# Blueprint for Overcoming Egypt's Economic Crisis

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The Egyptian Human Rights Forum (EHRF) is A group of Egyptian human rights defenders who are bounded together by an indivisible belief in the universal values of human rights and a shared vision of a political system in Egypt that is founded on the tenants of democracy and representative citizenship.

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**Diaspora Deliberations**: This is a series of policy papers prepared based on in-depth deliberations and consultations under the auspices of the Egyptian Forum for Human Rights on the current state and future of human rights and democracy in Egypt. These deliberations involved a group of human rights defenders, academics, and civil society activists from Egypt currently residing in European countries, the United States, Turkey, and Qatar. The papers represent an initial attempt to understand the roots and backgrounds of the deterioration of the human rights situation in Egypt, and an effort by the contributors to propose visions and alternatives that could form a long-term agenda for engagement with human rights policies in Egypt.

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## Introduction

Egypt is currently undergoing one of the worst economic crisis in its history. Even though the depth of the crisis and its impact are difficult to assess, one thing is clear, its impact will be, both, radically transformative and enduring. Indeed, this crisis can not only be classified as an economic crisis, but it is also a deeply political and social crisis, arising from the political choices made by Egypt's military elites and their popular base over the past decade. Indeed, this paper has an implicit theoretical bias, which is worth making explicit, namely that the economic crisis in the country is not the by-product of erroneous economic policy, a technocratic failure of public policy, rather that the crisis is a direct result of the regime's overarching political project, which namely entailed the hyper concentration of power in the hands of the military establishment at the expense of other social forces. This project, which received wide spread popular backing, is currently undergoing a deep crisis, and the reaction of the regime` elites and the opposition will be the most critical factor in determining the long term consequences of the crisis. From this basic premise, the paper will attempt to analyse the symptoms of the crisis, its causes, its long term impact, concluding with possible recommendations for a possible way forward.

Before proceeding it worth mentioning that this paper is intended to be working paper, and does not aspire to present a definitive answer to all questions. Indeed , the crisis is evolving and its full depth and impact are still unclear. The issues raised in this paper are too complex to be answered by a single paper, and multiple papers and perspectives will probably be required to look at the topic from different angles.

## The Morbid Symptoms of the Crisis :

At the time of writing, May 2023, the Egyptian economy is under severe pressure. Over the past 12 month, the Egyptian pound was devalued three times, losing almost half of its value in the process (Al Jazeera, 2023). Making matters worse, there is wide spread speculation that another devaluation is inevitable, with non-deliverable forward contracts trading at 42.5 EGP per USD for the 12 month contracts, as of the 13th of April, reflecting speculation of a sharp devaluation. It is worth noting that the official spot price stood at 30.9 EGP per USD on the same day. (Ismail N. I., 2023) The poor performance of the Egyptian pound made it one of the worst performing currencies in the world in 2023, ranking it sixth on the list (Shan, 2023).

The rapid devaluation of the currency triggered a rapid increase in inflation, which reached 32.7% in March 2023, just shy of the all-time record of 32.9% which was reached in July 2017 in the aftermath of 12 billion USD IMF loan which saw the pound lose half of its value in one swoop (Reuters, 2023). The dramatic rise of inflation rates was driven by an increase in food prices, which saw food inflation reach 61.25% in February 2023 (AP News, 2023), disproportionally affecting the poor and those on fixed incomes, with devastating consequences. Indeed, if the pound continues to lose value, then inflation is expected to continue to rise, with poverty rising rapidly. One only needs to remember the impact of the 2016 devaluation, which saw poverty rates rapidly increase from 27.8% in 2015 to 32.5% in 2018, based on the data provided by CAPMAS, driving 5 million people below the poverty lines, in the span of a three short years (VOX, 2019).

Unlike in 2016, the devaluation of the pound did not lead to an inflow of capital flows and hard currency, with devastating consequences on the performance of the private sector. For example, as December 2022 the private sector had shown signs of contraction for the past 25 month, consecutively (Reuters, 2023) , with November of the same year showing the sharpest private sector contraction since the outbreak of the Covid-19 pandemic in March 2020 (Reuters, 2022). This contraction was driven by import control and the increased cost of production ( one needs to keep in mind that 47% of Egyptian imports are used as inputs for production, making the devaluation of the pound crippling for local production (Diab, 2023)). The shortage of hard currency seems to be an ongoing issue, even though Prime Minister Madbouly announced on the 28th of January (Business Today, 2023), the clearance of the import backlog, which was estimated to have reached 5 billion USD as of December 2022 (Wahba & El-Tablawy, 2022), as of the March 2023, a new backlog worth 4 billion USD was stuck in Egyptian ports (Hendawi, 2023). Once again caused by shortage of hard currency, leading to shortage and pushing up prices.

