Paving a Road to Perdition: Abdel Fatah el-Sisi and the Drivers of Egypt's Economic Ruin

ROSA
LUXEMBURG
STIFTUNG
مكتب شمال إفريقيا
North Africa Office

Author: **Colin Powers**
Reviewed by: **Maha Ben Gadha**
Design and layout by: **ozads.org**

This publication is supported with funds from Rosa Luxemburg Stiftung, North Africa Office. The content of the publication is the sole responsibility of the authors and does not necessarily reflect the position of the Rosa Luxemburg Stiftung This publication or parts of it can be quoted by others for free as long as they provide proper reference to the original publication.

Published by the Rosa Luxemburg Foundation North Africa Office, September 2023.

www.rosaluxna.org

ROSA
LUXEMBURG
STIFTUNG
مكتب شـــمال إفريقيا
North Africa Office

Contents

Author biography

Colin Powers,

PhD Noria Research

Colin Powers is a senior researcher and Chief Editor for Noria Research's MENA Program. He obtained his PhD from Johns Hopkins School of Advanced International Studies in 2020, and is two-time recipient of the Fulbright grant. His research concerns the political economy of the contemporary Middle East and North Africa

Figures and tables

	CHART TITLE	SOURCE	CAPTION
Figure 1	Egypt Trade Balance	World Bank World Development Indicators	In terms of product share, capital goods represented 18.82 % of all imports in 2020. Intermediate goods represented 27.67 % the same year. In terms of dollar value, the two categories of imports cost Egypt more than $28 billion.
Figure 2	Egypt Imports (2021)	Atlas of Economic complexity	
Figure 3	Egypt Exports (2021)	Atlas of Economic complexity	
Figure 4	High Tech Value added	United Nations Industrial Development Organization	
Figure 5	FDI Inflows (millions USD)	UNCTAD	
Figure 6	FDI Inflows by Economic Activity (% Total)	Central Bank of Egypt	
Figure 7	Relative Structure of Domestic Credit by Sector (% of total credit extended)	Central Bank of Egypt	As the graph attests, lending to households has represented the largest relative growth market for domestic commercial banks in recent years.
Figure 8	Gross Domestic Debt Stock of Egyptian State (Millions of Egyptian Pounds)	Central Bank of Egypt	* As a percentage of GDP, the government's gross domestic debt has hovered between 66 % and 70 % for the last four years. ** The Central Bank has not reported precise figures for domestic debts incurred in 2021 and 2022. The IMF's January 2023 Report suggests a sizable increase, however.
Figure 9	Total External Debt Stock (Millions of USD)	Central Bank of Egypt	

Executive Summary

At the time of writing, the Egyptian economy remains mired in a balance of payments crisis. Despite the rescue and reform package agreed to with the International Monetary Fund in December 2022, a sovereign debt default still looks likely—policymakers, in fact, have been secretly planning for such an eventuality since late spring 2023. Trading on futures exchanges and the black market, meanwhile, suggests the Egyptian Pound (EGP) will shed another 30% of its value in the months to come.

This report attempts to answer why and how this all came to pass. On the one hand, it does so through bringing endowments bequeathed by history into conversation with structural restraints imposed by global capitalism. On the other, it homes in on the folly of the Sisi regime and the assortment of ways through which Egypt's leadership has dragged the economy to the abyss.

Concerning structural restraints, Paving a Road establishes the extent to which Egypt's positioning within global systems of production, money, and finance predisposes the country to experience balance of payment strains. Here, the report draws particular attention to effects exerted by value chains and the special privileges they award to the holders of intellectual property. It also highlight effects derived from the international hierarchy of currencies and from global finance's treatment of Egypt as a space for short-term speculation, principally via the market for EGP-denominated treasuries. Seen together, Paving a Road determines that Egypt's peripherality within the global economy makes the realization of declining terms of trade, high interest rates, low investment in productive activities, and financial and exchange rate volatility likely though not inevitable. What lifts the probabilities to the degree that all such outcomes have indeed become inevitable, in the author's estimations, were decades of poorly designed industrial, investment, and trade policies.

As for the folly of the Sisi regime, Paving a Road concentrates on debt issuance and the manner with which they were used to both resolve external imbalances and buttress el-Sisi's control. Through a variety of channels, the report details how debt and public investment were deployed to service the interests of a coalition comprised of internal and external parties. Internally, the armed forces were privileged amongst beneficiaries, though a relatively large swath of the country's upper middle class—key financiers of the sovereign debt—sat just below them. Externally, the regime's coalition brought together the states of the GCC, Paris Club members and their national champions, China and Russia, a constellation of multilateral lenders, and, least reliably, the portfolio investors of Wall Street. So long fresh inflows of credit money arrived, the report details how Sisi et al were able to keep payments current and relevant constituencies happy. In failing to enhance the economy's productive capacity, however, and in mortgaging the future at such high interest rates, the author also explains why this debt-lubricated strategy was acutely vulnerable to a shift in global credit conditions. Such a shift came in the winter of 2022 and with it, the implosion of the Egyptian economy. Tragically for Egyptians, the outlook going forward points to the fall-out being devastating and long-lasting.

