Follow the Money to the Truth about Al-Sisi's Egypt

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SNAPSHOT

SUMMARY

- Egypt under President Abdel Fattah al-Sisi has become a beggar state, its economy ever more reliant upon foreign support, especially loans.
- Al-Sisi conducts economic policy as if the country were an oil-rich rentier state like Saudi Arabia or a successful mercantile one like China, though Egypt is neither.
- The regime's financial appetites are gargantuan, but it is luxuries, not basic necessities for a growing population, that absorb the bulk of state revenues. Al-Sisi, who came to power through a coup, relies on the "wow" factor of mega-projects and weapons purchases to bolster his legitimacy.
- To pay for these extravagances, the government has squeezed the citizenry through cuts in consumer subsidies, regressive taxation, and increased fees for "public" services. Egyptians suffer under stagnating wages, rising prices, and high unemployment, with some 30 million citizens living on incomes of less than $3.20 a day.
- To extract revenue the regime also squeezes the private sector, including through the military's gobbling up of numerous profitable private enterprises.
- Al-Sisi's Egypt must increasingly rely on foreign credit for economic survival. Egypt's total national debt, now $370 billion, has quadrupled since 2010. Repayment of domestic and foreign debt consumes over one-third of Egypt's budget, more than double the amount in 2009.
- There are remarkable similarities between Lebanon's now abjectly failed economy and Egypt's struggling one. The devastating consequences of Lebanon's economic collapse would be even worse if repeated on an Egyptian scale. Best, therefore, for Egypt's "friends" to take corrective steps before that happens, rather than continue to indulge al-Sisi's regime.

INTRODUCTION

All governments must obtain resources if they are to function. They differ according to the amount, sources, and types of resources they extract. Egypt under President Abdel Fattah al-Sisi is unusual, if not unique, in that the political economy model it has adopted requires resources remarkably disproportionate to the economy's ability to provide them. Al-Sisi's government acts as if it were presiding over a rentier state financed by hydrocarbon exports such as Saudi Arabia or over an authoritarian mercantile state benefitting from a sustained, favorable balance of trade fueled by expanding manufactured exports, like China.

Egypt, however, is neither a rentier state nor a successful mercantile one. Its exports of all goods and services are chronically insufficient to generate a balance of trade surplus. Over the past decade, its annual trade deficit has bounced between $28 and $44 billion.[1] Its GDP per capita—in the $3,000 to $4,000 range—ranks it 135th out of 213 countries.[2] It took 20 years for Egypt's GDP per capita to double, a growth rate slower than that of Morocco, whose GDP is about one-third of Egypt's $360 billion.

PHARAONIC APPETITE

Yet under al-Sisi, Egypt's financial appetites have become gargantuan. A relatively small part of the financial diet is absorbed by the needs of an expanding population living in a limited, water-scarce area, unable to achieve food self-sufficiency. Egypt produces only about one-third of the food it consumes and frequently imports more wheat than any other country in the world.

But it is luxuries, rather than basic necessities, that soak up the bulk of available revenues. The list of luxury acquisitions since al-Sisi and the military seized power in 2013 is staggering, especially since most appear to add symbolic rather than economic value. Examples include the $58 billion new administrative capital in the desert outside Cairo; weapons acquisitions whose exact value is unknown but which have placed the country among the world's top five arms purchasers; a $25 billion nuclear reactor to produce power in a country with an electricity surplus; an $8 billion dollar expansion of Suez Canal capacity that has yet to generate a noticeable increase in transit dues, rising to only to $5.8 billion in 2020 from $5.6 billion in 2017; and several of Africa's or even the world's largest this or that, ranging from the tallest building and biggest church on the continent to the globe's largest fish farm, albeit one apparently displacing already existing such farms operated by individual proprietors.[3]

UNDER AL-SISI, EGYPT'S FINANCIAL APPETITES HAVE BECOME GARGANTUAN.

These extravagances raise two pertinent questions. The first is: Why? Surely there are better ways to spend these monies, if indeed it is advisable to spend them at all. But that answer reflects an economic logic, not the operative political one. Like in rentier states and, to a lesser extent, in authoritarian mercantile ones, al-Sisi has sought to "wow" the population to gain admiration and acquiescence. His approach is reminiscent of the strategies of Hitler, Stalin, and Mussolini, who sought legitimation in modernism and its manifestations in archi-

1. Aaron O'Neill, "Egypt: Trade balance from 2010 to 2020," Statista, August 5, 2021, https://www.statista.com/statistics/377970/trade-balance-of-egypt/

2. "GDP per capita, PPP (current international $)," The World Bank, accessed December 9, 2021, https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD

3. Mustafa Hosny, "Big fish in a shrinking pond: How an Armed Forces company is building a fish farming monopoly," Mada Masr, April 15, 2021, https://www.madamasr.com/en/2021/04/15/feature/economy/big-fish-in-a-shrinking-pond-how-an-armed-forces-company-built-a-fish-farming-monopoly/

A rendering of the Central Business District in Egypt's $58 billion new administrative capital outside Cairo. Credit: *Dar*

tecture, transport, and even art and literature. In all these cases, decorating the state with glitzy accoutrements is intended to elevate the state and its ruler above citizens and their needs. Lacking charisma or democratic legitimacy, al-Sisi has neutered political institutions such as the parliament, local councils, and the once semi-independent media, choosing to rely on the "wow" factor of mega-projects and weapons in the absence of other sources of legitimacy. He has not made "the trains run on time," either literally or figuratively, nor has his regime improved the lives of the majority of Egypt's 102 million citizens.