The most devastating impact of the crisis, and arguably its underlying trigger is the difficulty in accessing international financial markets. Indeed, it is the regime's heavy reliance on debt that triggered the cascade of events, leading to the current debacle ( the details of which will be covered in the following section). The difficulty in accessing international financing was reflected in extravagant interest rates that the regime has to pay to raise capital. For example, in February 2023, the regime issued the first Islamic “Sukuk” worth 1.5 Billion USD, at the exorbitant interest rate of 11.125%. The capital raised from the issuance was immediately used to pay 1.25 billion USD worth of Eurobonds, which was due almost at the same time (Saba, 2023). The interest rate for the Eurobonds stood at 5.577%, in a case where additional debt was taken at higher interest rates, to pay for maturing debt at a much lower interest rates, only acting to add additional pressure on the already strained budget. Another, arguably more alarming example, was the failure of the bond issuance in April, where the regime was only able to sell 0.04% of the issued bond, only 1.09 million EGP from the intended 3 billion EGP (Ismail & El-Tablawy, 2023). Investor concerns over an imminent devaluation of the currency triggered demands for higher interest rates, high as 28%, while the bonds were offered at 21.7%, which led to the failure of the issuance. The rising fear of the inability of the regime to meet its obligations and the fragility of the Egyptian economy was reflected in Egypt credit rating, which was downgraded by Moodys from B3 to B2, placing the credit rating 6 levels above that of default, on par with Angola (Song, 2023). The low level of hard currency reserves was one the reasons cited for the downgrade by Moodys. Considering that Egypt has external financing needs of 19 billion USD in 2023 and 22.5 billion USD in 2024 (Fitch, 2023), the situation is truly alarming, and the possibility of a prolonged debt crisis is all too real.

These are all symptoms of a deep economic crisis that will probably last for the foreseeable future. The real impact , however, on the lives of millions of Egyptians will be truly devastating. Millions will drop into poverty, the already decrypted public services will fall into greater disuse, and the Egyptian private sector will continue its downward spiral of contraction. In essence, the crisis of public finance will likely precipitated a public-private doom loop, with the collapse of public finances pushing private investment and consumption down, triggering a deep recession, which in turn will negatively affect public finance. Indeed, the situation is dire and deeply troubling, and it now begs a critical question, how did we get here?

## The Dynamics of a Morbid Crisis :

The regime official narrative claims that the roots of the economic crisis lies in the international economic slowdown, the outbreak of the Covid pandemic, the global inflationary wave, and the war in Ukraine. This claim does have a kernel of truth. For example, the FY 2021/22 saw the outflow of 21 billion USD of hot money ( short term investment in Egyptian debt instruments), 14.8 billion USD of which flowed out of the country between January and March of 2022, after the outbreak of the war in Ukraine and the start of the interest rate hikes in the United States (Español, Al-Monitor, 2022). This placed immense pressure on the country's currency reserves and placed it in a deeply precarious position. This logic, however, ignores the fundamental flaws of the regime's model of militarised state capitalism, which relied on a massive borrowing spree to consolidate its grip on the country's economy. The form of militarised capitalism is not a by-product of the regime economic policy , but it is a part of a cohesive strategy of militarisation of social and political life in Egypt, with the ultimate goal of accumulation power in the hands of the military establishment at the expense of all other social forces.

The policy of the regime is rather simple. Through a massive spending spree on prestige national projects, estimated by the Financial Times to stand at 400 billion USD (England, Financial Times, 2022), the military would drastically increase its economic foot print through its direct implementation or management of these projects. Examples of this are too numerous to count, but a few instances suffice to illustrate the trend. The most prominent example is the new Administrative Capital, with an estimated budget of 58 billion USD (Egypt Independent, 2019). The project is being implemented by the Administrative Capital for Urban Development Company. Some 51 per cent of the company is owned by the military through the Armed Forces National Land Projects Agency and the National Service Products Organisation, and 49 per cent is owned by the Housing Ministry (Egypt Independent, 2019). Projects like this are not unique, with another notorious example being the expansion of the Suez Canal, with an 8 billion USD investment, also carried out by the military (Feteha, 2015).