INTRODUCTION

Roughly three years after the Egyptian state drew down the last of the Special Drawing Rights (SDRs) furnished through a 2016 Extended Fund Facility, policymakers found themselves staring down another balance of payments crisis.

Narrowly conceived, this one had been prompted by the coalescence of two shocks from the outside. The first was the Russian invasion of Ukraine in February 2022. Introducing grave uncertainty into a global economy still rattled by the pandemic, the outbreak of war in eastern Europe shifted investor appetite for risk considerably. In provoking supply disruptions and speculation on futures markets, it also sent the spot price of commodities soaring. Insofar as Egypt was the world's largest wheat importer at the time, these developments were hardly of passing concern.[1] That the country was highly reliant on Ukraine for its grains (28% of wheat imports in 2021)[2] only made things more fraught. So too did the sizable hard currency contributions which Russian and Ukrainian tourists had been providing.

The second shock was the Federal Reserve's pivot on inflation in March 2022. Upon the Fed's decision to begin hiking the target on the Federal Funds rate, conditions in major financial centers changed significantly. As is typical, change led investors in New York and London to deleverage out of less liquid assets, Egyptian sovereign debt and Egyptian pound deposits included. The firesale on Egyptian assets would be large enough to leave Egypt's Eurobonds trading at 65 cents on the dollar a year later. And the offloading of local currency-denominated government debt was even more severe. Sales of treasury bill on secondary markets amounted to $22 billion in February and March alone while sales of the Egyptian pound on FX markets topped $30 billion.[3] Though $13 billion worth of emergency short-term deposits provided by Saudi Arabia, the UAE and Qatar allowed the Central Bank to prop up the pound a while longer, losses in terms of reserves ended up considerable. With net capital flows in winter and early spring showing a deficit of $14.8 billion, gross international reserves declined to the point that they would only cover four or five months of imports for the remainder of the year.[4]

Just as saliently, all the turmoil managed to jar awake creditors hitherto content to ignore the economy's deep lying imbalances. The magnitude of the government's debt obligations garnered particular notice, and with reason: Interest on local currency debt alone was to reach 8.6% GDP for fiscal year 2022/2023 and 9.5% for 2023/2024, sums demanding that two of every three pounds of tax revenues be allocated for repayment.[5] The servicing of public and publicly guaranteed hard currency debt obligations, meanwhile, were to demand approximately $20 billion in 2023 and more than $25 billion in 2024.[6] Complicating matters further, the economy's total external funding needs substantively exceeded that amounts needed to pay back the state's creditors.

1 The bill for imported wheat would nearly double during the first five months of the year, jumping from $2.7 to $4.4 billion. See: Staff Writer, "Economic crisis pushes up Egypt's wheat, oil imports to $15.6 bln in 2022", Arab Finance (May 16, 2022).

2 Sarah el Safty, "Egypt relied on competitive Russian wheat as imports dipped in 2022-data", Reuters (January 12, 2023).

3 International Monetary Fund, "Arab Republic of Egypt: Request for Extended Arrangement Under the Extended Fund Facility Staff Report", IMF Country Report No.23/2 (January 2023): 59

4 Central Bank of Egypt, "External Position of the Egyptian Economy: July/March of FY 2021/2022", Volume no.77 (2022).

5 International Monetary Fund (2023): 28

6 Central Bank of Egypt, "External Position of the Egyptian Economy: Fiscal Year 2021/2022", Volume no.78 (July 2022): 35

In the aggregate, Egypt was to see more than $42 billion worth of non-pound denominated debts mature between June 2022 and June 2023.[7] Added to current account deficits projected to hit 3% GDP, this was to leave a hard currency shortage of $19 billion for fiscal year 2022/2023 by Fitch's calculation—a calculation, one should note, which assumed GCC partners would agree to roll over long-term deposits at the Egyptian Central Bank.[8]

By summer 2022, Egypt's dire straits had permeated the zeitgest of the financial markets, and trust in the sustainability of the country's debts had reduced to nil. Come July, the spreads on the country's Eurobonds would jump to record highs[9] and a host of key signal makers—including Bloomberg and Japan's Nomura[10]—were ranking the country atop the list of those most at risk of either a sovereign default or currency collapse.[11] Suddenly a stay-away for even the most risk-on investors, not even the raising of treasury bill coupon rates to nearly unprecedented heights—over 15% for three month T-bills issued in August—could entice the return of hot money.

