

# Egypt's Economic Freefall Provides an Opening for U.S. Assistance—and Leverage

by [Ben Fishman \(/experts/ben-fishman\)](/experts/ben-fishman)

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## ABOUT THE AUTHORS



[Ben Fishman \(/experts/ben-fishman\)](/experts/ben-fishman)

Ben Fishman is a Senior Fellow in The Washington Institute's Program on Arab Politics.



Brief Analysis

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**Given the tall task of managing public dissent and meeting IMF reform requirements without angering his military base, President Sisi may be more willing to shift his problematic stances on human rights and foreign policy.**

**A**s Secretary of State Antony Blinken prepares to visit Cairo on January 29-30, Egypt's economy has been busy plummeting to new lows. Part of the blame can be laid on the twin shocks of the COVID-19 pandemic and the Ukraine war, which disproportionately affected the country due to its heavy reliance on threatened resources such as wheat and tourism revenue from Russia and Ukraine. Yet the bulk of its struggles can be attributed to Cairo's broad economic mismanagement under President Abdul Fattah al-Sisi, which has included everything from currency manipulation to misplaced spending priorities, wasteful megaprojects, and undue state and military control over the economy.

Since March 2022, Egypt's currency has lost half its value and now stands at 30 pounds to the U.S. dollar—a drop spurred by the flight of dollars and the IMF's requirement to adopt a flexible exchange rate. As a result, official inflation reached nearly 22% in December, fifteen points higher than it was at the end of 2021. Shortages are now frequent, and prices for basic goods have soared by nearly 40%. The rising cost of essential bread in particular will be difficult to maintain much longer.

Meanwhile, the debt-to-GDP ratio has risen to 95%, with a record \$100 billion in loan payments due over the next four years. Egypt's 2022-23 budget allocates over 50% to debt servicing and loan repayments, and this sky-high figure will only increase further over time because the loans are dollar-denominated.

## Something's Got to Give

**T**o address this growing morass, the IMF and Egypt signed a four-year, \$3 billion agreement on January 15 after weeks of delays. This is their fourth such agreement since 2016, making Egypt the IMF's most indebted country

after Argentina.

Because Cairo **[exceeded its previous borrowing quota \(https://www.washingtoninstitute.org/policy-analysis/sdr-allocations-middle-east-helpful-no-silver-bullet\)](https://www.washingtoninstitute.org/policy-analysis/sdr-allocations-middle-east-helpful-no-silver-bullet)**, the new agreement contains much stricter provisions. In addition to requiring government spending cuts and the flexible currency policy (which devalues the pound), the IMF program mandates that the state significantly reduce its role in the economy, including military-owned industries and companies. In return, the **[new program \(https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849\)](https://www.imf.org/en/Publications/CR/Issues/2023/01/06/Arab-Republic-of-Egypt-Request-for-Extended-Arrangement-Under-the-Extended-Fund-Facility-527849)** is “expected to catalyze additional financing of about \$14 billion from Egypt’s international and regional partners, including new financing from [Gulf Cooperation Council] countries and other partners through the ongoing divestment of state-owned assets as well as traditional forms of financing from multilateral and bilateral creditors.”

Some of this privatization has already begun, with Qatar, Saudi Arabia, and the United Arab Emirates purchasing stakes in Vodafone Egypt and various other companies (e.g., fertilizer and logistics firms). Yet while each of these states had already placed several billion dollars in Egypt’s central bank when investors started pulling out dollars last March, their additions to Cairo’s foreign reserves did not stop the pound’s freefall.

In 2021, the IMF reported that Egypt had roughly 1,000 state-owned enterprises (SOEs) or joint ventures and 53 economic authorities that operate in numerous strategic sectors, including logistics, agriculture, oil/gas, electricity, and the Suez Canal Authority. The manufacturing sector alone has seen SOEs become involved in textiles, printing, packaging, engineering, chemicals, food/beverage, pharmaceuticals, and metals—a list reflecting just how deeply the state has penetrated the economy. Many of these SOEs are inefficient and corrupt, and they often have substantial tax exemptions as well, particularly the military-owned companies.

In response to foreign pressure on this issue, Sisi approved a “State Ownership Policy” on December 29, setting new goals for reducing this practice. Yet while privatizing these industries is critical to Egypt’s economic recovery, ensuring that this is done in a transparent manner will be difficult given the government’s authoritarian contours. Notably, when Finance Minister Ahmed Galal announced new spending cuts in various departments last month, he exempted the Ministries of Defense, Interior, Foreign Affairs, and Health.

## Future Dilemmas

**P**erhaps Sisi’s most difficult dilemma is deciding to what extent he will risk angering his core supporters in the military by selling off the companies they run or decreasing their spending on high-end items such as submarines and advanced fighter planes. Even if he minimizes privatization, he will still need to tax military-run companies more heavily as part of the new IMF agreement. How many economic perks will the military have to lose before his leadership becomes threatened? Sisi has already replaced several top generals over the past year and put the military intelligence branch under his direct authority.

