

Egypt's Economy Amidst Regional Conflicts

by [Sahar Albazar \(/experts/sahar-albazar\)](#)

Oct 29, 2024

ABOUT THE AUTHORS

[Sahar Albazar \(/experts/sahar-albazar\)](#)

 Brief Analysis

Egypt, strategically positioned in the heart of the Middle East and North Africa, is grappling with significant economic pressures exacerbated by regional conflicts and geopolitical instability.

The multifaceted crises stemming from the Israeli-Palestinian war, the Sudanese civil war, Libya's political disarray, and the Russia-Ukraine war have collectively intensified the economic strains on Cairo. These challenges not only impact Egypt's economy but also threaten regional stability. Given the challenges facing Egypt and the region, Cairo is expecting from the United States to play a supportive role towards its strategic partner in the region.

The international perception of regional instability is affecting Egypt's domestic economy; tourism accounted for over **24% of GDP**

(<https://www.sis.gov.eg/Story/193384/Egypt%252525E2%25252580%25252599s-tourism-sector-to-contribute-8.1%25252525-of-national-GDP-in-2024-World-Travel-and-Tourism-Council?lang=en-us%23:-:text=Friday%252525D8%2525258C%2525252028%25252520June%252525202024%25252520%2525252D%2525252008%2525253A01%25252520PM&text=In%2525252020>

and employing over 2.5 million. However, the perception of insecurity in neighboring countries has deterred international visitors. Tourist arrivals declined by an **estimated 25-30%**

(<https://www.statista.com/statistics/970638/egypt-tourist-arrivals/>) between 2010-2022 compared to pre-conflicts levels. The resulting drop in tourism revenue has placed an additional strain on Egypt's foreign exchange reserves and employment relies heavily on this sector for foreign exchange earnings and employment.

Israeli-Palestinian War: The ongoing war in Gaza has led to heightened regional tensions and economic instability. Egypt, which shares a border with Gaza and has played a mediator role, faces increased security expenditures and humanitarian costs. The conflict has disrupted trade routes, further straining Egypt's resources. The resultant instability impacts investor confidence and deters economic growth.

- Impact on the Suez Canal:** The war also directly affects the Suez Canal, one of Egypt's most vital economic assets. The Suez Canal is a major global trade route, generating substantial revenue for Egypt through tolls. However, regional instability, including the war, has disrupted shipping routes and increased blockages. The heightened security concerns in the region led to increased insurance premiums for shipping companies, which affected the volume of trade passing through the canal. Furthermore, the war's impact on regional trade dynamic it influenced the global shipping patterns. It led to shifts in trade routes affecting the flow of goods from the Mediterranean to the Red Sea. This reduction in traffic **reduced** (<https://www.ecomnewsmed.com/en/2024/07/21/egypt-suez-canal-revenues-fall-57-2-due-to-all-the-traffic-disruptions-in-the-red-sea/%23:-:text=The%25252520drop%25252520in%25252520volumes%25252520hit,billion%25252520to%25252520USD%25252520959.3%25252520million.>) the canal's revenue 57% in the third quarter of the financial year (January to March 2024), impacting Egypt's economy, which relies heavily on these revenues for its budget.

Sudanese Civil War: Sudan's civil war has **significantly affected Egypt** (https://data.unhcr.org/en/situations/sudansituation?gl=1*ek4snb* gcl au*NjAyODIzMTY4LjE3Mjk1NDg1MzU.* rup ga*MjA1Mjk0MDM1MS4xNzI5NTQ4NTM1* rup ga EVDQTJ4LMY*MTcyOTU0ODUzNS4xLjAuMTcyOTU0ODUzNS), particularly in terms of refugee management and border security. An **estimated 500,000 Sudanese official refugees** (<https://www.amnesty.org/en/latest/news/2024/06/egypt-authorities-must-end-campaign-of-mass-arrests-and-forced-returns-of-sudanese-refugees/>) along with a total of approximately 1,200,000 sudden new Sudanese arrivals have entered Egypt since the outbreak of armed conflict in 2023, placing additional pressure on public services and infrastructure. The conflict has also disrupted trade routes that are vital for Egypt's economy, exacerbating shortages of essential goods and increasing inflation.