Running short on dollars, Sisi's governors belatedly attempted a pivot. Tarek Amer, hitherto a key steward of the regime's finances, resigned (or was resigned) from his post at the Central Bank in August. His replacement, Hassan Abdallah, then proceeded to oversee a managed depreciation of the pound at the end of October. The move cost the currency more than a quarter of its value in a matter of days. And yet, despite vastly intensifying the country's cost-of-living crisis, the devaluation (and subsequent hikes in interest rates) still failed to earn Egypt access to dollar loans. Having nowhere else to go, Sisi's policymakers returned to the IMF for bailout negotiations for the third time in six years.

As is typical, the agreement ultimately reached with the IMF just before Christmas served to unlock frozen funding from the multilateral development banks Cairo has come to lean on so heavily. In direct material support, the arrangement was nevertheless disappointing: The contracted Extended Fund Facility (EFF) of $3 billion was a fraction of what policymakers hoped for.[12] Nor was the stinginess of the IMF offer Egypt's biggest problem: The conditionalities attached to the loan are likely to reproduce the same balance of payment issues that have plagued the country since the middle of the 2010s.

How has it come to this in Egypt? What can explain the country's vulnerability to the shocks just discussed? What are the causalities at the root of the economy's macro instability? Can Egypt teach us about the plight of peripheral countries more generally?

Gaining purchase on these questions requires that one grapple with two related albeit independent phenomena: (i) the drivers of Egypt's external imbalances, its current account deficit in particular; and (ii) the function of sovereign debt within

7 Central Bank of Egypt (Volume 77): 8

8 By the credit rating agency's count, external funding needs are to be even greater in 2024, almost certain to exceed $22.5 billion. See: FitchRatings, "Egypt faces tough adjustment amid external financing challenges", Fitch Wire (January 18, 2023).

9 Karin Strohecker, "Egypt hard-currency bond spreads blow out to fresh record", Reuters (July 5, 2022).

10 Sydney Maki, "Historic cascade of defaults is coming for emerging markets", Bloomberg (July 7, 2022).
Rob Subbaraman and Rebecca Wang, "Damocles: our early warning indicator of EM exchange rate crises", Nomura Connects (November 2022)

11 Responding to the same cues, Moody's downgraded Egypt's sovereign debt to speculative (B2) in May and Fitch to non-investment grade (B+) a few months later.

12 Egypt's biggest lender amongst the MDBs is the World Bank's International Bank for Reconstruction and Development (IBRD), the European Investment Bank, the African Export-Import Bank, the African Development Bank, and the Arab Fund for Economic and Social Development.

the political economy of contemporary Egyptian authoritarianism. In the remainder of this report from the Rosa Luxemburg Stiftung's North Africa Office, we explore both phenomena in full. In so doing, we reveal the internal logic of the impasse that Egypt now faces, and map the obstacles that the country will encounter in extracting itself from the morass.

In terms of organization, our report is broken into two chapters. The first addresses the quandary of Egypt's recurring external imbalances. Set at the highest level of abstraction, our findings locate causality at the interface of structural conditions and local agency. Concerning the former, we determine Egypt's positioning within global systems of production, money, and finance to be most significant in impact. Collectively, positionality will be shown to create a tendency toward declining terms of trade, high interest rates, and financial and exchange rate volatility. Accordingly, our research can reaffirm, at least in part, what has long been a foundational dictum of critical development economics: that Egypt's relation to external systems predispose it for balance of payment troubles.

We add the caveat of "at least in part" because our investigation also shows that the realization of balance of payment troubles in Egypt has been contingent upon specific policy failures. One may, of course, dispute how to attribute first authorship, as it were, for the failures in question. Policy commitments that are institutionalized through bilateral trade and investment treaties—treaties predominantly written by Chambers of Commerce in distant cities—certainly demands some responsibility be assigned outside Cairo. After discounting for the consequence that foreign infringements exert on the policy space, however, it is still apparent that decisions made by Egyptian governors bear their own direct responsibility for the reproduction of external imbalances. Affecting matters most acutely in these regards are choices in the domains of trade, innovation, industrial, and investment policy. As will be documented, these choices have, amongst other things, obstructed technological transference, diminished the development of knowledge-based proprietary assets, created dependence on imported intermediate goods, concentrated capital in speculative non-tradables, and left the country vulnerable to the vagaries of international commodities markets. Each of these locally-propelled dynamics contributes to Egypt's endemic current account deficits. More contingently, so too has the Sisi-era military state's decision to build antagonistic relations with the export-oriented fraction of domestic capital in the post-2014 period.