FINANCING THE "WOW" FACTOR

The related million—or rather multi-billion—dollar question is: From whence the funds to pay for these extravagances? The answer is from home and abroad, in roughly equal measure, as judged by the balance of domestic versus foreign debt. The regime's domestic public borrowings tell only part of the story of how it has squeezed financial blood out of Egyptian stone. Its depredations are creative, thorough, self-serving, and economically deleterious.

Squeezing the Population

The population has been crushed between stagnating incomes and rising household expenses. Since 2019, wage and salary expenditures by the government, far and away the country's largest employer, have been flat, reflecting little to no growth in public employment and in civil servant salaries.[4] Privatizations or closings of state-owned enterprises, such as the historic Helwan Steel Works that employed 7,000 workers, have added to downward pressure on overall employment, both public and private.[5] Unemployment has bounced between 7 percent and 10 percent since 2019, but that

4. "Egypt's Draft Budget Supportive for Debt Reduction," Fitch Ratings, May 11, 2021, https://www.fitchratings.com/research/sovereigns/egypts-draft-budget-supportive-for-debt-reduction-11-05-2021

5. Jean-Pierre Sereni, "Egypt Opens the Debt Tap as Wide as It Will Go," OrientXXI, June 15, 2021, https://orientxxi.info/magazine/egypt-opens-the-debt-tap-as-wide-as-it-will-go,4848

relatively benign figure is an inaccurate measure of labor markets. Labor market health is better assessed by the youth unemployment rate, which exceeds 25 percent, and by the labor force participation rate—the proportion of those of working age who are employed—which fell to a meager 42 percent in 2021 from 49 percent a decade earlier.[6] According to the World Bank, Egypt's labor force participation rate is below the global average of 59 percent, the Middle East and North Africa (MENA) average of 46 percent, and the low- and middle-income country average of 58 percent.[7]

Inflation has inflicted additional pain on ordinary Egyptians. Inflation fell from 9 percent to 5 percent between 2019 and 2020 before rebounding to 8 percent in fall 2021.[8] This is higher than the average inflation rate of 5 percent in emerging economies this year.[9] The al-Sisi regime further reduced Egyptians' purchasing power with across-the-board cuts in consumer subsidies on fuel, water, power, transport, and food. The cuts targeted even the most vital of foodstuffs, bread—for decades the symbolic and actual commitment of the government to the people of Egypt, especially the poor. Bread subsidies, to which about two-thirds of Egyptians are entitled, account for more than half of all food subsidies. Loaf size was first reduced in 2014 and then again in the wake of Egypt's 2016 International Monetary Fund (IMF) agreement, which called for subsidy reforms. Loaf size and the number of those with access to subsidized bread were reduced again during the pandemic, at the very height of which, in 2020–21, the government did not spend its budgeted allocation for subsidies.[10] Egypt's 2021–22 budget projects reductions in expenditures in real terms on subsidies, grants, and social benefits. Budget appropriations for education and health do not meet constitutionally mandated minimums.[11]

THE AL-SISI REGIME FURTHER REDUCED EGYPTIANS' PURCHASING POWER WITH ACROSS-THE-BOARD CUTS IN CONSUMER SUBSIDIES ON FUEL, WATER, POWER, TRANSPORT, AND FOOD.

A further drain on household income has been an increase in governmental fees, with those for "public" education the most controversial. The past year has seen higher fees for public school enrollment and textbooks, coupled with growing class sizes due to a five-year freeze on hiring teachers and on school construction; the average class size increased from 44 to 49 stu-

6. "Egypt's Economic Update — October 2021," The World Bank, October 7, 2021, https://www.worldbank.org/en/country/egypt/publication/economic-update-october-2021; International Labour Organization, "Labor force participation rate, total (% of total population ages 15+) (national estimate) - Egypt, Arab Rep.," The World Bank, accessed September 7, 2021, https://data.worldbank.org/indicator/SL.TLF.CACT.NE.ZS?locations=EG

7. "Labor force participation rate, total (% of total population ages 15+) (modeled ILO estimate)," The World Bank, accessed June 15, 2021, https://data.worldbank.org/indicator/SL.TLF.CACT.ZS

8. The World Bank, "Egypt Inflation Rate 1960-2021," Macrotrends, https://www.macrotrends.net/countries/EGY/egypt/inflation-rate-cpi; Egypt Today Staff, "Egypt's annual inflation records 8% during September, hikes 1.6% monthly," Egypt Today, October 10, 2021, https://www.egypttoday.com/Article/3/108672/Egypt-s-annual-inflation-records-8-during-September-hikes-1