- Housing and Rent:** The arrival of a large number of refugees has placed immense pressure on Egypt's housing market. In cities such as Cairo and Alexandria, the demand for affordable housing has surged, leading to **increased rental prices** (<https://www.globalpropertyguide.com/middle-east/egypt/price-history>). Many refugees have settled in already densely populated areas, driving up rent and making housing more expensive for both refugees and local residents. This increase in rent exacerbates the housing crisis for low-income Egyptians, leading to overcrowded living conditions and increased tension between refugees and host communities.
- Healthcare Services:** The influx of refugees has also overwhelmed Egypt's healthcare system. Refugees often require urgent medical care, which strains a health infrastructure already stretched thin. Public hospitals and clinics, which are typically underfunded and understaffed, face increased patient loads. This results in longer wait times, reduced quality of care, and **greater competition for medical resources**. Consequently, both refugees and local Egyptians experience diminished access to healthcare services.
- Education:** Egypt's education system is struggling as well. With many refugee children enrolling in local schools, the demand for educational resources and space has increased. Classrooms that were already crowded are now more so, leading to a decline in the quality of education and overburdened teachers. Additionally, the need for additional resources such as textbooks and learning materials further strains the education budget.
- Economic Impact on Local Businesses:** Refugees frequently set up small businesses or informal employment to support themselves, which can affect local economies. While this can contribute positively in some cases by spurring economic activity, it can also lead to increased competition for jobs and resources, potentially driving down wages and creating friction between refugees and local workers.
- Community Tensions:** The economic pressures and competition for resources can lead to tensions between refugees and host communities. Social integration challenges and cultural differences may exacerbate these tensions, leading to conflicts and impacting social cohesion. Local communities may feel that resources are being diverted from them to support refugees, which can lead to resentment and social instability.

Libya's Political Instability: Libya's ongoing political turmoil has disrupted regional trade and contributed to the smuggling of goods and arms across borders, which impacts Egypt's security and economic stability. Libya was once a key trade partner and a source of investment and employment opportunities for Egypt. The instability has led to a decline in trade and economic cooperation, which has negatively impacted Egypt's economy.

- Disruption of Regional Trade:** Historically, Libya was an important trade partner for Egypt. The instability in Libya has led to the closure of border crossings and ports, hampering the flow of goods. In the years between 2010-2018, Egypt's exports to Libya fell drastically, impacting Egyptian businesses that relied on Libyan markets.

- **Smuggling and Security Issues:** The breakdown of order within Libya has led to a significant uptick in smuggling activity at the Libyan-Egyptian border, posing security threats to Egypt. The influx of smuggled arms and goods can destabilize local economies and create law enforcement challenges, further straining Egypt's security forces and increasing the financial burden on the government. The additional resources required to combat smuggling and maintain border security divert funds from other critical areas, impacting overall economic stability.
- **Decline in Investment and Economic Cooperation:** Libya's political instability has led to a decline in investment and economic cooperation between the two countries. Previously, Libya was a significant source of investment for Egypt, particularly in sectors such as construction and energy. The instability has led to the suspension or cancellation of numerous joint projects and investments. For example, major Libyan investments in Egyptian real estate and infrastructure have been put on hold due to the uncertain business environment. This reduction in foreign direct investment (FDI) affects Egypt's economic growth prospects and reduces opportunities for job creation. According to data from Egypt's Central Bank, FDI flows from Libya have diminished sharply (<https://www.e-ir.info/2019/04/08/egypts-security-paradox-in-libya/>) by over 75% between 2010 and 2020 as conditions in Libya deteriorated due to the civil war. Sectors like construction and manufacturing that previously benefited significantly from Libyan capital have been especially impacted.

Russia-Ukraine War: The war in Ukraine has had global repercussions, particularly on food prices. As a major importer of wheat, Egypt has faced soaring grain prices due to disruptions in global supply chains. In 2023, Egypt imported approximately 70% of its wheat (<https://chicagopolicyreview.org/2024/02/21/the-future-of-food-aid-looking-at-the-egypt-case/%2523:-:text=Despite%252520attempts%252520to%252520diversify%252520their,according%252520to%252520the%252520United%252520Nations.>) from Russia and Ukraine. The conflict has led to a 20% increase (<https://www.egypttoday.com/Article/3/133929/Egypt-implements-20-wheat-price-increase-for-subsidized-bread-production>) in bread prices, contributing to food inflation and economic hardship for Egyptians.