The military is also involved in update of the national road network, land reclamation schemes, and expansion to other commercial sectors like the cement industry and the consumer goods sector (Sayigh Y. , Owners of the Republic: An Anatomy of Egypt's Military Economy, 2019 ). The issue with this policy is that it did not increase the international competitive position of the Egyptian economy, nor did it lead to an improvement of aggregate local demand, both pre-requisites for sustained economic growth. However, these projects acted as vehicle for enrichment of the military through appropriation of public funds, namely through massive borrowing, which now needs to be repaid by the Egyptian tax payer.

A cursory look at the figures shows a dramatic worsening of the Egypt's international competitive position, reflecting the failure of the regime's policy. For example, Egypt's current account deficit as a percentage of the GDP stood at -2.2% in 2013, worsened to -3.7% in 2022, hitting a dramatic low of -6.1% in 2017, reflecting the failure of the regime's policy in improving the global standing of the national economy (Trading Economics, 2023). If one looks at the domestic side, besides the abysmal performance of the private sector, already alluded to above, the level of national consumption has shown dramatic drops. For example, between 2015 and 2018, based on CAPMAS data, the level of national consumption dropped by 9.7%, with the biggest drop coming from urban areas, where consumption dropped by 13.7%. Between 2018 and 2020 (CAPMAS, Report on Income and Expenditure and Consumption, 2019), CAPMAS reported a further drop of consumption by 1.8% (CAPMAS, Report on Income and Expenditure and Consumption, 2020) ( the report does not cover the impact of the COVID-19 pandemic, which is expected to have caused consumption to drop even further). These frantic drops of consumption also indicate the failure of the regime to build a robust internal market, which is an essential driver for economic growth, especially considering the weak international position that the Egyptian economy occupies. The failure on both counts constitutes the main driver behind the fragility of the regime's model of militarised capitalism.

The crisis, however, was precipitated by over-reliance on debt, which, with the lack of a robust economic base, turned into a ticking time bomb. The data tells a clear story. The amount of external debt jumped from 43 billion USD in 2013 to a whooping 158 billion USD in March 2022. These figures are mostly likely an underestimation since it disregards local currency debt owned by foreigners, also known as carry trades ( hot money), which peaked an 34 billion USD in September 2021. These type of capital inflows are counted as domestic debt, which is vastly misleading. The CBE under Tarek Amer followed a policy of courting these volatile funds by fixing the exchange rate, in a manner that minimised risk for these investors, however, this did not stop them from pulling out billions when the war in Ukraine erupted. There are also loans that seem to be completely unaccounted for by in the above mentioned figure. This includes, for example, the 25 billion USD loan from Russia to build a nuclear power plant in Dab`a, the construction of which seems to be in full swing. This loan is unaccounted for in CBE statistics. There are also government guaranteed loans taken by public agencies, which are also omitted from official statistics, estimated in March 2021 to stand at 19% of the GDP, an enormous tally. Hence, the level of debt is probably much more than officially reported, and the depth of the crisis much more server (Roll, 2022). Placing this in context, the total burden of servicing the debt is consuming two fifth of the all state revenues, the third highest ratio out of 137 countries ranked by Bloomberg (Abelsky, 2023).

The heavy reliance on debt, combined with massive spending on mega project with little economic benefits, was an explosive mix. The spark necessary to light the fuse was the invasion of Ukraine, which led to a global inflationary wave, leading to rising interest rates in the United States and the tightening of international credit markets. This made it hard for the regime to borrow more, and it spooked investors in Egyptian debt who left the market in droves. Once the regime could no longer roll over its debt the house of cards collapsed, and an immense debt crisis was unleashed. This model of economic development, which directly led to the current crisis, is not an aberration or a technocratic choice. It is an integral component of the regime main directive, namely, the complete militarisation of the Egyptian political system. Indeed, with the overt political dominance and control of the military this model would have been unfathomable. The multiple way where this was achieved will be covered in the following section.