9. Aaron O'Neill, "Emerging market and developing economies: Inflation rate from 2016 to 2026," Statista, June 16, 2021, https://www.statista.com/statistics/805547/inflation-rate-in-the-emerging-market-and-developing-economies/

10. "Sisi says bread subsidies to be cut, ministers begin price studies," Mada Masr, August 4, 2021, https://www.madamasr.com/en/2021/08/04/news/u/sisi-says-bread-subsidies-to-be-cut-ministers-begin-price-studies/

11. Nadine Awadalla, "Egypt's parliament approves 2021-2022 budget," Reuters, June 14, 2021, https://www.reuters.com/world/middle-east/egypts-parliament-approves-2021-2022-budget-2021-06-14/

The past year has seen higher fees for public school enrollment and textbooks, coupled with growing class sizes. Credit: *Giacomo Pirozzi/ UNICEF*

dents and most public schools went over to double shifts.[12] (Bangladesh, with a GDP per capita half that of Egypt's, has an average class size of 45.)[13] These worsening educational conditions led to outbreaks of violence by parents and students at various schools at the beginning of the 2021 school year. The government's obvious intent is to induce parents to move their children to private schools, in which the government is investing public funds through several start-up public-private partnerships with international corporate educational service providers. The military has also founded elite schools to train cadres to enter leading ranks of the civil service, including in security and intelligence.[14]

That Egyptians under al-Sisi's rule are paying more and getting less from their government is further indicated by aggregate tax revenues, which are scheduled to rise in 2022 to 13.9 percent of GDP, up from 12.7 percent two years earlier.[15] Taxation also has become steadily more regressive—taking more tax income from lower-income citizens than from wealthier ones—as the value-added tax (VAT)'s share of total taxation has increased. Meanwhile, the 25 percent cap on personal income and corporate tax remains untouched.

Among the consequences of the stagnating labor market and deteriorating family finances is growing poverty. Egypt's poverty rate nearly doubled between 2000 and 2018, from 16.7 to 32.5 percent. It subsequently declined slightly, but only because of the Egyptian pound's appreciation, which increased family incomes in

12. Beesan Kassab and Hader al-Mahdawi, "Mutahadith al-ta'alim yanfi al-taraju'a 'an rabt al-kutub bi-dafa' al-masaarif," [Education spokesman denies backing out of linking books to paying fees]," Mada Masr, October 17, 2021, https://bit.ly/30tdj5i; Beesan Kassab, "With no new hires, teacher shortfall widens in government schools," Mada Masr, October 5, 2021, https://www.madamasr.com/en/2021/10/05/feature/politics/with-no-new-hires-teacher-shortfall-widens-in-government-schools/

13. "Levelling Up," *The Economist*, November 13, 2021.

14. Kassab and Mahdawi; and Robert Springborg, "Education Policy in Sisi's Egypt," in *The Political Economy of Education in the Arab World*, eds. Hicham Alaoui and Robert Springborg (Boulder: Lynne Rienner, 2021).

15. Fitch Ratings, "Egypt's Draft Budget Supportive for Debt Reduction."

dollars, the currency in which global poverty rates are calculated.[16] Some 30 million Egyptians live in poverty as defined by an income of less than $3.20 daily.[17]

Under al-Sisi, the informal business sector—which serves as a vital labor sponge but offers little in the way of salaries, benefits, and job protection—has expanded, even in the face of efforts to formalize firms. According to Mirette F. Mabrouk of the Middle East Institute, about 63 percent of Egypt's labor force is employed in the informal sector, which accounts for some 40 percent of the economy, the highest rate in the MENA region.[18] This represents about a 5 percentage point increase in the informal sector's share from the final years of the Mubarak era, despite various World Bank-sponsored projects intended to combat that rise.[19]

Potential negative consequences of squeezing funds out of the public were suggested by the rating agency Moody's, which stated in the summer of 2021 that "Egypt's exposure to social risks is high . . . exacerbated by the large economic reform adjustment costs borne by consumers of the past few years." Moody's added that the "breadth of coverage" of the social safety net agreed as part of the 2016 IMF program "remains relatively narrow."[20] But the politically risky financial squeeze of the population may be further tightened. Egypt's chronic budget deficit, despite having slid from 12 percent of GDP in 2016 to its present 7 percent, remains above the level deemed sustainable by Egypt's international lenders.[21]

UNDER AL-SISI, THE INFORMAL BUSINESS SECTOR—WHICH SERVES AS A VITAL LABOR SPONGE BUT OFFERS LITTLE IN THE WAY OF SALARIES, BENEFITS, AND JOB PROTECTION—HAS EXPANDED, EVEN IN THE FACE OF EFFORTS TO FORMALIZE FIRMS.

