

Egypt: Internal Politics and Economic Woes

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Economic Fragility and Nascent Recovery

Despite some indications of economic improvement, Egypt's overall situation remains exceedingly fragile. The country's stability hinges precariously on the significant international assistance received over the past year, as it simultaneously navigates an increasingly complex global geopolitical landscape. For an extended period, the nation has grappled with diminishing foreign currency reserves, severely curtailing even essential imports, alongside persistent supply chain disruptions stemming from Russia's 2022 invasion of Ukraine. This has compounded a public debt that has nearly quadrupled, necessitating the repayment of \$155.2 billion in foreign obligations this year.¹ Adding to this dire economic outlook are alarming social stability indicators: approximately 30% of the population lives below the poverty line, raising concerns about potential public unrest. This precarious domestic situation is further exacerbated by a volatile regional environment. The ongoing conflict in Gaza demands the full attention of the Cairo government, leaving it caught between the imperative to achieve a ceasefire and the looming threat of the conflict's prolonged duration, which could lead to destabilizing repercussions within its borders. Consequently, Abdel Fattah al-Sisi's third

presidential term, inaugurated with a decisive 89.6% victory in April 2024, is set to confront formidable challenges.

However, after months of dire warnings about an economy on the brink, subtle signs of recovery are now beginning to emerge. The World Bank projects growth of 3.8% for the 2025 fiscal year, which is anticipated to climb to 4.2% in 2026, lending credence to economists' optimistic projections for a genuine revitalization of the Egyptian economy. Data from the Central Agency for Public Mobilization and Statistics (CAPMAS) indicates a sharp drop in Egypt's annual inflation rate to 12.5% in February 2025, a significant decline from 23.2% in January of the same year and nearly 40% in August 2023. Most economic analysts anticipate this downward trend in inflation to continue throughout 2025. Furthermore, food and beverage prices, which constitute the largest segment of the inflation basket, saw only a 3.7% increase in February 2025, compared to 20.8% in January. Crucially, following a period of intense volatility, Egypt has successfully stabilized its currency market. This achievement follows the Egyptian pound's free float in March 2024, a move by the regime that resulted in a more than 60% loss of its value.

Navigating Fiscal Pressures and Aid Packages

Beyond the nascent signs of recovery, the country's trajectory remains subject to a confluence of significant and unresolved challenges. Recent data reveals

¹ ENTERPRISE. "The lowdown on Egypt's external debt obligations in 2025 – and the government's strategies for meeting them." 2 March 2025. <https://enterprise.news/egypt/en/news/story/5015c20d-cd0a-40be-aad8-4c421de1b632/the-lowdown-on%253cmark%253e-egypt%253c%2Fmark%253e%25e2%2580%2599s-external-debt-obligations-in-2025>.

a substantial contraction in maritime trade through the Suez Canal, with traffic declining by 40-50% between mid-December 2023 and early April 2024. This downturn is directly attributable to Houthi assaults on commercial vessels in the Red Sea, which have severely disrupted global shipping lanes. This trend continued into the first quarter of 2025, as the Suez Canal Authority reported nearly a 50% decrease in transit volumes due to numerous vessels being rerouted via alternative passages like the Cape of Good Hope. Such a drastic reduction in Suez Canal traffic – a waterway handling 12% of worldwide trade and 30% of global container shipments – translates into an estimated annual revenue loss of approximately \$7 billion for Egypt.² Crucially, this impacts one of the primary sources of foreign currency inflows, a vital lifeline for a nation that last year allocated over half of its state tax revenue to service its debt.

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The repercussions of the Gaza conflict have also extended to the energy sector, notably causing an initial reduction in natural gas supplies from Israel. Egypt relies on these imports from its neighbour to meet both domestic energy demands and facilitate re-export operations through its LNG terminals at Idku and Damietta. While Israeli gas exports to Egypt have generally risen since 2020, reaching about 11.6 BCM in 2023 and a new record in 2024, an interruption in flow from the Tamar field at the outset of the Gaza war led to an almost 50% drop in Egypt's gas exports.

Within this challenging economic climate, the International Monetary Fund's (IMF) financial assistance programme, initially a \$3 billion Extended Fund Fa-

cility (46-month) established in late 2022 and subsequently augmented to \$8 billion in March 2024, emerges as a critical support mechanism for the country.

A possible collapse of Egypt could have an even more destabilizing regional impact, which would explain the rush of regional and international actors to economically save the country

This IMF agreement coincided with the Egyptian government's announcement of a separate strategic partnership with the Emirati sovereign wealth fund, the Abu Dhabi Developmental Holding Company (ADQ). In February 2024, ADQ declared its acquisition of development rights for Ras El-Hekma, a 170-square-kilometre area on Egypt's northern coast. This constitutes a substantial \$35 billion foreign direct investment, allocated as \$24 billion in cash liquidity and \$11 billion from existing UAE deposits at the Central Bank of Egypt, earmarked for investment in key projects to foster Egypt's economic growth and prosperity. Thanks to this ADQ investment, the North African State's international reserves have reached their highest level since the commencement of the war in Ukraine. Soon after this loan announcement, the World Bank launched a new \$6 billion support initiative, designed to bolster government programmes and stimulate the private sector. Furthermore, in March 2024, the European Union unveiled an additional aid package totalling \$8.1 billion (€7.4 billion). This comprehensive fund, comprising loans, grants and credits, is intended to assist Egypt in addressing the economic strains stemming from the Gaza conflict and the potential increase in refugee influxes.