## **The Causes of a Morbid Crisis :**

The development of Sisi brand of militarised state capitalism can be traced to political, rather than economic rationales. Indeed, in order to fully understand the development of the economic crisis, one needs to examine the political system that enabled the military to complete its debt fuelled economic take over, precipitating the current crisis. This section will examine the hall marks by of the post-2013 political system, and how, through the militarisation of the state apparatus and the political system the military was able to leverage its position to alter the fundamental logic of capital accumulation to its own benefit, with the ultimate goal of accumulating, not only wealth, but as much power as possible in its own hands.

Arguably the most striking feature of the post-2103 political system is the lack of a mass civilian ruling party, which has been a consistent feature of the Egyptian political system, from the Arab Socialist Union during the time of Nasser, all the way to the National Democratic Party ( NDP), under Mubarak. Indeed, even though the parliamentary elections in 2015, and 2020 produced parliaments populated by allies of the President, there is no discernible evidence that they play a role in policy making nor do they populate a clear proportion of ministerial positions in the government. For example, a cursory look at the cabinet composition (Enterprise, 2022) based on the latest cabinet reshuffle in August 2022, shows only one minister being an active member of an existing political party, with the cabinet almost exclusively staffed by technocrats, diplomats, and military officers. The exception is Ahmed Samir, the minister of Trade and Industry (Zineb, 2022). Samir was the head of the economic affairs committed in the 2020 parliament, elected as a member of the Mostqbal Watan Party. Even though the parliament is currently dominated by a pro-regime party, namely Mostaqbal Watan, which control 316 out of 596 seats and heads 17 out of the 25 committees (Morsy, 2021), as well as , dominating 75% of the seats in the senate (Reuters, 2020), the party does not seem to act like a ruling party. Indeed, its role seems to revolve around rubber stamping the regime policies, without actual participation in their formulation. The weakness of the parliamentary performance, however, is by design and deliberate and is part and parcel of the regime's policy of concentrating power in the hands of the military and the security establishment. This has had several manifestations. For example, in the parliamentary elections in 2015, the General Intelligence Services (GIS) was responsible for engineering an electoral coalition called “ For the Love of Egypt”, which dominated the elections (Bahgat, 2016). This parliament would later be responsible for approving 40 laws in one session, in January 2016, previously issued by the interim President Adly Mansour (Middle East Eye, 2016). These laws were essential for the militarisation of the political system and the closure of the public space, both essential for the military's power grab. The most notorious example of the laws approved in this session was the anti-terrorism and anti- protest laws. Both laws were designed to completely close off the public space and unleash mass eaves of political repression. This trend continued in the 2020 elections, when the National Security Agency ( NSA) was instructed by the President to select candidates that would be accepted by the public, for the next parliament, stemming from his dissatisfaction of the sitting parliament and its speaker (Mada Masr, 2019).

The lack of a civilian ruling party has a number of consequences, critical for the emergence of the current crisis. The most notable of which is that without an effective civilian ruling party there is no counterweight to the dominance of the military and the increased militarisation of the political system and the economy. Indeed, by excluding civilians from the process of governance, the military has become, effectively, a ruling party, heavily involved in public and economic policy with no representation of other social interests. This paved the way for the emergence of the regime's form of militarised state capitalism, which would have been very difficult if a strong ruling party, like the NDP, had existed. Another significant consequences, which is often overlooked is the weakening of the position of the Presidency visa-vie the military establishment. Indeed, without a civilian counter-balance, the power base and the main constituency of President Sisi is the military establishment, meaning that he is, effectively, unable to pass reforms, which might affect the paramount position of the military in the Egyptian economy. In simpler terms, the Presidency as an institution is unable to do that is necessary to de-militarise the Egyptian economy and reform the political system, which is already reflected at the sluggish rate of reforms.

The lack of the civilian party that can act as a balance to the militarisation of the political system is compounded by the deliberate weakening of public supervisory institutions that could act to balance the military'sprinciple power grab. For example, in July 9th 2015 Presidential decree number 89 was issued, which gave the President the power to remove the heads of independent supervisory institutions on national security grounds or if they are deemed to be unfit for office by the President

(EGY Law, 2016). This, effectively, negates the fundamental principle of independence of these institutions, which is necessary for their proper functioning. The decree was issued in the aftermath of a report issued by Central Auditing Organisation (CAO) , which claimed that corruption cost the Egyptian State 600 billion EGP between 2012 and 2015. Hesham Genina, the head of the CAO at the time was removed from his post by the President in March 2016 (Masrawy, 2016), after the Presidential decree was approved by Parliament into law, with no real challenge. In addition, Law 207 was issued in 2017, which restricted the jurisdiction of the Administrative Monitoring Authority (AMA) to the civilian sector of the state, and made it directly answerable to the President. It is worth mentioning that the AMA activities were already de facto limited to the civilian sector of the state, the law just made it official (Sayigh Y. , Owners of the Republic: An Anatomy of Egypt's Military Economy, 2019 ).