Alongside spending cuts and price and revenue hikes, the government has intensified its efforts to rake in revenue from other, non-traditional sources. In summer 2021, it introduced legislation allowing state-owned providers of services and utilities—including electricity, water, gas, communications, roads, subways, trains, health, education, and housing—to "monetize and trade their future revenues for sale to investors."[22] Spokespersons

16. Associated Press, "Egypt: A Third of Population Lives in Poverty," VOA News, July 30, 2019, https://www.voanews.com/a/middle-east_egypt-third-population-lives-poverty/6172941.html

17. Saifaddin Galal, "Number of people living below the national poverty line in Egypt from 2018 to 2021," Statista, May 18, 2021, https://www.statista.com/statistics/1237023/population-under-the-poverty-line-in-egypt/; Nistha Sinha, "Poverty & Equity Brief: Arab Republic of Egypt," The World Bank, April 2020, https://databank.worldbank.org/data/download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_EGY.pdf

18. Mirette F. Mabrouk, "Egypt's sizeable informal economy complicates its pandemic response," Middle East Institute, June 22, 2020, https://www.mei.edu/blog/egypts-sizeable-informal-economy-complicates-its-pandemic-response

19. Mohamed Ahmed Abbas, "Informal Economy in Egypt: Problems and Solutions," Egyptian Institute for Studies, April 2, 2019, https://en.eipss-eg.org/informal-economy-in-egypt-problems-and-solutions/

20. Doaa A. Moneim, "Moody's maintains Egypt's credit rating at B2 with stable outlook," Ahram Online, July 31, 2021, https://english.ahram.org.eg/NewsContent/3/12/418070/Business/Economy/Moody%E2%80%99s-maintains-Egypt%E2%80%99s-credit-rating-at-B-with-.aspx

21. Aaron O'Neill, "Egypt: Budget balance between 2016 to 2026 in relation to GDP," Statista, May 4, 2021, https://www.statista.com/statistics/377982/egypt-budget-balance-in-relation-to-gdp/

22. "New bill proposes financialization of public utilities providers," Mada Masr, May 20, 2021, https://www.madamasr.com/en/2021/05/20/feature/politics/new-bill-proposes-financialization-of-public-utilities-providers/

Cement bags sit on a conveyer belt at Al-Areesh Cement Factory, one of the many military-owned enterprises in Egypt. Credit: *Egypt's Presidency website*

for the government argue that quality would be improved, and, in any case, that the public companies are now deeply in debt.[23] Observers reckoned that this financial securitization of public assets would inevitably result in higher costs to Egyptians for crucial goods and services.

Squeezing the Private Sector

Military-owned enterprises already play a substantial role in al-Sisi's economy. There are about 80 such companies, producing mainly civilian goods, including appliances, apparel, food, beverages, tobacco, automobiles, and IT equipment, and involved in retail, media and entertainment, and—most importantly—public contracting.[24] But even with this breadth of activity, military-owned enterprises are now seeking to bring in revenues from new sources. The *Financial Times* reported in February 2020 that Egypt's sovereign wealth fund, established in 2018 "to promote and co-invest in state-owned assets," would seek foreign and domestic investors in 10 companies of the National Service Projects Organization, an economic arm of the military.[25] In 2021, the government pushed through parliament legislation that codified already-existing tax exemptions for the Tahya Masr (Long Live Egypt) Fund, established in 2014 directly under al-Sisi—ostensibly to "improve living conditions for the disadvantaged," but in essence to serve as a presidential slush fund. Exemptions were extended to stamp duties, VAT, real estate registration fees, and so on. The Tahya Masr Fund has come to own a wide variety of assets and has the right to establish companies or buy shares in existing ones in both the public and private sector.[26]

23. "New bill proposes financialization," Mada Masr.

24. Creating Markets in Egypt: Realizing the full potential of a productive private sector, Country Private Sector Diagnostic, International Finance Corporation, December 2020; Yezid Sayigh, *Retain, Restructure, or Divest? Policy Options for Egypt's Military Economy* (Beirut: Carnegie Endowment for International Peace, Malcolm Kerr Middle East Center, forthcoming).

25. Heba Saleh, "Egypt seeks investors for military-run companies," *Financial Times*, February 27, 2020, https://www.ft.com/content/f789b0ba-5324-11ea-8841-482eed0038b1

26. "Sisi calls to increase resources of Long Live Egypt Fund," Egypt Independent, September 5, 2021, https://www.egyptindependent.com/sisi-calls-to-increase-resources-of-long-live-egypt-fund/

The military has gobbled up numerous profitable private enterprises, including fish farms, gold mining firms, and black sand excavating companies, frequently on flimsy pretexts.[27] It is now reportedly attempting to take over Juhayna, a market-leading dairy and juice company. The security agencies imprisoned in solitary confinement Juhayna's elderly founder, Safwan Thabet, before jailing his son and successor as CEO, both for alleged connections to the Muslim Brotherhood.[28] Reports suggest that the actual reason is that the Thabets have resisted pressure to hand over company assets to the state and military.[29]

THE MILITARY HAS GOBBLED UP NUMEROUS PROFITABLE PRIVATE ENTERPRISES . . . FREQUENTLY ON FLIMSY PRETEXTS.

These various initiatives squeeze the private business sector just as broader fiscal and economic policies squeeze the general public. Reflecting mainly the regime's pressure on the former, Egypt's rank on the Heritage Foundation's Economic Freedom Index languishes at 130 out of 178 countries.[30] This is hardly the robust private sector that the United States and other donors have been trying for decades to help create.[31] The immediate consequence of targeting private business in particular and the public in general for revenue extraction is to depress demand.