- **Economic Hardship and Inflation:** The rise in wheat prices has not only affected food costs but has also contributed to overall inflation in Egypt. Inflation rates in Egypt have surged, with food prices increasing at a faster pace than other goods and services. The Central Agency for Public Mobilization and Statistics (CAPMAS) reported that food inflation reached nearly 30% (<https://tradingeconomics.com/egypt/food-inflation>) in 2024, reflecting the impact of higher wheat prices on consumer goods. The economic hardship resulting from inflation is compounded by reduced purchasing power among Egyptian households. For many Egyptians, the increase in food prices has led to decreased standards of living and heightened economic distress. This situation is particularly dire for low-income families, who spend a larger proportion of their income on basic necessities.
- **Government Response and Fiscal Impact:** In response to the crisis, the Egyptian government has implemented various measures to mitigate the impact of rising food prices. These include subsidies for essential food items, efforts to diversify wheat supply sources, and strategic reserves management. However, these measures place additional strain on the government's budget and divert resources from other critical areas such as infrastructure and social programs. Additionally, the increased costs associated with higher wheat prices have led to budgetary pressures. The government's spending on subsidies and support programs has escalated, further impacting fiscal stability and potentially leading to increased borrowing and debt.

Cairo's expectations for U.S. economic support as a strategic ally to Egypt

- **Bilateral Debt Swaps and Forgiveness:** The United States can support Egypt through bilateral debt swaps and debt forgiveness initiatives. As of 2024, Egypt's external debt (<https://tradingeconomics.com/egypt/external-debt%2523:-:text=External%252520Debt%252520in%252520Egypt%252520decreased,the%252520fourth%252520quarter%252520of%2525202023.>) stands at approximately \$152.9 billion. High levels of debt service have strained Egypt's fiscal capacity and limited its ability to invest in critical infrastructure and social services. Debt swaps, where Egypt's debt is exchanged for investment in local development projects, can provide immediate economic relief and support sustainable development goals.
- **Multilateral Debt Relief Initiative-International Financial Institutions (IFIs):** Multilateral debt relief often involves organizations such as the International Monetary Fund (IMF) and the World Bank. These institutions are highly influenced by U.S. policies. The United States can use its influence on IFIs to avail debt swaps and debt service temporary suspension for Egypt, which will lift the financial burden on the budget.
- **Facilitating Comprehensive Agreements:** By leveraging its diplomatic influence, the United States can play a crucial role in mediating negotiations around the Grand Ethiopian Renaissance Dam. The aim should be to establish a binding agreement that ensures equitable water distribution and addresses the concerns of all three countries. Such an agreement could include provisions for Annual Water Flow Guarantees, ensuring a minimum guaranteed flow for Egypt, perhaps through a framework that compensates for any shortfall in water supply. In addition to creating a schedule for the Grand Ethiopian Renaissance Dam's filling and operation that considers downstream impacts, including seasonal adjustments to minimize disruptions.
- **Technical and Financial Support:** The United States can provide technical assistance to support data sharing and monitoring of the dam's impact. This includes satellite monitoring and hydro-meteorological data analysis to ensure transparency and compliance with the agreement.
- **Financial Incentives:** Offering financial support or incentives to encourage compliance with the agreed water-sharing framework.

Egypt's strategic geographical position places it at the heart of regional conflicts; the disruptions in trade and pressure from hosting refugees underscore the multifaceted economic challenges Cairo faces. Regional conflicts have likewise exacerbated these challenges by straining public services and inflating prices.

As a strategic ally, the United States can play a crucial role in alleviating these pressures through bilateral debt swaps, multilateral debt relief initiatives, and mediating comprehensive agreements. While the funds that Egypt have received from IMF are in the form of loans—which creates additional debts that will ultimately put more pressure on the country's economy—the United States can help stabilize the Egyptian economy and promote sustainable development by leveraging its influence on international financial institutions, providing debt service exemptions and debt swaps. This partnership is essential not only for Egypt's economic resilience but also for maintaining regional stability in the face of ongoing conflicts and crises. ❖

RECOMMENDED



ARTICLES & TESTIMONY

Taking the War to Hezbollah: What It Might, and Might Not, Achieve

Oct 27, 2024

Matthew Levitt

(/policy-analysis/taking-war-hezbollah-what-it-might-and-might-not-achieve)



ARTICLES & TESTIMONY

[30 Years of Israel-Jordan Relations](#)

Oct 26, 2024

•
David Schenker

[\(/policy-analysis/30-years-israel-jordan-relations\)](#)



BRIEF ANALYSIS

[Countering Hamas's Shadow Governance in Gaza](#)

Oct 25, 2024

•
Devorah Margolin,
Neomi Neumann

[\(/policy-analysis/countering-hamass-shadow-governance-gaza\)](#)

REGIONS & COUNTRIES

[Egypt \(/policy-analysis/egypt\)](#)