This substantial weakening of the supervisory organs of the state is also combined with a dramatic reduction in the power of the judiciary and an amendment to the legal framework for public works, which could have also acted as a brake on the militarisation of the political system and the economy. The removal of legal brakes to the consolidation of economic power in the hands of the military already started with the interim President, Adly Mansour, who in June 2014 issued an amendment to law 89 of 1998 concerning bids and tenders . The amendment barred third parties from challenging public legal tenders and bidding, while raising the threshold for awarding public contracts without direct bidding. The changes in this law ushered in a radical transformation in the role of the military, which became a principal, economic broker in its own right (Sayigh Y. , Owners of the Republic: An Anatomy of Egypt's Military Economy, 2019 ). In essence, curtailing the power of the courts and opening up the way for awarding public contract with no oversight. The process of awarding of contracts on a non-bid basis also allowed the military to skim an estimated 5% to 30% of all contracts that it awarded to private sector contractors (Sayigh Y. , Carnegie Endowment, 2023), responsible for the execution of some of the national projects managed by the military, without legal oversight or transparency. This was combined with a direct attack on the State Council, the judicial body responsible for adjudicating disputes between the public and the state, as well as, between different state organs. The most notable example of which is the change in the role of the State Council, which was part of the Constitutional amendments of 2019. Article 190, which describes the jurisdiction of the State Council was amended, removing the responsibility of review of public contract, without designating a replacement. The situation is worsened with the amendment of Article 185, which gave the President the power to select the heads of the Judicial Authorities from a pool of seven candidates. It also provided for the establishment of a high judicial council, headed by the President, which oversees promotions, secondments, and appointments. In effect, severely weakening the independence of the judicial branch, including the State Council. Hence, these measure only acted to weaken the ability of other organs of the state to act as a bulwark against the hyper concentration of power into the hands of the military establishment, as Sisi`s main power base. These changes in the legal framework paved the way for the complete militarisation of the political system, the state, and the economy.

The final piece of the puzzle revolves around the penetration of the ex-military officers of the state apparatus and the public sector, in a policy first initiated under Mubarak. Indeed, as part of the Mubarak regime's coup proofing policy, ex-military officers were offered managerial position in the public sector, as well as, local government, upon retirement as a means of supplementing their incomes (Sayigh Y. , 2012). This allowed the ex-officers to penetrate the administrative apparatus of the state to an unprecedented degree. Even though this does not necessarily translate into direct economic control by the armed forces, it does open up the way for awarding of public contracts to the armed forces, as well as establishing undue influence of the military establishment over the state apparatus. In other words, it is a way to ensure that public contracts continue to flow to the military enterprises. It is important to note that assignments of military retirees to the state apparatus and the public sector are made based on the loyalty, and not based on a formal objective criteria. The penetration of the public sector is quite extensive, for example, out of 72 pubic authorities surveyed by Yazid Sayigh, retired military officers were the heads, deputy heads, board members in forty of them. The ex-officers are also penetrating critical ministries for economic policy, like the ministry of local development, investment and international cooperation, trade and industry, as well as, transportation (Sayigh Y. , Owners of the Republic: An Anatomy of Egypt's Military Economy, 2019 ). These estimates do not include local government, which is also heavily populated by military retirees. This is better explained in a lengthy quote from Sayigh 2012 study of the what he called the Officers Republic (Sayigh Y. , 2012).:

*"One example suffices to encapsulate the wider picture. On February 22, 2012, the minister of military production, Major General Ali Ibrahim Sabri, signed an agreement to develop the Giza governorate's wholesale market. Signing for the other side was the wholesale market's executive head, Major General Mohammed Sami Abdul-Rahim. In attendance were the deputy governor of Giza, Major General Usama Shama'ah; the secretary general of the local council, Major General Mohammad al-Sheikh; and his assistant secretary-general, Major General Ahmad Hani. This illustration notwithstanding, even if only one former officer holds a post in every executive body at each level of local government—a highly conservative assumption,*

*evidently—then the nationwide total adds up to some 2,000 posts filled by former EAF officers"*

There is no reason to believe that the trend was reversed after the coup of 2013, it most likely intensified and accelerated over the years. It is through this total political dominance that the regime's model of militarised capitalism, the root cause of the crisis, was built. This is, in essence, a political choice. Now the fundamental question is, will the regime be able to alter its basic political make up to overcome the crisis, or will it stick to its policy and push Egypt further towards the abyss?