That is shown in the decline of imports of services as well as of capital, intermediate, and consumer goods. In 2020 total imports constituted 20 percent of GDP, the lowest proportion since 1973 and just over half that in 2008.[32] Yet despite the substantial decline in imports, a simultaneous drop in exports means that Egypt's trade balance has not improved.[33] In 2020 it was $10 billion more in the red than in 2010 and $5 billion more than in 2016, when Egypt commenced IMF-required reform measures.[34] Another indicator of slumping demand is the Purchasing Managers' Index, or PMI, a survey-based measure of businesspersons' views of market conditions. A score above 50 reflects business optimism. Since 2016, Egypt's PMI has averaged well below 50, whereas from 2012 to 2016, other than the months immediately preceding and following the July 2013 coup, it averaged above that break-even point.[35]

27. Sayigh, *Retain, Restructure, or Divest?*

28. "Egypt: Businessmen behind bars for resisting security agency demands," Amnesty International, September 27, 2021, https://www.amnesty.org/en/latest/press-release/2021/09/egypt-businessmen-behind-bars-for-resisting-security-agency-demands/

29. "Egyptian authorities say they blocked Brotherhood financing scheme," Reuters, September 30, 2021, https://www.reuters.com/article/us-egypt-juhayna-idAFKBN2GQ21D

30. "2021 Index of Economic Freedom," The Heritage Foundation, accessed December 9, 2021, https://www.heritage.org/index/ranking

31. See, for example, "Working with the private sector," USAID, June 29, 2021, https://www.usaid.gov/egypt/fact-sheets/working-private-sector; or "New Project to Support Egypt's Inclusive and Sustainable Economic Growth," The World Bank, October 28, 2021, https://www.worldbank.org/en/news/press-release/2021/10/27/new-project-to-support-egypt-s-inclusive-and-sustainable-economic-growth

32. The World Bank and OECD National Accounts, "Imports of goods and services (% of GDP) - Egypt, Arab Rep.," The World Bank, accessed December 9, 2021, https://data.worldbank.org/indicator/NE.IMP.GNFS.ZS?locations=EG

33. The World Bank and OECD National Accounts, "Exports of goods and services (% of GDP) - Egypt, Arab Rep.,"

34. O'Neill, "Egypt: Trade balance."

35. "Al-Isti'ared nataa'ij taqrir: mu'ashir mudara'a al-mushtariyaat [Review of Report Results: Purchasing Managers' Index]," Egyptian Ministry of Planning and Economic Development, September 2021, https://mped.gov.eg/AdminPanel/sharedFiles/2111d193-bd59-445e-abfa-4b4acca084fc_PMI_September_2021_[Autosaved].pdf

On January 1, 2021, President Abdel Fattah al-Sisi conducts an inspection tour of the Middle Ring Road in the greater Cairo area, one of many national mega-projects overseen by the military under al-Sisi's regime. Credit: *Egyptian Presidency website*

FOLLOWING THE LEBANESE MODEL?

The scholar Ishac Diwan's analysis of Egypt's economic performance under al-Sisi emphasizes the profoundly negative impact of the military's expansion of control and ownership. Diwan sees the military economy as substantially less capable of generating adequate economic growth than the crony-dominated economy that prevailed under the Mubarak regime. He argues that this is because military officers monopolize markets and resources more than civilian cronies do; their firms are less efficient than even large crony-owned ones; they scare off private investors; and their fear of popular unrest causes officers to centralize economic and political decision making even more.[36]

Diwan's analysis implies that Egypt's economic decline under al-Sisi is structural in nature—rather than the result of temporary downturns in employment, production, and demand—and therefore unlikely to be reversed even if the country were to become a veritable model of IMF correctness. Lending at least conceptual support to his argument are remarkable similarities between Lebanon's now abjectly failed economy and Egypt's presently struggling one.

The Lebanese model that emerged in the wake of the 1975–1990 civil war was based on the local currency being pegged to the dollar; on interest rates exceeding even high inflation so as to attract bank deposits and purchases of government debt by locals, foreigners, and citizens living abroad; and on "financial engineering" by a central bank also engaged heavily in borrowings of foreign currencies. This model ultimately failed in Lebanon because faith in that Ponzi scheme was undermined once Saudi Arabia, Lebanon's principal source of funds, soured on the country and stopped aid and investment, thus drying up the flow of "fresh dollars" needed to sustain the country's Ponzi scheme. The question to be asked of the Egyptian version of this model is whether, by

36. Ishac Diwan, "Armed Forces in Power and in Business," Carnegie Middle East Center, October 26, 2020, https://carnegie-mec.org/2020/10/26/armed-forces-in-power-and-in-business-pub-83030; and Ishac Diwan, "Why are Armies in Power and in Business—Analytical Considerations: A Comment on Sayigh's *The Military Republic* (unpublished manuscript, January 15, 2020).

being seen as "too big to fail,"[37] Egypt can manage to escape Lebanon's fate.