Where Chapter One unearths the causes of Egypt's external imbalances, Chapter Two makes sense of the second variable propelling the country's drift into crisis: Namely, the tactics used by the Sisi regime in attempting to resolve the economy's external imbalances. As previous pages intimate, these tactics lean heavily upon the state's capacity to borrow. On the balance of evidence compiled, our investigation establishes that the rationalities guiding the regime's use of debt are short-termist and politically skewed. Politically, the objective of authoritarian restitution has been paramount.[13] This objective is served by deploying debt issuance and public investment to cover regime priorities while servicing the interests of a coalition of internal and external parties. Internally, the armed forces are privileged amongst the beneficiaries of this arrangement, though a relatively large swath of the country's upper middle class sit just below them. Externally, the regime's coalition has brought together the states of the GCC, Paris Club members and their national champions, China and Russia, a constellation of multilateral lenders, and, least reliably, the portfolio investors of Wall Street.

13 The phrase authoritarian restitution is borrowed from Amr Adly.

For a time, the state was able to use its borrowing powers—and, in the case of the GCC, its diplomatic and security ones—to keep all relevant interests happy. Beyond procuring rents through land sales and property leases, military enterprises could win major construction contracts and pad profits through explicit and implicit subsidies. The savers of the upper middle classes could enjoy sky high (and tax-free) returns on bank deposits, healthy (effectively tax-free) dividends on equities holdings, and appreciations in home values. External coalition mates could secure their take through the government's arms purchases, awarding of infrastructure contracts, and interest payments. And with fresh inflows of hard currency regularly arriving and demand for pound-denominated treasury bills high, the monetarist generalissimos were also spared from needing impose the kinds of taxes and import cuts which might crush the middle and lower classes.

Alas, the costs accrued in mortgaging the future in this manner were extreme. In the first instance, they tied the debt repayment outlook to the unceasing receipt of credit. This ultimately created a destructive feedback loop: Interest rates were raised in order to attract the capital required for paying today's bills, but the effect of borrowing at this price at time zero was to increase the risk premium that investors demanded to lend funds at time one. Play this sequence out across time and the consequence is clear: ever increasing borrowing costs, and an ever increasing public debt stock. In addition to pushing the state closer to the Ponzi stage of a Minsky cycle—the point where new debts are used strictly for paying off old ones—this wound up starving starve productive sectors for capital and giving rise to harsh austerity. With the growth outlook thereby compromised[14], the fiscal meaningfulness of spending cuts would be too: Even with significant primary surpluses being run from 2019 onward, debt's growth as a percentage of GDP continued unabated, and that was so despite the return of high inflation. At this point, default could only be fended off through new infusions of credit, dollars loans above all else. The onsetting of this reality meant Egypt had no means for surviving a shift in global liquidity conditions. This proved catastrophic in the winter of 2022.

Having traced how the contradictions contained in the Sisi regime's approach to resolving the economy's external imbalances ensured that resolution remained forever out of reach, the report wraps up with a brief conclusion. This section begins with a restatement of our main arguments, putting to the reader the notion that it was the combination of external conditions and the Sisi's regime misguided attempts at sidestepping external imbalances which scheduled the economy for an obsolescence realized. From there, we show why it may be a long, long time before a brighter day dawns in Egypt.

14 Sisi's lieutenants also contracted the economy's growth and export earnings potential by de facto pegging the pound after the devaluations of 2016, thereby eating into external competitiveness through an inflated real exchange rate (RER).

CHAPTER ONE:

The Drivers of External Imbalances

National economies do not exist in independence from the world around them. The character of production structures and labor markets are, as a result, relational outcomes given shape through the interaction between country and global system-level dynamics. As countries' abilities to influence system design or negotiate unit-system interactions are not uniform, neither are the effects of relationality. Rather, they are mediated by a power asymmetry which afford stronger economies greater influence over local outcomes.[15]

System-level dynamics infringe upon the effectiveness of local policy choices, too. Imagine, for instance, a government having instituted plans for stimulating growth via foreign demand. Merits of the plans put forth notwithstanding, at the system level, every trade surplus must, by definition, be canceled by a trade deficit elsewhere. As is such, a majority of schemes for juicing growth through net exports need end in failure.[16]

15 Leaving questions of power aside, merely consider the effects of global capitalism's secular stagnation on country-level growth performance. Whether brought on by oversupply or the underconsumption wrought by the exhaustion of the wage-led growth models of the postwar era, secular stagnation has, since the 1970s, compressed worldwide demand significantly. Insofar as this has meant that the pie from which all must eat is growing at a far slower pace than was previously the case, expanding one's individual share today is made increasingly contingent upon benefiting from distributional shifts (i.e. one's capacity to take a portion of another's slice). In the aggregate, this translates to a qualitative lowering of national growth potentials and a lower margins of error for those hoping to jump the ladder of development.

16 The probability of failure in our current epoch is heightened, of course, by China's emergence as factory for the planet. It is also elevated by the aforementioned power asymmetry: For those along the periphery, the viability of export-led growth was severely degraded once official creditors pushed those with similar capacities for technological absorption and learning to pursue export-led growth at the same time.