## Can Sisi reform the Economy?

The question that is now being raises by all concerned parties, from the regime's Gulf allies to international creditors and experts is if the regime will be able to implement radical reforms in order to halt the economic free fall. Initial indicator of the regime's responses indicate that this is unlikely, and that the regime is adamant in continuing down its path of militarised state capitalism. The regime's solution to the crisis appears to rely on multiple interconnected policies, which do not alter the fundamental dynamics of militarised capital accumulation. First, was securing a loan from the IMF, which the regime was able to finaliseEgypt's in December 2022. The value of the loan, however, stood at a meagre 3 billion USD, paid over a period of 46 month (IMF, 2022). A value that is not sufficient to meet Egypt`s gargantuan financing needs, but it could, theoretically, act as a vehicle for securing additional financing in the international markets. Second, is a fire sale privatisation program, which was announced by Sisi in April 2022, where 40 billion USD worth of state assets were be to sold over the next four years to plug the financing gap (Reuters, 2022). The government later announced its intention to sell 32 companies in the current year, including two military owned companies, Safi and Watanya (Daily New Egypt, 2023). Third, is regime's intention of securing capital inflows from the Gulf, through the sale of state owned assets to strategic Gulf investors in a quantity sufficient to stave off the growing crisis. As one can see, a glaring omission is a commitment to the de-militarisation of the economy and the end of the military role in dictating economic policy. However, this omission does not address the elephant in the room, namely, if the regime's policy will be able to accentuate the crisis. In order to answer this question, an examination of the different aspect of the regime's policy is in order.

First, is the 3 billion USD IMF loan, which came after a prolong negotiation period. The most striking feature of the loan is its value, which is woefully insufficient to accentuate the crisis as well as its conditions. In a long report, the IMF, breaking with tradition, was openly critical of the regime` model of economic growth, pointing to its structural weakness, while laying the blame squarely on its shoulders as the cause of the crisis (IMF, 2023). This is in clear contradiction to the regime's narrative which laid the blame of the crisis on the War in Ukraine and the Covid-19 pandemic. The findings of the IMF was reflected in the conditions of the loan, which was incorporated into the State Ownership Policy (SOP), and The official Memorandum of Economic and Financial Policies ( MEPP), submitted by the government as part of the IMF loan on the 30th of November (Sayigh Y. , Carnegie Endowment, 2023). Besides promises to reduce the government's economic footprint, commitment to a flexible exchange rate, reducing inflation, and public debt, the below governance stipulation are to be applied to all public sector companies, including the military owned companies, which would place military owned companies in the same governance framework as their civilian counterparts :

(1) submission of biannual financial accounts (with data for public release)

(2) adoption of performance contracts for management based on formal operational and financial targets

(3) Submission to a more centralised oversight in each sector

(4) Undertaking public procurement in a fully competitive and transparent manner

(5) loss of all current tax exemptions.

There are, however, no signs that this will be implemented as intended. Indeed, as Yezid Sayigh argues, the SOP makes a distinction between strategic and non-strategic sectors, with the government expected to increase its footprint in strategic sectors. This might open up the way for increasing the military penetration of these sectors. There are also areas that are not mentioned at all in the SOP, for example Real Estate, Steel, Cement, and tourism. All sectors where the military is a major player. The SOP and the MEPP also do not apply to military institutions that undertake large projects but are not registered as companies, this includes the Army Engineering Authority and other military agencies. One only needs to remember that even the Air Force is economically active, as it is directly responsible for a massive land reclamation project, the Delta project, worth 19.1 billion USD, with the stated goal of reclaiming 2.2 million feddans (Sayigh Y. , Carnegie Endowment, 2023). This myriad of loop holes, as well as, the lack of any significant progress in implementing an encompassing governance framework to military owned companies devoid reform talks of any significance. A fact that is not lost to the IMF which postponed the loan review planned for the end of March until concrete reform is implemented (Al Jazeera, 2023). Hence, rather than act as vehicle for increasing investor confidence, the IMF loan increased public scrutiny of regime's failure to implement the needed reforms.