What is clear is that Egypt, in order to service its debt, is as dependent upon "fresh dollars" as Lebanon was. It is this dependency, even more than the local revenues themselves, that has forced al-Sisi to squeeze financial blood out of local stone. Egypt needs to have acceptable budget deficits, trade balances, foreign currency holdings, and inflation rates to continue to attract foreign currency and to prevent risk premiums from raising the cost of that borrowed money to unsustainable levels. With debt servicing already consuming some 36 percent of the annual budget and an even higher portion of total governmental revenues, a substantial increase in Egypt's already world-leading interest rates would threaten its economic viability regardless of it being a model IMF client.

And borrowed money it must be, because Egypt has insufficient other sources of external funding and because Egypt's economy is far from generating surpluses or being self-contained. Other than the hydrocarbon and real estate sectors, Egypt attracts relatively little foreign direct investment (FDI), and even these two leading sectors are pulling in less under al-Sisi. As a share of GDP, FDI flows into Egypt declined from more than 8 percent in 2005–06 to an average of less than 2 percent since the 2013 coup.[38] By 2020, FDI as a share of GDP was less than half what it had been in 1979.[39]

Of other sources of foreign currency except for borrowings, labor remittances sent back to Egypt by its citizens working abroad (especially in the Gulf) have assumed an ever-growing share. Now at $30 billion annually, Egypt's remittances account for more than the combined total of what have long been the three other main sources of foreign currency: Suez Canal revenues, hydrocarbon exports, and tourism. This is a mixed blessing. Remittances themselves are used overwhelmingly by their recipients to purchase consumption goods, so they contribute only indirectly to economic growth and investment. While remittances that pass through formal financial channels do provide capital for credit, Egypt's banks, like Lebanon's, have come to rely overwhelmingly on the government as their principal client. The Egyptian private sector's share of credit fell from 55 percent in 2001 to 34 percent in 2016 to 27 percent in 2020, whereas the global average in that last year was 59 percent.[40] Deposits in banks resulting from remittances thus provide far more credit for the government than for private clients.

EGYPT, IN ORDER TO SERVICE ITS DEBT, IS AS DEPENDENT UPON "FRESH DOLLARS" AS LEBANON WAS.

AL-SISI'S DEBT PROBLEM

Al-Sisi's Egypt, similar to Khedive Ismail's in the 1860s, must rely ever more on foreign credit to sustain its profligacy. Along with Morocco, Egypt is the MENA's largest borrower overseas.

37. Jane Harman, "Why Egypt Is Too Big to Fail," The Daily Beast, June 14, 2013, https://www.thedailybeast.com/why-egypt-is-too-big-to-fail

38. "OECD Review of Foreign Direct Investment Statistics: EGYPT," Organization for Economic Co-operation and Development (OECD), 2020, https://www.oecd.org/investment/OECD-Review-of-Foreign-Direct-Investment-Statistics-Egypt.pdf

39. International Monetary Fund, World Bank, and OECD, "Foreign direct investment, net inflows (% of GDP) - Egypt, Arab Rep.," The World Bank, https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=EG

40. The World Bank, "Egypt: Bank credit to the private sector," The Global Economy, https://www.theglobaleconomy.com/Egypt/Bank_credit_to_the_private_sector/

President Abdel Fattah al-Sisi meets with Managing Director of the International Monetary Fund Christine Lagarde during the G20 summit on June 28, 2019, in Osaka, Japan. Credit: *Christine Lagarde Twitter account*

In 2021, Egypt's external debt reached $137 billion, almost double what it was when the IMF extended its $12 billion three-year loan in 2016.[41] Total national debt, which includes both domestic and external borrowing, reached some $370 billion, quadrupling since 2010 and increasing by more than 100 percent between 2017 and 2020. Total debt is predicted to rise to $557 billion by 2026.[42] Per capita debt in 2020 was $3,238, compared to $2,032 in 2010. In 2021 Egypt ranked 158th of 189 countries in the ratio of debt to GDP and 100th in debt per capita.[43] Egypt's government debt-to-GDP ratio is currently 91.6 percent, compared to 87.1 percent in 2013 when al-Sisi led the military's seizure of power.[44]

That debt-to-GDP ratio, high as it is, understates the real figure. Egypt's government, like that in Lebanon, engages in creative accounting by shifting public debt to the books of other state-owned entities. Only 54 percent of Egypt's external debt is now officially attributed to the government, with another 25 percent owed by the central bank and a further $23 billion by state-owned banks and other enterprises. In 2010 the government's official share of external debt was in excess of 90 percent. But even based on the government's currently dramatically understated amount of external debt, this debt more than doubled on a per capita basis in the decade ending in 2021.

