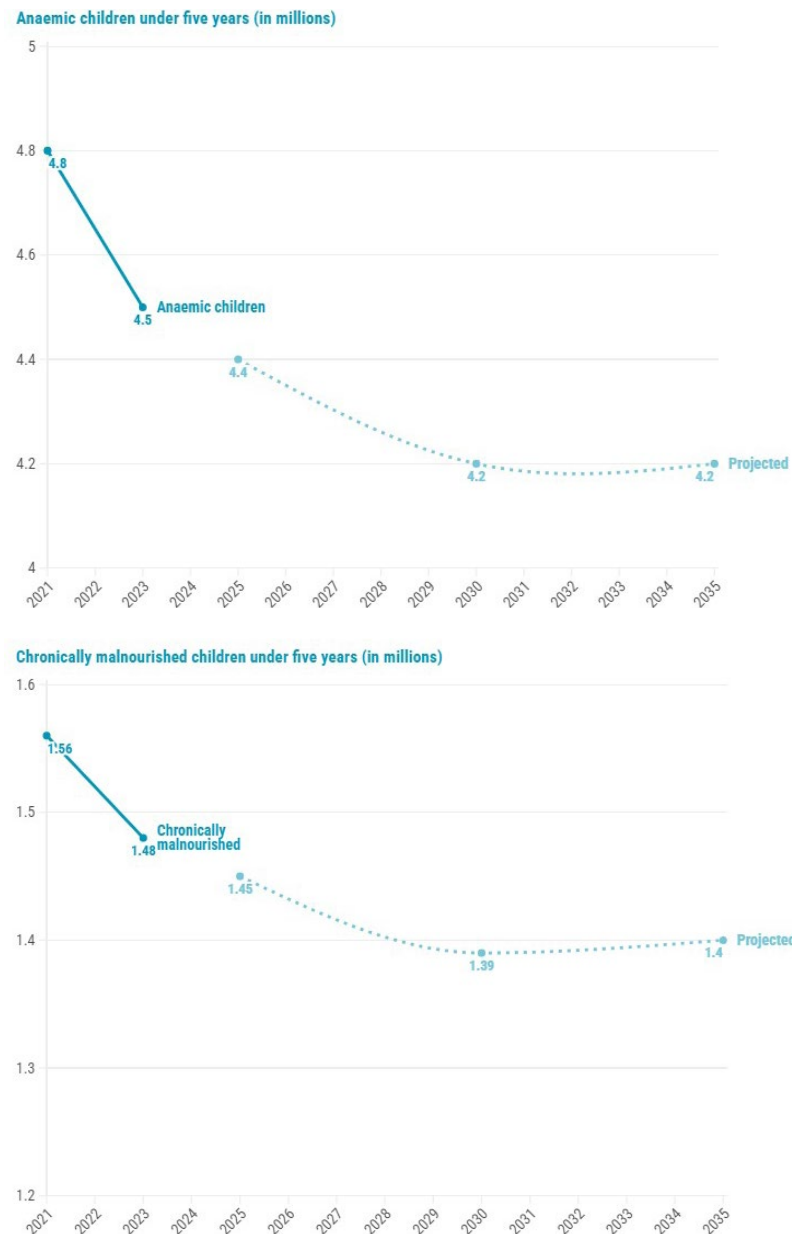
Food prices are increasing for other reasons as well, including merchants' monopoly and accumulation of goods, as they await further price increases to gain more profit. Other merchants prefer to sell their goods at higher prices to humanitarian organisations, who take such goods as aid to deliver to Gaza (Al Hurra 23/12/2023; APS 10/12/2023). The lack of government control over parallel and informal markets also contributes to increasing the prices of some commodities, such as sugar. The Government's sugar supply decreased towards the end of 2023, while traders have begun hoarding the commodity to spike market prices (APS 10/12/2023).

Increased malnutrition

Increasing poverty rates and reduced food access will likely further increase malnutrition, especially among children. Malnutrition is already a persistent issue in Egypt, and anaemia and chronic malnutrition are among the main health issues facing children under five (AJ 01/03/2023). In 2021, 4.8 million children were anaemic, and 1.6 million were chronically malnourished. Many pregnant women also suffer from malnutrition in Egypt (UNICEF 09/09/2023).

