

Egypt's Gulf-Iran Dilemma

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Brief Analysis

Cairo has put a premium on de-escalation in order to end the war as soon as possible and lessen the economic and energy shocks afterward, but this approach could backfire with its longtime benefactors in the Gulf states.

Since the Iran war broke out, President Abdul Fattah al-Sisi's overriding priority has been to limit the impact on Egypt's fragile economy. Yet his appeals for negotiations—including directly to Tehran—risk alienating the Gulf partners who have long been Cairo's most reliable financial backers. Regardless of whether the current ceasefire holds or not, some degree of additional economic turmoil is inevitable. Sisi will need to manage not only this financial crunch, but also a new regional landscape in which former patrons may be far less interested in supporting Egypt.

Economy Still Vulnerable Despite Bouncing Back

At the end of 2023, Egypt faced an economic crisis due to a combination of global shocks and poor policy decisions: food and energy costs had ballooned amid the COVID-19 pandemic and the Ukraine war; revenue from Suez Canal fees nearly disappeared after Hamas attacked Israel and the Houthis joined in by attacking Red Sea shipping; spending on mega-projects drove up public debt; and an artificially pegged currency created a black-market exchange rate and limited access to foreign currency.

In early 2024, the United Arab Emirates bailed Cairo out by purchasing the coastal Mediterranean district of Ras al-Hikma for \$35 billion. Egypt also agreed to float its currency—a prerequisite for an \$8 billion IMF program—while the European Union committed an additional \$8.5 billion in assistance. Although the currency devaluation was painful for Egyptians, curbing the black market restored solvency to domestic banks and reopened the flow of remittances.

Cairo then spent the next two years undertaking some of the reforms it committed to under the IMF program.

Improvements in tax collection and digitization increased revenue, while Fitch and S&P upgraded the country's

credit rating to a B in November 2024, signaling a more stable investment climate. With a flexible exchange rate in place, remittances—a key source of foreign currency and supplemental income for many families—grew to over \$41 billion between July 2025 and January 2026, a 40 percent increase over the previous year. Similarly, the tourism sector—which represents 12 percent of GDP—saw a record 19 million visitors in 2025 and revenue of \$24 billion.

The Iran war has almost certainly cost Cairo several billion dollars in canceled tourism revenues, however. And at least \$10 billion in short-term investments (e.g., “hot money” bonds with very high interest rates) left the country in the opening days of the conflict, while the pound decreased over 11 percent against the dollar. Still, as of late March, the finance minister was projecting 5.2 percent growth by June 30 (the end of the budget year) and remained optimistic about additional growth and cutting debt in the coming year.

Yet the war will almost certainly delay any progress on Egypt’s main challenge: decreasing the state’s footprint in the economy. The IMF’s [latest program review \(https://www.imf.org/en/publications/cr/issues/2026/03/26/arab-republic-of-egypt-fifth-and-sixth-reviews-under-the-extended-arrangement-under-the-574987\)](https://www.imf.org/en/publications/cr/issues/2026/03/26/arab-republic-of-egypt-fifth-and-sixth-reviews-under-the-extended-arrangement-under-the-574987) reported that “no material divestment has occurred over the last 24 months, while new military entities were created.” A handful of public companies are listing shares in the stock market, but that does not change the fundamental dynamic of operating inefficient state-owned companies while crowding out the public sector. Until Cairo commits seriously to privatizing the ubiquitous military-owned companies, structural impediments to growth will remain. Unfortunately, the current wartime circumstances make it even less likely that Sisi will confront this politically sensitive issue.

Midterm Energy Worries

The war’s global energy crunch will hit Egypt hard. The country’s monthly energy bill more than doubled from January to March, prompting the government to raise prices up to 30 percent and curb usage. As summer approaches, Egyptians could face rolling blackouts like they did in summer 2024, when the country experienced another shortage and was adjusting to being a net energy exporter.

The United States has been working to ease Egypt’s energy problems for some time. After a push from the Trump administration in December, [Israel approved \(https://www.washingtoninstitute.org/policy-analysis/building-egypt-and-israels-uneasy-gas-deal\)](https://www.washingtoninstitute.org/policy-analysis/building-egypt-and-israels-uneasy-gas-deal) a fifteen-year, \$35 billion deal to supply Egypt with natural gas from its offshore Tamar field—a significant expansion of their previous arrangement. Yet this line of supply is vulnerable during wartime and was shut down for nearly a month. On April 2, the Export-Import Bank of the United States (EXIM) approved a \$2 billion credit to insure American exports of liquefied natural gas (LNG) to Egypt.

In the longer term, Cairo plans to bring more green energy online while simultaneously developing significant upstream projects. These include an intent to purchase the Aphrodite gas field from Cyprus, a prospective memorandum of understanding with Nicosia regarding the Cronus field, and a major gas discovery just announced by ENI in Egypt’s offshore Tamsah concession. Such efforts will position Egypt to be a major East Mediterranean energy player in the next five to ten years—the challenge will be how to bridge its considerable domestic supply gap until then.

