How Sisi Could Wreck the Egyptian Economy

Ari Heistein and Mor Buskila / May 4, 2017

Since the era of Gamal Abdel Nasser, the Egyptian state had harnessed itself with expectations that it would provide beyond its abilities in exchange for quietist political attitudes. As a result of declining revenue due to political instability, which compounded the effects of a global economic downturn, Egypt is now in need of cautious though effective economic reforms. In signing an agreement for a $12 billion loan from the International Monetary Fund, President Abdel Fattah el-Sisi hoped to stave off economic collapse and have the breathing space to implement the necessary measures to improve Egypt's economic trajectory. Unfortunately, some of the planned reforms do not appear to be materializing while other elements of the Egyptian economy only seem to be entrenching themselves further.

First, on the issue of subsidies, the government of Egypt has made little to no progress. While popular sentiment seems to dictate that the subsidies are a necessary safety net for country's poorest citizens by ensuring they can afford essential goods, they tend to disproportionately benefit the rich because the blanket savings mean that the more a person spends on the commodities, the more that person saves at the government's expense. Nevertheless, the government of Egypt reduced the subsidies on bread in early March and that step elicited protests on the streets of Alexandria and chants of "We want bread! We don't have enough to eat!" In response, the police rushed in and delivered free bread and one day later announced that the cuts in bread subsidies would be rescinded. By the end of the month, senior officials were discussing the possibility of increasing food subsidies. Similarly, an effort to gradually reduce fuel subsidies was initiated in 2014, however, the program was terminated after the first minor cut. Cutting back on these economic-welfare programs has likely been put on the back-burner because they constitute a legal and organized method for the government to channel money to the public in exchange for popular support.

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