Given the current difficult regional context, a possible collapse of Egypt could have an even more destabilizing regional impact, which would explain the rush of regional and international actors to eco-

² THE ECONOMIST. "The war in Gaza is exacerbating Egypt's economic collapse." 1 February 2024. www.economist.com/middle-east-and-africa/2024/02/01/the-war-in-gaza-is-exacerbating-egypts-economic-collapse.

nomically save the country. However, these are short-term solutions: the issue of the armed forces' interference in the economy remains unresolved. Specifically, the reform agenda established with the IMF, a prerequisite for loan eligibility, stipulates a shift in monetary policies. This involves fostering greater exchange rate flexibility and encouraging a significant expansion of the private sector, which would inherently reduce the pervasive influence the military traditionally holds over the national economy.³ The government's stated objectives include selling off assets from various state-owned enterprises and integrating all of them, including military ones, under a single, transparent framework for financial management and accountability, while also eliminating tax exemptions previously granted to state-owned businesses. In practice, such measures appear difficult to implement given the military's strong grip on the economy: to date, despite pressure from the IMF, very little has been achieved.

Egypt's Regional Crucible: Geopolitical Pressures and the Imperative of Stability

The country's socioeconomic stability, therefore, remains a pivotal concern within the intricate Euro-Mediterranean landscape, particularly given the severe crises unfolding along its borders. After several years of the Sudanese civil conflict, migratory movements towards the Egyptian frontier exhibit no signs of diminishing, with more than 1.2 million arrivals documented by November 2024. In response, Cairo has leveraged the recent EU funding accord to bolster its border security and has enacted legislative measures restricting the entry and employment of Sudanese citizens.⁴ Concurrently, along its other border, the presence of over a million internally displaced Palestinians in Gaza's Rafah region presents an ongoing concern regarding a potential

mass influx into Egypt via the Rafah crossing, a scenario Cairo considers an inviolable "red line."⁵ Such an expulsion of Palestinians into Egyptian territory would severely undermine the viability of a future Palestinian state and could transform the peninsula into a staging ground for attacks against Israel by extremist factions or Hamas-affiliated cells. Effectively, relocating Gazan Palestinians to Sinai would transfer the conflict onto the peninsula, establishing an operational base against Israel – a scenario that could unwillingly draw Cairo deeper into the hostilities. Furthermore, the humanitarian logistics of managing these refugees would present an immense challenge, a strain that Cairo's precarious economic situation would render exceedingly difficult to absorb.

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Security concerns also remain, as previously highlighted. Indeed, the Gaza conflict is not the sole source of apprehension for Egypt. The recent seizure of power by the Islamist group Hay'at Tahrir al-Sham in Syria on 8 December 2024, has prompted the Egyptian government to re-evaluate its prospective relations with the emergent leadership.⁶ These swift developments have ignited fears in Cairo of a potentially perilous emulation effect within the country, alongside the risk of infiltration by extremist elements. Egypt, notably, hosts a sub-

³ SAYIGH, Yezid. "The Second Republic: Remaking of Egypt Under Abdel-Fattah el-Sisi." Carnegie Endowment for International Peace, May 2025, [https://carnegie-production-assets.s3.amazonaws.com/static/files/Sayigh-The Second Republic-1.pdf](https://carnegie-production-assets.s3.amazonaws.com/static/files/Sayigh-The%20Second%20Republic-1.pdf).

⁴ MIDDLE EAST MONITOR. "Sudan refugees in Egypt caught between conflict and crackdown." 19 September 2024, www.middleeastmonitor.com/20240919-sudan-refugees-in-egypt-caught-between-conflict-and-crackdown/.

⁵ DAILY SABAH. "Israel claims to take control of Rafah in Gaza Strip." 21 August 2024, www.dailysabah.com/world/mid-east/israel-claims-to-take-control-of-rafah-in-gaza-strip.

⁶ AL-MONITOR. "Egypt apprehensive over Islamist win in Syria." 4 January 2025, www.al-monitor.com/originals/2025/01/egypt-apprehensive-over-islamist-win-syria.

stantial Syrian diaspora that arrived following the onset of the Syrian civil war in 2011. While approximately 153,000 Syrians were registered with the United Nations High Commissioner for Refugees

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(UNHCR) in 2023, the government's estimated total Syrian population surpasses one million individuals, though precise figures remain elusive due to the lack of official data. Beyond overt expressions of support for al-Assad's overthrow, Egyptian authorities have also been alarmed by alleged statements attributed to the Muslim Brotherhood circulating online, which were swiftly denounced by pro-government media outlets. Since his initial inauguration in 2014, President al-Sisi has maintained a steadfast commitment to countering the Muslim Brotherhood and any affiliated movements, viewing them as an existential threat to the very survival of his regime.

With new financial injections from the IMF, the UAE and, most notably, the European Union, Egypt's embattled economy and its capacity to manage migration pressures receive crucial, albeit short-term, relief. This fresh support effectively eases the currency crisis and shores up immediate stability. Yet the longer-term outlook is complicated by President Sisi's continued promotion of state capitalism. This model, characterized by parastatal agencies under his direct command, has cultivated a hybrid economic structure that prioritizes state needs over private capital. Such a trajectory risks delaying essential structural reforms for the country, consequently undermining the efficacy of this external financial backing. Nonetheless, Egypt occupies a unique position as a “giant with feet of clay” – a state widely considered indispensable to regional stability. The ramifications of its economic downfall would undoubtedly reverberate throughout the broader geopolitical landscape. An economic implosion could precipitate widespread political turmoil and popular uprisings, potentially destabilizing a government viewed by many domestic and international actors, including those extending aid, as pivotal for maintaining regional balance. Specifically, the United States foresees potential threats to Israel's security, the Gulf states are wary of a return to the widespread unrest witnessed in 2011 and European nations want to avoid an overwhelming wave of migrants that they would struggle to manage effectively.