Egypt has become the IMF's largest client after Argentina, obtaining $20 billion in three major loans since 2016, which far exceeds the IMF's quota and thus incurs an interest rate surcharge. Egypt is further supported by billions in credit provided by the World Bank ($600 million), by the African Development Bank

41. The World Bank, "Egypt External Debt 1970-2021," Macrotrends, accessed December 9, 2021, https://www.macrotrends.net/countries/EGY/egypt/external-debt-stock

42. Aaron O'Neill, "Egypt: National debt from 2016 to 2026," December 1, 2021, https://www.statista.com/statistics/531560/national-debt-of-egypt/

43 "Egypt National Debt," Country Economy, https://countryeconomy.com/national-debt/egypt

44. Central Bank of Egypt, "Egypt Government Debt to GDP," Trading Economics, accessed December 9, 2021, https://tradingeconomics.com/egypt/government-debt-to-gdp

($300 million), and by a host of other multilateral and bilateral public lenders.[45] Germany alone has $2.8 billion of outstanding loans to Egypt.[46]

The government's voracious appetite for debt also requires it to rely ever more heavily on private foreign lenders. In December 2021, the *Economist* assessed Egypt's economy as the world's third most vulnerable to rising global interest rates after Argentina and Sri Lanka.[47] A large and growing proportion of "domestic" debt issued in Egyptian pounds is purchased externally: At the end of 2020, foreigners held $21 billion worth of pound-denominated treasury bills (T-bills) and bonds, some 10 percent of their total.[48] In 2021 non-Egyptians held $26 billion in T-bills repayable in dollars but not included in the external debt total.[49] The possibly fatal attraction to lenders is world-leading interest rates. In excess of 12 percent annually, Egypt's rates top the Bloomberg list of interest paid by 50 emerging economy countries.[50] Thus far there have been plenty of willing lenders (with the notable exception of the spring of 2020, when panic spread among them due to fears that the pandemic would render Egypt insolvent; in a matter of weeks they withdrew $18 billion, or some 60 percent of funds they had invested in Egyptian T-bills).

Repayment of domestic and foreign debt now consumes more than one-third of Egypt's budget, more than double the amount in 2009.[51] The central bank draws upon its foreign currency borrowings to support the exchange rate and hence to attract external credit flows. This, too, mimics a practice of the Banque du Liban. Another manifestation of Egypt's creative accounting is presentation of foreign currency reserves held by the central bank, which are currently claimed to exceed $40 billion. Over half of that amount is committed to repaying short-term loans, which suggests that the country's true import cover is only half of the claimed eight months—and even eight months is below recommended levels.

REPAYMENT OF DOMESTIC AND FOREIGN DEBT NOW CONSUMES MORE THAN ONE-THIRD OF EGYPT'S BUDGET.

In summary, the Egyptian economy is on a downward slide similar to that which has ended in disaster in Lebanon. Sustaining an overvalued exchange rate to keep inflation in check, combined with world-leading interest rates that divert the bulk of domestic credit to the government, has eroded the private sector in both countries. Al-Sisi's policies have also depressed domestic demand, job creation, and exports of goods and services. They have increased dependence on capital inflows, of which remittances constitute a significant share. But those remit-

45. "Egypt Economic Outlook," African Development Bank Group, 2021, https://www.afdb.org/en/countries/north-africa/egypt/egypt-economic-outlook

46. Patricia Jannack and Stephan Roll, "Political Prisoners in Sisi's Egypt," *SWP Comment*, 49 (September 2021).

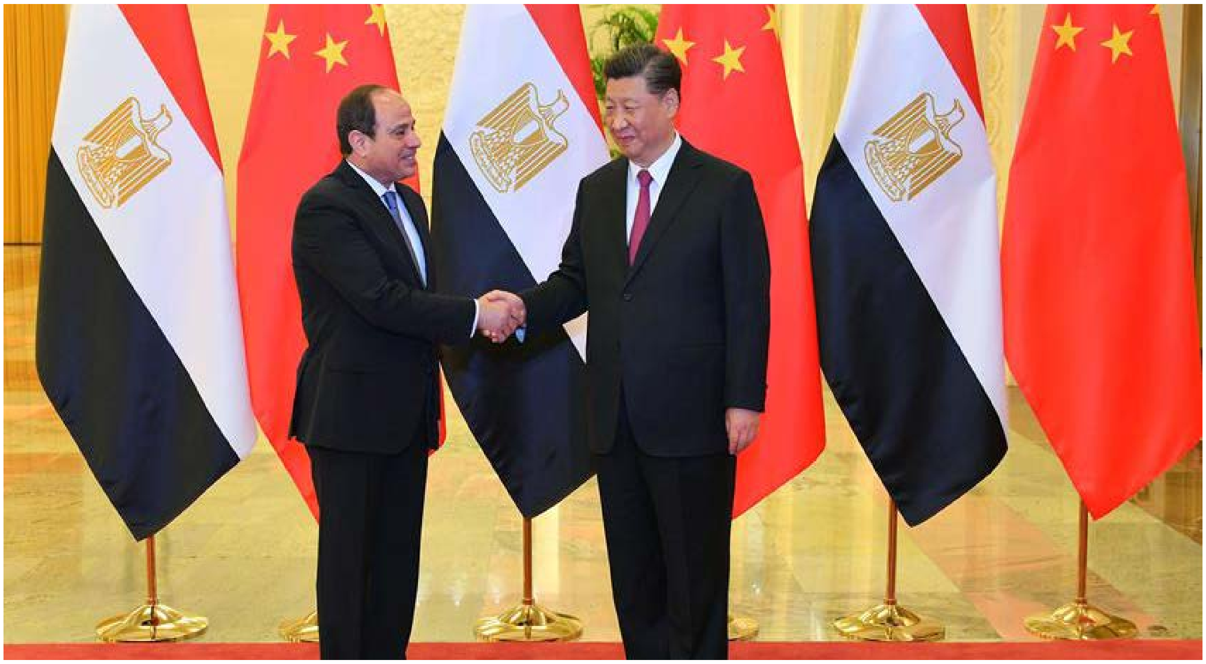
47. "Hazards Ahead: Three Threats to Growth in Emerging Markets," *The Economist*, December 1, 2021, https://www.economist.com/finance-and-economics/three-threats-to-the-global-economic-recovery/21806535