Pronounced though system-level effects are, they are often paid little mind by those seeking out the causes of a national economy's external imbalances. This is of grave analytical consequence: Insofar as imbalances do not derive from variables at the country unit-level alone, but are conditioned by forces operating at the system-level, engaging them through a methodologically nationalist approach can only ever illuminate but a portion of the puzzle.

To see the entirety of the Egyptian puzzle, this chapter considers system and unit-level effects (and their interactions) as they pertain to the country's current account. The first subsection considers the system level, principally, effects engendered by Egypt's positioning within global systems of production, money, and finance. The second subsection analyzes unit level effects, principally, policy choices made across a host of domains.

I . THE CONSEQUENCE OF PERIPHERALITY

a. Production

Though never to the extent of predetermining outcomes, system level effects have made the emergence and reproduction of external imbalances far more likely in Egypt. Prominent among the effects in question are those derived from the country's position within global systems of production and exchange. Here, it is appropriate to begin with tendencies endowed by the hierarchical relation of global core and periphery. As Latin American structuralism has established, this relation abides by the following logic. The diffusion of technology across borders is slow and irregular.[17] By virtue of technology's unequal distribution, structural heterogeneity consolidates internationally. This heterogeneity is observed in a bifurcation which sees economies in the

17 See: Raul Prebisch, The Economic Development of Latin America and its Principal Problems (United Nations: 1950).

core diversify their production structure and experience cross-sector homogeneity in labor productivity, while those on the periphery specialize in commodities and low complexity manufacturing and evince high degrees of variance in labor productivity within and between sectors.[18]

It is due to the crystallization of different production structures that discrepancies in the income and price elasticity of demand for countries' exports and imports open up. For peripheral economies, the income elasticity of demand for exported products (i.e. the sensitivity that consumer demand for a good has to changes in consumer income) is endemically low, while the price elasticity of demand (i.e. the sensitivity that consumer demand has to changes in the price of that good) tends to be quite high. Conversely, the income elasticity of demand for the technologically sophisticated products imported by peripheral economies is endemically high while the price elasticity of demand for these goods tends to be quite low.[19]

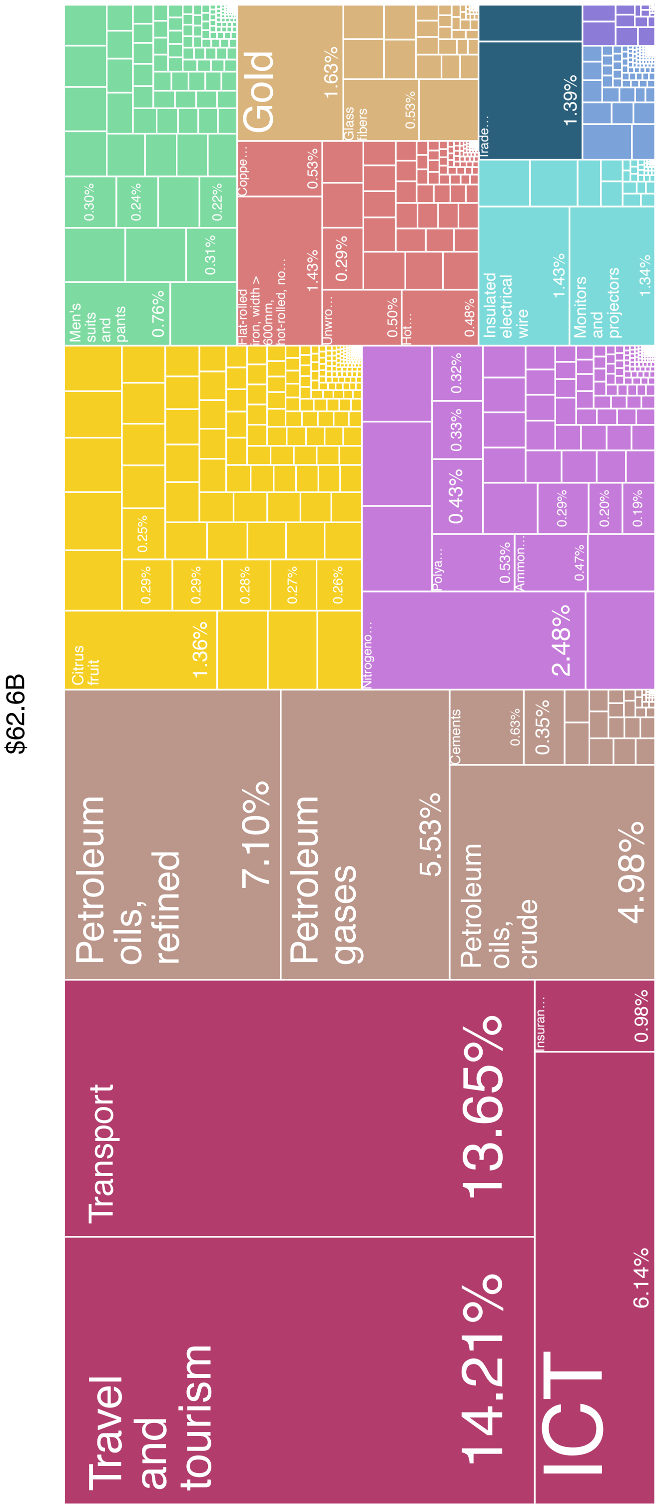
The most immediate consequence of divergences in demand elasticity is that peripheral economies will generally experience declines in their terms of trade. From such declines, they also become more likely to encounter external imbalances brought on by the running of trade deficits. As deficits can only be financed through the selling of debt or equity to foreign parties—moves which are typically unsustainable in the periphery and which introduce negative developmental effects of their own[20]—the growth potential of peripheral economies typically run up against what Thirlwall called a balance of payment constraint. To the extent that lower growth bequeaths lower levels of capital accumulation, the ultimate upshots are that closing the technological gap becomes even harder for these economies with time. The structural heterogeneity discussed at the start of this subsection thereby becomes self-propelling.