The IMF sentiment was also reflected by the regime Gulf allies, who have shown a remarkable reluctance to provide aid to the regime (England, Al-Atrush, & Kerr, 2023). An understandable position after the Gulf provided an estimated 100 billion USD to the regime over the past decade in aid and loans (Gambrell, 2023), only to see the regime's Egypt's failure in creating a sustainable base for economic development, an essential for EgyptEgypt's`s stability. The position of the Gulf became clear in a Wall Street Journal article, which reported a united position among the regime Gulf allies, who demanded the implementation of a set of policies that the regime is resisting (Said, 2023). Namely, a further devaluation of the pound, a change in the personnel managing the economy, and the de-militarisation of the economy. None of the these stipulation show signs of being implemented. This has caused the privatisation program launched by the government to screech to a halt, with reluctance from the Gulf as well as, resistance from the military establishment blocking progress. The clearest example of this trend was the sale of the military owned Watanya gas stations to the UAE. The deal fell through due to, what appears to be, resistance from the military to the sale, as the company was subjected to a process of asset stripping, where the Watanya assets were moved to another chain " Chill Out" also military owned (Sayigh Y. , Carnegie Endowment, 2023). As a result the distribution arm of Abu Dhabi National Oil Company purchased a majority stake in the Total Energies Egypt for 203 million USD, in July 2022 after the Watanya deal fell through (Enterprise, 2022). To place this in context, out of the 10 billion USD pledged by Saudi Arabia only 1.3 billion USD have materialised, which was preceded by 2 billion USD investment by the UAE (Magdy, Bloomberg, 2022). This is in spite of 22 billion USD worth of investment pledges made the Gulf in April 2022, when the crisis first started to emerge (Español, Al-Monitor, 2022), most of which has not materialised.

It is worth noting that the regime's Gulf allies were critical in extending a life line when the crisis hit, depositing 13 billion USD in the Egyptian Central Bank. It is also worth mentioning that Arab countries hold 25.9% of the regime's external debt, making it the second largest creditor after multilateral institutions (Magdy & Westall, Bloomberg, 2023), hence their support and willingness to invest is critical to the regime's ability to navigate the crisis. As things stand now, without serious reform, the regime's Gulf allies are not willing to make the necessary investment to meet the financing needs of the regime.

The lack of serious efforts at reform, and the unwillingness of the regime's Gulf allies to provide unconditional aid has created a reinforcing cycle of pressure on the pound, loss of investor confidence, increasing interest rates, and loss of access to debt markets. All these factors act to reinforce the cycle and deepen the crisis. This all came to head in April when the government attempted to offer 3 billion EGP worth of bonds, already alluded to above.

The offering was a failure, attracting only 0.04% of the desired amount. The failure of the offering was attributed to investors' fears of an imminent devaluation of the pound, which led to demands by investor for a 28% yield, with the government only accepting a sole bid for 21.7% (Idayu Ismail & El-Tablawy, 2023). In essence, this encapsulated the dynamics of the crisis, with the snow ball effect emerging from the lack of political will to reform. The demand by international investor for increased yields will only act to apply more pressure on the Egyptian state budget, which is already under significant strain. For example, the draft budget for FY 23/24 shows that 49.2% of government income is planned through issuance of new debt, while loan and interest repayments will consume 56% of all government outlays (Kassab, 2023). At this stage, the regime is borrowing just to keep pace with the old debt obligations, and if access to the new debt is constrained then the risk of default rises dramatically, with possible catastrophic consequences.

As the evidence now stands, there is no indication that the regime has the political will to enact the needed reform or to alter its method of governance. Indeed, the regime seems to bet on the notion that Egypt is too big to fail, and that the regime allies will interfere in the last minute to stop a collapse. Even if this is the case, this does not mean that the suffering of the majority of Egyptians will not be immense, and long lasting. The crisis is far from over and the consequences of it will be long lasting and will only become clear in the long term.

## Policy Recommendations:

This section will present a set of policy recommendation which can be a starting point for accentuating the crisis. However, the following must be noted:

- The depth of the crisis means that there are no quick solutions and that the crisis is likely to last for the foreseeable future, with profound consequences for the future of Egypt.