It is projected that, in the coming ten years (until 2035), there will be an improvement in anaemia and chronic malnutrition among children under five (UNICEF 09/09/2023). Continued economic crisis or the start of widespread social unrest, however, will likely either slow expected improvements or reverse them.

Figure 6. Projected improvement in anaemia and chronic malnutrition between 2021–2035 among children under five years



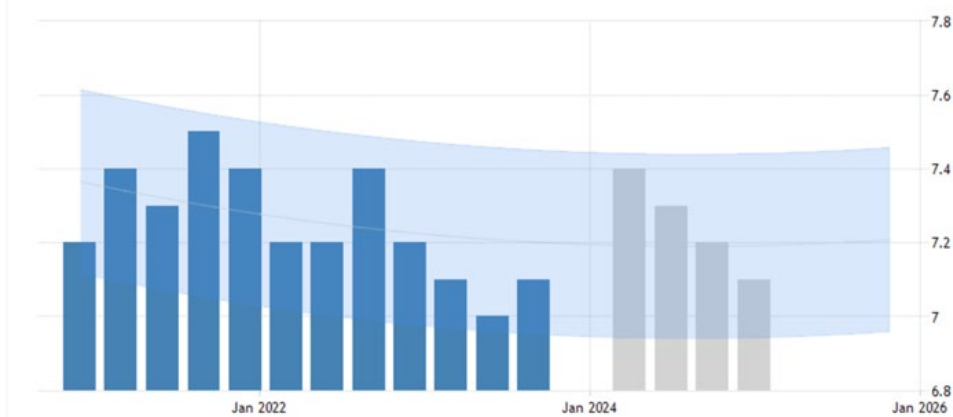
Source: ACAPS using data from UNICEF (09/09/2023)

Imported medicine and medical supply shortages, already worsening since at least August 2023 as a result of the lack of foreign currency, will also likely aggravate malnutrition (Daily News Egypt 05/02/2024; MEMO 09/08/2023).

Reduced livelihood access

The economic instability ensuing since 7 October 2023, the start of the conflict in Gaza, has been directly affecting the tourism sector, leading to job losses and reduced salaries. The sector employs 10% of the Egyptian workforce (ESCWA/UNDP 23/02/2024).

Figure 7. Unemployment rate forecasts to the end of 2024 (in percentage)



Source: TE (accessed 12/02/2024)

The first quarter of 2024 will likely see a continued rise in unemployment rates. Despite the forecasted improvement between the second and fourth quarters of 2024, the continuing conflict in Gaza and the Red Sea tensions will likely prevent or, at least, slow down the projected improvement in unemployment rates.

Calls to boycott international brands and shops believed to support Israel, including fast food and coffee shop chains, have also led to reduced working hours, unpaid leaves, and staff layoffs (Al Arab 03/02/2024). There is no data available on the number of employees affected by this issue.

In previous economic shocks, such as during and after the Arab Spring, households coped by rationing consumption, reducing health spending, eating less food, and reducing education spending. People also borrowed and requested assistance from neighbours and family members (ERF 29/10/2019). When families could not meet their basic needs, child labour and early marriage were also often used as coping strategies (WFP 18/05/2023).

New humanitarian needs in case of an influx of Gazan refugees

If there is a mass displacement of Gazan refugees to northern Sinai, they will require immediate assistance in the form of shelter, healthcare, food, and clean drinking water. Any such displacement would unlikely be temporary, meaning that displaced Gazans will need other services – such as education and livelihoods – further straining Egypt’s public services and already stretched economy (AC 03/11/2023; ACW 06/12/2023). It is estimated that between 70,000–135,000 Palestinian refugees are already living in Egypt, displaced in 1948 and 1967. They hold no legal status, as UNRWA does not operate in Egypt and the UNHCR does not register Palestinian refugees (ECFR 14/12/2023). This means that the Egyptian Government will be a key responder to the needs of any additional refugees from Gaza, controlling their humanitarian access. Unconfirmed reports indicate that Egypt has started constructing an isolated security zone in eastern Sinai, surrounded by 7m walls, to receive Gazan refugees (Sinai FHR 14/02/2024).