In terms of product share, capital goods represented 18.82% of all imports in 2020. Intermediate goods represented 27.67% the same year. In terms of dollar value, the two categories of imports cost Egypt more than $28 billion.

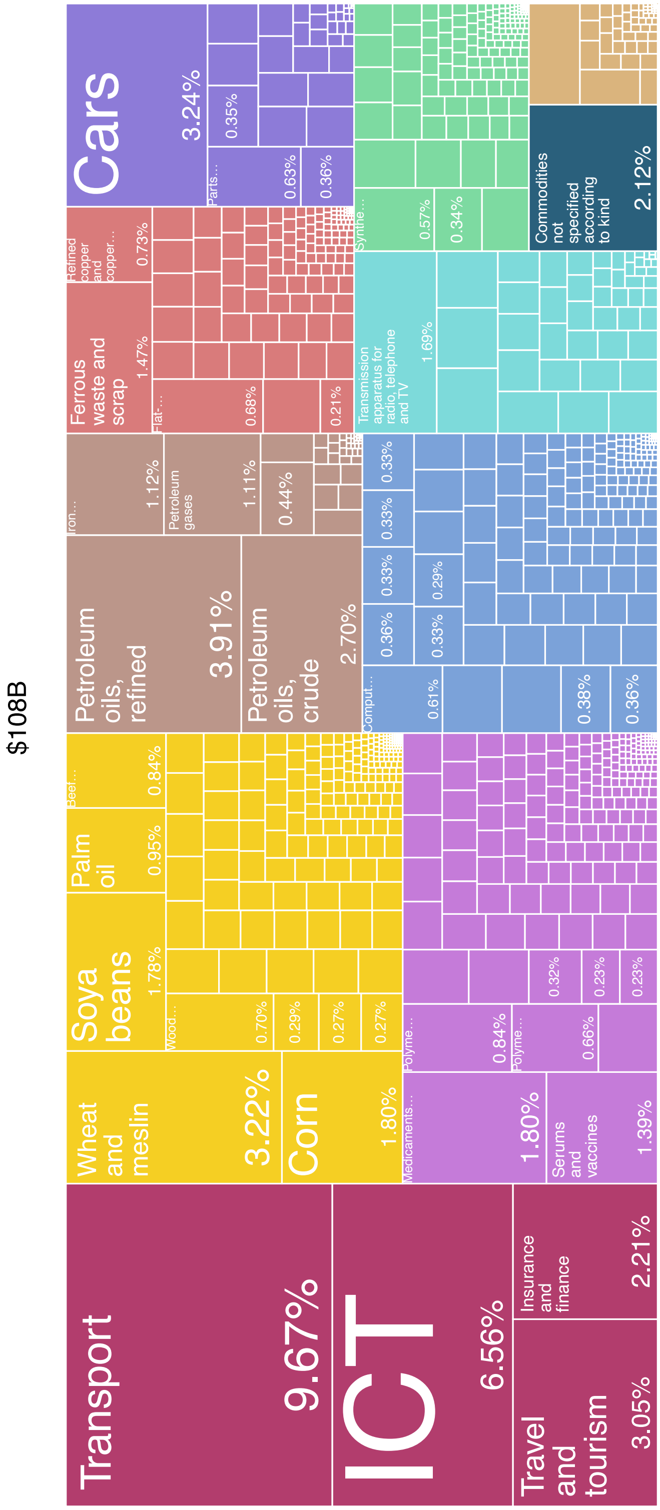
18 It is due to the productivity variance in question that a large share of peripheral labor forces remains disarticulated from the modernized spaces of the economy, languishing in low productivity subsistence and informal activities, if working at all. The low wages on offer in the traditional sectors of the economy, in turn, put downward pressure on wages in the modernized sectors, which, in combination with pressures toward the equalization of profit rates, leads to productivity gains in the modernized sector being lost to the core in the form of lower priced goods.
See: W. Arthur Lewis, "Economic development with unlimited supplies of labour, The Manchester School 22:2 (1954).