- The recommendations proposed in the section assume that a profound transformation of the political system has already taken place, with a strong civilian balance emerging to counter the preponderance of the military establishment and the security services. Without this transformation the recommendations made will be very difficult to implement.

- The depth of the crisis remains unclear due to lack of full and transparent data on the size of the debt and the opacity of government policy and reporting. The policy recommendations are made based on available data at the time of writing.

The recommendation are as follows:

### Short term recommendations:

- **Fiscal Consolidation and Budgetary Unity:** the first step in solving the crisis is gaining a full understanding of the available national resources to counter it. As such, available public resources should all be made part of the state budget, this includes the resources of the special funds, and accounts of the security services. The value of funds available are not known, however based on a 2014 investigation the value of special funds stood at 9.4 billion USD (Manek & Jermey, 2015). These funds must be made public and available for use by the civilian government to counter the crisis.

- **National Project feasibility review:** An immediate review of the various national projects has to be conducted immediately. Mega projects that do not pass proper feasibility studies are to be stopped immediately. For projects that are deemed feasible a process of gradual ramp up of civilian bureaucracy to replace the military as the main driver of the these projects is to commence.

- **Re-structuring of military owned companies:** The immediate restructuring of military owned companies under a civilian controlled, public, holding company. This holding company would provide the necessary transparency into the operation of the military owned companies, and act as an intermediate step before making the decisions of either retention, divestment, or restructuring of the companies in question. This is a proposal made by Yezid Sayigh and is in line with the IMF demands (Sayigh Y. , carnegie endowment, 2022).

- **Governance Structure:** The re-structuring of the military owned would be followed by a changes in the governance structure. This would entail the end of bid free contracts, and establishing of proper accounting and financial reporting covering the performance of the companies in questions. The finding of these reports are to be made available to the public and investors. This includes alterations of the legal framework that grants military owned companies a competitive advantage over the civilian counterpart.

- **Tax reform:** All tax exemptions granted to military owned companies are to be rescinded immediately.

- **Legal Reform:** Whole sale amendments are required of the latest legal and constitutional amendments that substantially weakened anti-corruption watchdogs, the role of the State Council, and the judiciary. This is a fundamental requirement to halt possible encroachments of the security services into the economic sphere, and a way to counter balance the power of the military establishment.

- **Debt re-structing:** This proposal is based on an assessment of the sustainability of the debt, which at the moment remains unclear. If the debt proves unsustainable then a difficult negotiations with the regime's creditors might be required in order to re-structure the debt. This is a process that should not be taken lightly, and should only be embarked on if absolutely necessary. This would probably entail extremely difficult austerity measure that will be imposed on Egypt, which will lead to immense social dislocation and increasing poverty rates.

**Long term recommendations:**

- **Dismantling the Officers Republic:** This entail the de-militarisation of the state apparatus and a reversal of the Mubarak policy of appointing retired military officers in the bureaucracy and public sector. This is a long term process that will require a review of the entire state edifice, identifying the positions occupied by the different retired officers and developing a program for their gradual phase out. This is identified as a long term solution due to the complexity of the task and the expected resistance that such a policy will likely elicit.

- **Decentralisation of local government:** The current model of local government in Egypt is extremely hierarchical and is staffed by executive appointment, all the way from the governor level to the village head. This transforms local government into a massive patronage network, and is a critical component to the constitution of the officers republic. A radical reform is need to decentralise local government, and allow political posts to be occupied by civilian, elected officials, rather than appointed members of the security services.

- **Investment in tradable sector:** Shift the focus of the investment policy away from real estate and construction ( non-tradable sectors), to the tradable sector as recommended by Amr Adly (Adly, carnegie endowment, 2023). This would be a first step to solving the chronic hard currency problems that Egypt has been struggling with for decades.

- **Private Sector Support:** A shift in the investment policy to provide support to the private sector, which has suffered immense pressure over the past few years. The shift would focus on medium and small enterprises, which forms the backbone of the private sector in Egypt. This would entail developing a strategy that would work with these smaller firms to allow them to grow, and to solve the primary issues facing them, namely, access to credit and land, based on the findings of Amr Adly (Adly, Cleft Capitalism, 2020).

- **Investment in Human Capital:** The basis of sustainable economic development is a healthy and productive workforce. Hence, increased investment in education and health care is an absolute necessity and not a luxury as the current regime seems to assume.

**The above mentioned recommendations are preliminary and require additional research in order to come up with detailed proposals ready for implementation.**

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