Increased protection threats affecting economically vulnerable households and Palestinian refugees

The projected reduction in food access and increase in poverty levels may lead more families to resort to coping strategies with potentially adverse effects, such as child labour and early marriage, which increase children’s protection needs (WFP 18/05/2023). Despite political efforts to eliminate the worst forms of child labour via the update to the National Strategy for Combating and Preventing Trafficking in Persons, child labour and exploitation remain an issue. Data from 2022 shows that nearly 3.3% of children between 6–14 years old worked in jobs in agriculture, industry, and the service sectors, and another 3.2% combined work and school. Examples of labour exploitation that children in Egypt face include forced labour, street begging, and commercial sexual exploitation. Some girls are subjected to temporary marriages (summer marriages) to wealthy foreign men (US DOL accessed 21/02/2024; FDHRD 12/06/2022). It is estimated that 17% of girls under 18 in Egypt are married, including 2% married before the age of 15. The legal age for marriage in Egypt is 18 (Girls Not Brides accessed 28/02/2024). A worsening economy would likely push more children into forced labour and marriages in Egypt.

Gazan refugees displaced to the Sinai Peninsula would likely face barriers to registering as refugees with UN agencies or the Government, potentially impeding their access to basic rights and leaving them in a precarious legal position. While the UNHCR does currently operate in Egypt, registering Palestinian nationals as asylum seekers or refugees falls outside its mandate. Instead, UNRWA is designated to respond to the needs of Palestinian refugees, but it currently does not have operations in Egypt despite the 70,000–135,000 Palestinian refugees already living there without legal refugee status (ECFR 14/12/2023). These refugees are also, for the most part, not recognised as citizens in Egypt. As there are strict criteria, only very few can obtain citizenship. Most Palestinian refugees have no access to free education or healthcare, and many lack access to work rights (TNA 15/06/2023). It is also uncertain whether UNRWA will operate in Egypt if more Gazans are displaced to Sinai, as the organisation faces funding shortages after accusations in January 2024 of assisting Hamas and requires government permission to operate in Egypt (NYT 28/01/2024).

Increased humanitarian needs for the wider refugee population in Egypt

Since the start of the conflict in Syria in 2011, Egypt has been receiving refugees from the country. Until the start of the conflict in Sudan in April 2023, Syrians comprised the largest number of refugees registered in Egypt (UNHCR accessed 18/02/2024). Since 15 April 2023, however, escalating fighting between the Sudanese Armed Forces and Rapid Support Forces has been driving the displacement of people both inside and outside Sudan, including to neighbouring Egypt. As at 31 January 2024, Egypt hosted more than 501,000 refugees, including over 232,000 Sudanese and 154,700 Syrians (UNHCR 01/02/2024). As there are no refugee camps in Egypt, refugees reside in overcrowded neighbourhoods and are heavily dependent on humanitarian assistance (ECHO 16/06/2023).

In the case of economic deterioration or social unrest arising from the conflict in Gaza and partial blockade of the Red Sea, refugees in Egypt – alongside the host community – will likely also be affected, as their food, cash assistance, and protection needs may increase.

GOVERNMENT RESPONSE TO HUMANITARIAN NEEDS IN EGYPT

The government response to the effects of the worsening economic situation on households living below the poverty line includes a multisectoral strategy focused on economic reforms, social protection programmes, and agricultural development in partnership with various UN agencies, such as WFP (WFP 18/05/2023; ILO accessed 26/02/2024). For example, the presidential development initiative Haya Karima was initiated in December 2020, aiming to enhance the livelihoods, resilience, and social and economic inclusion of people in need in rural areas (Haya Karima accessed 26/02/2024). Some government social protection systems also strengthen food subsidy, cash transfer, and national school feeding programmes (WFP 18/05/2023; ILO accessed 26/02/2024).

Multiple economic shocks, such as the COVID-19 pandemic and the impact of geopolitical events, alongside a lack of evidence and up-to-date data on service needs (including food security and nutrition), mean that Egypt still faces challenges to achieving the Sustainable Development Goals (WFP 18/05/2023). Further potential economic decline may hinder government efforts to bolster socioeconomic and humanitarian assistance.