19 For a more comprehensive discussion of income and price elasticities within core-periphery relations, see: Maric Cimoli and Gabriel Porcile, "Technology, structural change and BOP-constrained growth: a structuralist toolbox", Cambridge Journal of Economies 38 (2014).

20 On the negative long-term development effects incurred by low income countries who have sold large shares of the capital stock to foreign owners, see: Guilherme Klein Martins, "Capital nationality and long-run economic development", Preprint Research Paper (January 2023).



Egypt exports (2021)



Egypt Imports (2021)

A longitudinal review of Egypt's trade performance can attest to the power of the structural forces emitted by the core-periphery relation. Nevertheless, as much as structuralism can clarify about the production side of things, its insights into current Egypt's balance of payment issues are limited by the theory's high level of abstraction: A natural tradeoff in tracing the big picture is the underspecification of the particular causal mechanisms at work.

Pertinent amongst the causal mechanisms at work in Egypt are a number of contingent arrangements introduced through the contemporary advance of globalization.[21] In the first instance, the lifting of tariff and non-tariff barriers to trade in Egypt would precipitate a widening of annual trade losses. Prior to its first contemporary Standby Arrangement with the Fund in 1987, the country's net trade in goods showed a deficit of 4.98 billion in current US Dollars (roughly 10% GDP). Thereafter, the deficit steadily worsened in dollar terms (apart from a few years during the early 2000s) before nosediving from 2003 onward. Regularly running into the +$30 billion range over the last half decade, as a percentage of GDP, the trade deficit breached 12% in 2017 and has hovered in and around the same area since.[22]

And yet, the lifting of tariffs has not constituted the singular causality at play when it comes to Egypt's troubles. There are the locally authored policy failures that will discussed in the next subsection to account for. Just as importantly (if not more so), there are the effects exerted by restraints on industrial and innovation policy—restraints which have defined contemporary globalization as much as trade liberalization has. These restraints impact Egypt's trade deficit through hindering the country's ability to bridge extant technological gaps in production, thereby subjecting the economy to enduring declines in terms of trade.

In form, the restraints in question derive from externalized policy commitments institutionalized via international treaty. In furnishing foreign parties rights to pursue litigation, for instance, the bilateral investment treaties (BITs) which came increasingly into vogue from during the 1990s rendered policies established at the time of an initial investment effectively non-reformable. With the specter of a hearing before international arbitration tribunals haunting government officials thereafter, this made pursuing new industrial and investment policies increasingly treacherous, semi-permanently locking-in arrangements oft-written by the foreign party in the first instance.[23]

Equally impactful have been externalized policy commitments made in the domain of intellectual property rights (IPRs).[24] Though sold as a means for powering technological convergence, the establishment and enforcement of IPRs in the periphery typically has no such effect.[25] The reasons for this are multiple. To begin, FDI flows—meant to be the conveyors of technological and knowledge transfers—are only sensitive to national intellectual property laws to the extent that a recipient country possesses the capacity for engaging with frontier technologies and production techniques. As that capacity

21 Modern trade liberalization was initially advanced through multilateral treaties negotiated under the auspices of the World Trade Organization and structural reform conditionalities attached to loans from the IMF. More recently (and more invasively), it has been pushed via bilateral agreements spearheaded by the United States and European Union

22 See: IMF Balance of Payments Statistics Yearbook.

23 For a cross-country study of BITs' effects, see: Cristina Bodea and Fangjin Ye, "Bilateral investment treaties (BITs): the global investment regime and human rights", British Journal of Political Science (2017).

24 Katharina Pistor, The Code of Capital (Princeton University Press: 2019).

25 For an alternative form of IP rights, see: Klaus Beiter "Strong Intellectual Property Protection, Weak Competition Rules—or the Other Way Around to Accelerate Technology Transfer to the Global South? Ten Considerations for a "Pro-Development" IP-Related Competition Law". Policy Brief: South Centre: September 2021.

does not exist ex ante in places like Egypt but must be built, FDI flows in these places come bearing few of the gifts promised, regardless of the laws in place.

