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Egypt's Economy Rising, Rights Declining

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Brief Analysis

Cairo has made progress on returning to its pre-revolution economic levels, but censorship, surveillance, and other humanitarian abuses continue to accelerate.

On October 31, an IMF staff team reached an agreement with Egypt to release the fifth of six $2 billion aid tranches agreed upon in November 2016. The organization's positive assessment of Cairo's economic reforms reflects President Abdul Fattah al-Sisi's willingness to enact painful financial restructuring that his predecessors either refused to countenance or abruptly halted before completion. Now that the country is emerging from the economic doldrums, Washington should urge it to enact political reforms that give citizens more public space to engage their leaders and debate their future.

FINANCIAL UPTURN

The 2011 revolution led to political and security instability, triggering an economic crisis after Egypt's traditional revenue streams from foreign direct investment and tourism fell dramatically. After Sisi overthrew a Muslim Brotherhood-led government in 2013, he eventually accepted an IMF austerity program to increase revenues through tax reform and slash expenses by cutting energy subsidies. In return, the IMF pledged $12 billion in low-interest loans.

Since then, the country's financial health has improved significantly, largely returning to pre-revolution levels. The IMF projects growth to reach 5.3% this year and 5.5% in 2019—far above the 4.3% average during Hosni Mubarak's presidency. Foreign currency reserves reached $44.5 billion last month, compared to $36 billion in December 2010. In early November, Tourism Minister Rania al-Mashat noted that the number of foreigners visiting Egypt had increased by 40% from September 2017 to September 2018. Meanwhile, better-targeted subsidies have decreased leakage (i.e., diverting resources to unintended targets such as the wealthy), while more-focused social programs have provided cash transfers and free school meals to the poor. Such improvements led the IMF to praise the central bank's "prudent monetary policy" and "commitment to a flexible exchange rate policy," while the European Bank for Reconstruction and Development lauded Egypt's "improved competitiveness."

If approved, the staff team's recommendation would leave only one more tranche to be disbursed in March 2019 before Egypt completes the program—a feat the country has never accomplished. Previous presidents opted out of IMF programs once they were able to alleviate deficits in balance of payments or reduce interest payments on foreign debt. President Sisi's willingness to press on reflects an ability to make politically risky decisions that his predecessors, especially Mubarak, lacked.

MORE TO BE DONE

Not all is rosy, however. The most recent Finance Ministry Bulletin indicated that the annual budget deficit fell by only 0.1% in July/August, equivalent to an annual decline of 0.6% (though the government projects that the deficit will shrink by 1.4% in fiscal year 2019, down to 8.4%). Elsewhere, food subsidies increased from $2.6 billion in FY 2017 to around $4.8 billion in the FY 2019 budget, while foreign direct investment fell from $7.93 billion in FY 2017 to $7.72 billion in FY 2018—far from the $10.9 billion peak reached in 2007, before the financial crash. And though Egypt is once again accessing debt markets via international bond offerings rather than relying on costly domestic private bank loans, its credit is still deemed highly speculative by the three major ratings agencies.

For these reasons, the country's foreign debt ballooned from $35 billion in December 2010 to $92.6 billion in June 2018. With foreign aid falling to around $63.2 million in FY 2019, Cairo will have to service this debt on its own; interest payments are currently slated to skyrocket 42%.

Egypt has also failed to meet IMF benchmarks on submitting an automatic fuel-price-index mechanism and outlining plans to sell state-owned enterprises. Moreover, it still suffers from microeconomic shortcomings in worker productivity, industry competitiveness, mismatched worker skills, and economies of scale (firms with five or fewer employees account for 60% of Egypt's private sector, according to the IMF). Indeed, Cairo has not made much progress in achieving the IMF goal of "structural reforms to promote higher and inclusive growth, increasing employment opportunities for youth and women."

Historically, domestic consumption rather than exports fueled Egypt's growth—a trend that has failed to generate the hard currency necessary to service the debt and subsidize foreign purchased commodities such as wheat. Until Egypt tackles these challenges, it will continue to lag behind other countries.

POLITICAL RECIDIVISM

Although Egypt has made important strides in macroeconomic reform, political liberalization has regressed since Sisi took power. In a letter to Congress this August, Secretary of State Mike Pompeo noted that "the overall human rights climate in Egypt continues to deteriorate," with Cairo "enforcing legislation that conflicts with its human rights obligations." Amnesty International concurred, characterizing the country as "an open-air prison for critics" in a September campaign.

In July, parliament approved legislation that would subject anyone with more than 5,000 followers on social media to surveillance. Egyptians have already been detained for speaking out on topics as politically innocuous as sexual harassment—criticisms that often went unpunished under Mubarak. In October, for instance, economist Abdul Khaliq Faruq was arrested for publishing a book blaming poverty on corruption, even though he had written several other similar works in the past.

One bright spot was Sisi's recent comment urging the revision of a controversial 2016 law whose restrictions have made it virtually impossible for NGOs to function. Such limitations earned the ire of the Trump administration, which responded by withholding $261 million in aid last year. Although the aid was ultimately released this July, American and international pressure likely contributed to Sisi's willingness to countenance amending the law. Nevertheless, it remains to be seen whether he actually follows through, since he may simply be propitiating foreign benefactors with hollow promises.

POLICY RECOMMENDATIONS

Washington still views Egypt as a valuable Arab ally despite Cairo's loss of regional influence in recent years. To promote stability, U.S. officials should encourage Sisi's government to lift some restrictions on civil and political freedoms. In particular, the legislation criminalizing dissemination of "false news" includes harmless critiques of society and lamentations about the country's lethargy, thereby catching far too many ordinary citizens in its net. Another onerous law requires online news sites to pay $37,500 for media permits, a decree that Reporters Without Borders labeled "extortion."

Despite these issues, Sisi has shored up the economy and helped stabilize the tumultuous post-Mubarak era. As such, his rule does not appear to be in jeopardy, rendering austere measures to keep the public in check unnecessary. The United States should encourage Egypt to repeal these measures, favoring quiet entreaties over threats of additional aid cuts. Given Trump's cordial relationship with Sisi, such requests can be broached in one of their frequent phone calls. The pressure that Washington applied on the NGO law indicates that Egypt is still susceptible to U.S. influence. Such levers should be used to put Cairo back on the path to political liberalization.

Barak Barfi is a research fellow at New America, where he specializes in Arab and Islamic affairs.

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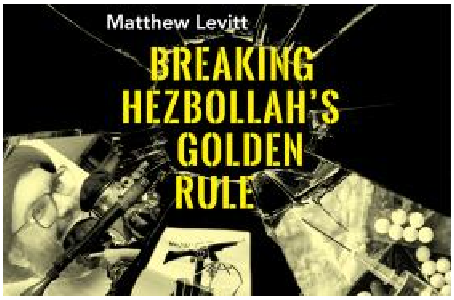

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