Egypt’s Economic Reforms Must Continue

by Ben Fishman **(/experts/ben-fishman)**

Oct 30, 2024

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Brief Analysis

Since receiving $57 billion earlier this year, Cairo has enacted several reforms and named a new economic team, but President Sisi must allow for additional improvements.

Just as his new, reformist economic team arrived in Washington to participate in the fall World Bank-IMF meetings last week, Egyptian president Abdul Fattah al-Sisi warned that continued reform would be conditioned on how much stress it puts on the population. Fuel prices increased three times this year as the government lowered subsidies, while inflation is still above 26 percent after a brief dip over the summer, spurring significant public discontent.

Sisi’s comment may have been intended to give his negotiators more leverage in talks about the pace of the IMF’s $8 billion loan program for Egypt. He may also have been warning his cabinet ministers to take firm positions with the IMF regarding the stage of the program. One thing is clear: his messaging is at least partly aimed at convincing the public that he is on their side. IMF managing director Kristalina Georgieva plans to visit Egypt in the coming days to “look into” the fund’s support “from the perspective of what is best for the country.” Washington should do what it can to help these reforms succeed, in part because Egypt’s economy is key to its stability.

A Well-Timed Windfall

Despite the challenges on all of Egypt’s borders, the country’s real existential threat is the poor state of its economy, and Cairo cannot assume that it will be bailed out again as it was this year. Some of Egypt’s problems stem from events beyond its control. The Ukraine war led to higher wheat prices; Houthi antishipping attacks diverted Suez Canal traffic and decreased an important revenue stream; and broader regional chaos from multiple wars decreased tourism receipts. Other problems were self-induced, however, particularly Cairo’s excess spending and borrowing.

As Egypt's economy hit rock bottom last year, the United Arab Emirates purchased the Ras al-Hikma region on the Mediterranean coast for $35 billion, alleviating the country's foreign currency crisis by enabling officials to float the Egyptian pound and unify the exchange rate. That step met a key requirement of the IMF's initial $3 billion program signed in 2022. The fund then expanded its program to $8 billion, while the European Union added $8 billion and the World Bank another $6 billion (a combination of soft loans and projects), for a total of $57 billion when factoring in the UAE sale. This influx and the associated currency unification enabled Egypt to resume regular imports, recapitalize its banks, and begin paying down arrears to energy companies. Remittances, a key revenue source, increased in earnest after Egyptians abroad regained confidence in the banking system.

Despite this welcome progress, however, the government has more work ahead if it aims to truly stabilize the economy. The IMF has outlined several additional reforms to reach that goal and take maximum advantage of the new revenue.

Privatization

The IMF program requires Egypt to divest more of its state-owned companies. In 2022, parliament approved a program to raise capital by selling thirty-five such enterprises. With the exchange rate in flux, however, the government wound up selling minority stakes in just five companies, mostly to Emirati buyers, generating a relatively paltry sum of $1.5 billion in 2023. (In addition, one domestic buyer purchased a few hotels.)

In theory, the revaluation of the pound should have accelerated privatization, but due-diligence concerns over the operations of state-owned companies slowed the pace of sales. So far, the Italian private banking firm Intesa Sanpaolo is in advanced discussions to purchase the remaining 20 percent stake of Alex Bank that it does not already own. Additional consortiums may purchase the Beni Suef power station operated by Siemens, and five of Egypt's airports will be listed as well. Minor sales, such as the microfinance company Tamweely, could gather momentum for larger-scale investments. Yet if the government wants to ensure it actually hits its $2-2.5 billion target for these sales over the current fiscal year, it must respond quickly to information requests from potential investors.

One significant self-initiated reform is transferring military-owned lands to private sector entities, which would produce taxable revenue. The process began with the Ras al-Hikma purchase, but that sale represented a significant setback for military interests, who could push back against the reformers as a result.