48. "Foreign investment in Egypt's domestic debt instruments jumps to $21B in October," *Egypt Today*, October 25, 2020, https://www.egypttoday.com/Article/3/93524/Foreign-investment-in-Egypt-s-domestic-debt-instruments-jumps-to

49. "New report: External debt increases during first year of COVID-19 pandemic, each Egyptian indebted by $900," Egyptian Initiative for Personal Rights, October 4, 2021, https://www.eipr.org/en/press/2021/10/new-report-external-debt-increases-during-first-year-covid-19-pandemic-each-egyptian

50. Mirette Magdy and Tarek El-Tablawy, "Egypt Sticks With World's Highest Real Interest Rate," Bloomberg, March 18, 2021, https://www.bloomberg.com/news/articles/2021-03-18/egypt-sticks-with-world-s-highest-real-interest-rate

51. International Monetary Fund, "Interest payments (% of revenue) - Egypt, Arab Rep.," The World Bank, accessed December 9, 2021, https://data.worldbank.org/indicator/GC.XPN.INTP.RV.ZS?locations=EG



President Abdel Fattah al-Sisi meets with China's President Xi Jinping in Beijing, China, on April 25, 2019. Credit: *Egypt Presidency website*

tances, as the case of Lebanon demonstrated, are also attracted by the high interest rates, so they too are susceptible to sudden disruptions.

TOO BIG TO FAIL?

But Egypt is not Lebanon in one crucial regard: Egypt is widely viewed as too big to be allowed to fail, whereas Lebanon is too small to ensure adequate external support. Egypt's geostrategic importance to the United States, Europe, Russia, and even increasingly to China is reflected in the much higher proportion of credit provided to the country from public multilateral and national institutions than has been the case in Lebanon, which has been more dependent on private capital inflows.

Well aware of Egypt's geopolitical advantages, the al-Sisi regime has concentrated more on offering carrots and threatening sticks to its foreign supporters than on correcting the economy's shortcomings. Carrots take the form of diplomatic services rendered, such as in Israel-Palestine or Libya, and even further afield in Yemen and Syria, as well as diversification of arms purchases, rendering the Egyptian military under al-Sisi a veritable United Nations of equipment. The biggest stick in al-Sisi's hand is his oft-renewed, ever-less-subtle threat to flood Europe with illegal migrants. Recently he upped that ante by claiming that Egypt was hosting six million refugees, calling for additional financial support from the European Union, its member states, and others.[52]

Al-Sisi's Egypt has become a beggar state, a far cry from even the country's relatively recent past, to say nothing of the Nasser era, when it played a more autonomous and decisive role in the region and beyond. Whether or not the model is sustainable in its present form is an open question. The primary threat to its persistence is the dependent, stagnating economy, ever more reliant upon foreign, increasingly semi-altruistic support. Lebanon has already demonstrated the risks of that model. The relevant world has determined that supporting Lebanon's 6.7 million citizens is not worth the

52. "Egypt not a transit point for illegal migrants eyeing Europe, Sisi to Visegrad leaders," Ahram Online, October 12, 2021, https://english.ahram.org.eg/News/426760.aspx

cost, given the marginal geostrategic gains that might be had there. Sustaining Egypt's 102 million citizens, growing annually by two million, would obviously require far larger commitments. It is doubtful whether Egypt's "friends" will continue to see those commitments as worthwhile for non-economic reasons into the indefinite future. And the moment that Egypt's "friends" are seen to waver in their support, private investors in Egyptian credit will rush for the exits, as they did in Egypt in the spring of 2020 and in Lebanon previously.

The consequences of the collapse of confidence in Lebanon have been devastating, but they would pale into near insignificance if repeated on an Egyptian scale. Best, therefore, for Egypt's backers to take corrective steps before that happens, rather than continue to indulge the contemporary Khedive.

POMED

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THE PROJECT ON MIDDLE EAST DEMOCRACY (POMED) is a nonpartisan, nonprofit organization based in Washington, DC, that is dedicated to examining how genuine democracies can develop in the Middle East and how the United States can best support that process. Through dialogue, research, and advocacy, POMED works to strengthen the constituency for U.S. policies that peacefully support reform in the Middle East. POMED research publications offer in-depth, original expert analysis of political developments in the Middle East as they relate to the prospects for genuine democracy in the region and to U.S. policy on democracy and human rights. The views expressed in POMED Snapshots and other publications are those of the authors and do not necessarily reflect the views of POMED or its Board of Directors. For more information, please contact the series editor Amy Hawthorne at amy.hawthorne@pomed.org.

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