As for public dissent, Sisi may feel confident that repression can keep protests at bay despite the rapid decline in living conditions. The mass protests that were widely speculated to erupt during November’s Climate Change Conference in Sharm al-Sheikh never transpired, but there are **[signs of increased dissent \(https://www.washingtoninstitute.org/policy-analysis/new-egyptian-opinion-poll-continued-dissatisfaction-government-performance-almost\)](https://www.washingtoninstitute.org/policy-analysis/new-egyptian-opinion-poll-continued-dissatisfaction-government-performance-almost)**, especially online.

Sisi may also believe he can rely on Gulf support if the situation grows too dangerous. Yet only a fraction of the billions that Qatar, Saudi Arabia, and the UAE pledged to his government in recent years has actually materialized. Further, Saudi Arabia and Kuwait did not attend the UAE’s January 18 summit with Egypt and Jordan, which might signal declining donor support for Sisi. And while selling SOE shares to Gulf states could help Cairo address the

privatization challenge, it will not benefit Egypt's own private sector.

Sisi may calculate that his Gulf friends will still bail him out if the situation becomes too critical—in other words, that Egypt is too big to fail (again). But by the time the crisis reaches such a point, additional Gulf funding would be difficult to utilize in time to reverse it.

## The U.S. Role

**T**he U.S.-Egypt relationship has traditionally focused on Cairo's importance to regional security, especially its role in mediating with Hamas and maintaining positive security relations with Israel. According to Egyptian reports, these priorities were reinforced when CIA director William Burns visited Sisi on January 23.

Going forward, however, Washington should formulate a more comprehensive strategy toward Egypt, one that includes offering greater economic assistance, facilitating investment through loan guarantees, mulling options for loan forgiveness, and leveraging U.S. influence over the IMF. Asking Gulf partners to consider ways of minimizing Egypt's aid dependency could also prove beneficial. In exchange, Cairo should be open to significantly changing its policies on Russia, China, human rights, and Libya.

**Russia.** Thus far, Sisi has remained mostly neutral on the Ukraine war to avoid provoking Moscow into cutting off trade, military sales, and tourism. For example, a Russian company is constructing a \$30 billion nuclear power station in Egypt with substantial financing from Moscow, while other Russian firms have established a presence in the Suez industrial zone. Moscow has also attempted to facilitate trade and bolster the pound by fixing it to the ruble. Even so, the United States could still pull Egypt away from Russia by offering additional incentives if the crisis worsens.

**China.** The Biden administration should caution Egypt about turning too closely to China for support. Historically, Chinese foreign investments are often unreliable and conditioned on importing Chinese workers, which would not help Sisi address Egypt's high unemployment rate. Moreover, the terms of Chinese loans could risk plunging Cairo further into debt.

**Human rights.** Sisi's government is one of the world's worst human rights offenders. An estimated 60,000 political prisoners have been detained during his tenure, and several hundred of them have died in custody, including dual nationals. The United States responded to that record by cutting \$130 million of its annual \$1.3 billion in Foreign Military Financing (FMF), which has long helped sustain Egypt's military hardware and ensure that the country keeps buying American. Congress now requires a waiver from the secretary of state certifying that Egypt is addressing [democracy and human rights concerns \(https://www.washingtoninstitute.org/policy-analysis/reexamining-us-aid-middle-east-ideas-advancing-both-governance-and-democracy\)](https://www.washingtoninstitute.org/policy-analysis/reexamining-us-aid-middle-east-ideas-advancing-both-governance-and-democracy) before it will deliver \$300 million of this financing, and the Senate cut an additional \$75 million from last year's appropriation. Secretary Blinken [has issued the waiver \(https://www.washingtoninstitute.org/policy-analysis/us-egypt-military-relationship-complexities-contradictions-and-challenges\)](https://www.washingtoninstitute.org/policy-analysis/us-egypt-military-relationship-complexities-contradictions-and-challenges) for the past two years, and the overwhelming amount of FMF remains intact.

In general, however, leveraging FMF has not significantly improved Egypt's human rights record. Cairo should be reducing its military spending anyway, so it makes little sense for Washington to continue its annual internal wrangling over FMF amounts that do not address Egypt's real needs. A more effective approach would focus on how the United States could facilitate investment in the country once its civil liberties situation measurably improves.

**Libya.** Egypt remains a significant obstacle to stabilizing Libya. After supporting Khalifa Haftar's detrimental military adventures against Tripoli in 2014-15 and 2019-20, Cairo now refuses to recognize the Government of National Unity or join international agreements that lay out the next steps for future progress. Some of Egypt's concerns are understandable—it objects strongly to Turkey's presence in Libya and fears the consequences of a

potential election it cannot control. At the same time, however, a stable Libya could bring an estimated **\$100 billion of revenue into Egypt** (<https://www.washingtoninstitute.org/policy-analysis/biden-heads-egypt-amid-economic-protests-and-libyan-gridlock>) while enabling tens of thousands of Egyptian workers to return to their jobs across the border. Accordingly, the Biden administration should change the conversation on Libya, drawing Cairo's attention to the economic benefits of fostering a neighbor that is stable rather than in perpetual conflict.

*Ben Fishman is a senior fellow at The Washington Institute and former director for North Africa on the National Security Council.* ❖

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