Cairo’s Approach Could Backfire

Given Egypt’s current vulnerabilities, Sisi has put a premium on negotiations and de-escalation with the aim of ending the Iran crisis as soon as possible and lessening the postwar economic and energy shocks. Yet this has meant avoiding total strategic alignment with the Gulf states who remain Egypt’s greatest benefactors—a decision that could backfire.

In a March 13 call with Iranian President Masoud Pezeshkian, Sisi condemned the regime’s attacks on these countries [but also emphasized \(https://sis.gov.eg/en/presidency/phone-calls-telegrams-posts-tweets/president-sisi-receives-phone-call-from-his-iranian-counterpart/\)](https://sis.gov.eg/en/presidency/phone-calls-telegrams-posts-tweets/president-sisi-receives-phone-call-from-his-iranian-counterpart/) “Egypt’s readiness to exert every effort

to mediate and prioritize political and diplomatic solutions to the current crisis.” On March 31, he **publicly declared** (https://www.youtube.com/watch?v=2_Eikum_CG8) to President Trump that “nobody but you can stop this war.” Meanwhile, Foreign Minister Badr Abdelatty participated in the Pakistani-led mediation efforts that produced the current ceasefire. He also met with Vladimir Putin in Moscow to **discuss** (<https://www.reuters.com/world/africa/putin-floats-idea-grain-energy-hub-egypt-2026-04-02/>) opening an energy and grain corridor, both of which could greatly benefit Egypt.

Yet if Sisi’s government promotes arrangements that wind up benefiting Iran—including some of the potential deals floated by the Trump administration—the Gulf states may see this as a betrayal of their investments in Egypt. For example, the UAE is by far the leading source of foreign direct investment in Egypt, including the Ras al-Hikma purchase and several other holdings. It has also been subjected to **more Iranian missile and drone strikes** (<https://www.iiss.org/online-analysis/online-analysis/2026/03/mapping-the-damage-iranian-strikes-on-the-gcc/>) than nearly every other country; as such, it has taken a very assertive wartime stance against Tehran and has yet to publicly endorse the current ceasefire. On March 23, Emirati presidential advisor Anwar Gargash seemed to fire a shot across Cairo’s bow, **asking** (<https://x.com/AnwarGargash/status/2035965190731350338>), “And where are the ‘major’ Arab and regional states?...The Arab Gulf states were a mainstay and partner to all in times of prosperity...so where are you today in times of hardship?”

Other Gulf governments have also invested substantially in Egypt. In December, Qatar gave Cairo \$3.5 billion as part of a \$29.7 billion Mediterranean development deal. Similarly, Saudi Arabia has deposited over \$10 billion in Egypt’s Central Bank, while Kuwait has discussed converting \$4 billion worth of its own deposits into investments.

The U.S. Role

Even if the Gulf states do not take active measures such as withdrawing investments or deposits, Egypt is likely facing an extended period in which it cannot count on Gulf money. These states will be focused on repairing the billions of dollars of damage to their own infrastructure first, and their pocketbooks may stay closed afterward if their attitudes toward Sisi harden. As such, Egypt will no longer be able to underwrite debt as readily as in the past, nor fill in the gaps created by its own slow pace of reforms.

To ease this dilemma, Washington should urge Cairo to tighten its belt and focus more on privatization. So far, Finance Minister Ahmed Kouchouk has announced government spending limitations over the fourth quarter of the 2025/26 budget. The approved 2026/27 budget projects a 27 percent increase in revenue and a 13 percent increase in spending, with a significant portion of the balance designed to pay off debt. Yet it is hard to imagine those figures will stick.

The United States can provide some support—for example, the LNG credit that EXIM approved this month showed how the Trump administration favors foreign assistance that makes it advantageous for American companies to work abroad. But clear limits would be necessary, and the administration should avoid loans.

If the U.S. government decides to back commercial support for Egypt, it should focus on expanding the tech and startup sectors. In February, Cairo announced a \$1 billion “**Startup Charter**” (<https://www.egypttoday.com/Article/3/144935/Egypt-launches-first-ever-startup-charter-with-1-billion-funding>) to provide financing for 500 companies over five years. The United States should explore ways to collaborate with and develop this initiative through public-private partnerships; for instance, it could define a specific platform that the U.S. International Development Finance Corporation could underwrite, or get the Egypt-American Enterprise Fund involved.

At the same time, Washington must press Cairo to accelerate reforms such as providing more tax incentives and decreasing regulations that inhibit tech growth. The United States is no substitute for Gulf largesse, but it can help

Egypt stay on the reform track even as the effects of the Iran war continue reverberating.

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