Taxes and Subsidies

Taxes in Egypt are relatively low and collected inconsistently. The 2024/25 budget features several tax reforms (e.g., digitalization of collection) that are expected to increase revenue. According to the Finance Ministry, tax revenue already increased by 56 percent this August-September compared to the same period last year, a sign that Egypt is committed to change in this domain.

Subsidies are a trickier matter. As noted above, fuel prices rose three times this year after the government began to rationalize its role in supplying this vital resource. Typically, subsidy reform is accompanied by direct payments to those in need. Cairo has indeed increased its direct cash transfers and spending on social welfare, but the middle class has taken a hit, paying more for fuel without receiving the benefits. The pace of subsidy reform was presumably at the top of the agenda during the latest IMF talks.

Energy

Over the past year, Egypt became a net importer of natural gas. A growing population (including an estimated nine million refugees and migrants), coupled with higher electricity consumption in the summer heat and persistent inefficiencies in the grid, exacerbated the country's energy crisis. The shortfall resulted in widespread blackouts as well as power restrictions on cafes and shops. Although gas imports from Israel remained stable, Cairo feared they might be interrupted by escalating conflicts in the region.

In response, Egypt began to import expensive liquefied natural gas from terminals off the coast of Aqaba, Jordan, and through its own Ain Sukhna terminal. The government allocated $1.2 billion in extra spending for this purpose and will need additional imports to compensate for its daily national power deficit of 4 gigawatts.

Accordingly, Cairo is seeking to bring more renewables online, especially solar, which is already contributing a small share to the grid. Its Russian-constructed nuclear power plant is still set to be activated, but not for another four years. Cairo also committed to develop green hydrogen at the COP27 climate conference in 2022, making it part of the country's 2030 energy plan. Yet mid- to long-range solutions will not alleviate the immediate energy crisis.

U.S. Support

Instead of focusing solely on Gaza and other security-related issues with Egypt, Washington needs to demonstrate its concern about the country's economic and energy reforms. This shift would have the added benefit of signaling Cairo that it cannot sidestep key reforms just because it is an important security partner.

Toward this end, senior interlocutors such as the Treasury and Commerce secretaries should be engaging their Egyptian counterparts to demonstrate U.S. support for Cairo's reformist economic team. In a positive development, Secretary of State Antony Blinken convened the second meeting of the U.S.-Egypt Strategic Dialogue while visiting Cairo on September 18. Among the dialogue's working groups is the Joint Economic Commission, which held its second meeting in Washington on September 4 and provides a forum for discussing Egypt's practical economic challenges. Moreover, Minister of Investment Hassan al-Khatib is leading a delegation this week to advance a bilateral Trade and Investment Framework Agreement with the United States. These and related conversations should pick up now that Egypt's new economic team has brought more capacity to respond.

Washington can also do more on private investment, following Europe's example. The EU held an investment conference in Cairo this June, while Britain hosted a similar conference in September. One of the best ways to encourage private sector reform and growth is by having Egyptian firms work with American companies and witness their rigorous standards for transparency and accountability firsthand. The United States should not let European companies get too big of a head start in Egypt's improving investment climate.

Finally, the U.S. Agency for International Development should consider some shorter-term initiatives for Egypt. Much of USAID's current funding is focused on fostering long growth and job creation through education and supporting small and medium enterprises (SMEs). For example, the additional $129 million in assistance that Secretary Blinken announced in September includes STEM education partnerships between U.S. and Egyptian universities. These projects are important over the long term but do not address the country's immediate economic and energy crises. If supporting renewable energy projects abroad is too controversial at the moment, the Biden administration should work with Congress to help fund upgrades to Egypt's power grid or other practical advancements. Moreover, the U.S. International Development Finance Corporation, which already helps fund energy programs in Egypt, should consider providing additional support in this area.

Whatever specific initiatives they pursue, Egypt's U.S., Arab, and European partners cannot keep treating the country as "too big to fail." That would be a disservice to the world's largest Arab population, and a recipe for growing instability.

Ben Fishman is the Levy Senior Fellow at The Washington Institute and former director for North Africa on the U.S. National Security Council. ❖

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