This outcome is also a function of the particular interests held by the firms (i.e. multinational corporations, or MNCs) most responsible for the mobilization of FDI. MNCs in possession of knowledge-based assets retain little interest in seeing those assets leave the safety of the corporate headquarters. It is these assets, rendered proprietary by the law, after all, which allow for their extraction of technological and financial rents.[26] Indiscriminate of protections afforded by a national judiciary, MNCs will therefore always be careful to structure merger or subcontracting arrangements in a manner that keeps their most valuable property under lock-and-key.

The Rise of Intellectual Property Rights, and Their Migration to Egypt

Though leveraging of the law for the purpose of transforming knowledge and information into a proprietary asset began in the United States in 1960s, the campaign acquired international purchase starting with the 1986-1993 Uruguay Round of WTO negotiations. Upon the ratification of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement at the end of those talks, the flexible frameworks for intellectual property protection that had previously prevailed across the world were done away with.27 This was despite the countries of the global core having advantaged themselves of such frameworks of in building their industrial bases.28 Thereafter, the legal foundations laid in Montevideo would be expanded upon through the attachment of TRIPS-Plus provisions onto subsequent generations of US and EU bilateral trade and investment treaties with peripheral countries.

This obtained in Egypt by way of the Association Agreement signed with the EU in 2003. In the first instance, the Agreement obligated Egyptian policymakers to accede a host of multilateral conventions in IPRs within four years while also compelling them to bring domestic law into conformity with European standards in the areas of intellectual, industrial, and commercial property rights.29 In allocating funding and technocratic support for the standardization effort, the Agreement also allowed EU representatives to directly shepherd the reform of Egypt's domestic law on IPRs. The yields of these interventions (and the pressure preceding them) count Law no.82 and a series of ministerial decrees in 2009 and 2016. Should a free-trade agreement ultimately be signed with the United States in the years ahead, it should be expected that protections for intellectual property rights of diverse kinds will be expanded further.

26 See: Cecilia Rikap, Capitalism, Power and Innovation: Intellectual Monopoly Capitalism Uncovered (Routledge: 2021).

27 Carlos Correa, "Intellectual property: how much room is left for industrial policy", United Nations Conference on Trade and Development Background Paper no.223 (2015).

28 Ha-Joon Chang, "Intellectual Property Rights and Economic Development—Historical Lessons and Emerging Issues", Journal of Human Development (2:2): 2001.

29 See: Euro-Mediterranean Agreement establishing an Association between the European Communities and their mamber states, on the one part, and the Arab Republic of Egypt on the other part (2003).

Given the coalescence of structural conditions and MNC interests, the Egyptian state's acceptance of obligations toward intellectual property was never to yield developmental gains. As it played out, in fact, deputizing the courts as enforcers of IPRs would prove less a means for upgrading industrial capacity than for trapping the country's export sector in the production of primary and technologically unsophisticated manufactured goods. In effect, this buttressed the structural heterogeneity already baked into core-periphery relations, and in so doing, contributed to the economy's recurring losses in net exports. The same can be said of the state's (coerced) recognition of international arbitration tribunals.

Worsening the trade deficits wrought by trade liberalization as well has been the contingent restructuring of worldwide production around global value chains (GVCs). GVCs' corrosive effects in places like Egypt stem largely from the power they accrue to the MNCs sitting atop them—power which is expressed most overtly through the imposition of pricing pressure on lower rung suppliers. Pressure is exerted through a number of means. Information asymmetries—principally, an open-cost system which affords the big buyers access to the cost structure of sellers[30]—combine with a highly competitive global market of suppliers to push upstream firms into pricing their goods at near cost. A second push, if needed, also comes from the de facto monopsony that is maintained by MNCs, a structure which derives from these corporations dominance within the market for finished products and their control of access to final consumers.[31] Together, the effect of pricing pressure is to minimize the share of value which lower-rung suppliers capture in the production process. As supplier firms are also impeded in jumping to the rungs where higher profit rates are available due to the legal regime around IPRs, value chains end up solidifying a three-tier, highly disintegrated industrial structure that Schwartz has conceptualized as the "franchise economy."[32] At the summit of this system, firms hoarding intellectual property capture the lion's share of global profits via rents. At the middle layer, firms possessing significant physical capital and industrial knowhow secure a lesser though still reasonable take. At the bottom, labor intensive firms making highly standardized inputs and/or low complexity final goods scrap just to survive.

Egypt's non-oil and gas export-oriented firms largely operate out from the bottom layer of this franchise economy.[33] Encountering downward price pressure for goods produced and scarce, highly contested opportunities for jumping into the more profitable perches, the experience has augured little good. At the macro level, the result of their struggles is that the composition of the country's export basket has remained largely unchanged for more than three decades. Today as in 1990, it is locked into primary goods and low sophistication, low value-added manufactures.[34] With import demand being what it is, the upshot is large and regular trade deficits and the declining terms of trade which Presbisch et al predicted so long ago. Clearly, then, the system-level effects endowed through Egypt's relation to globalized production and exchange contributes a great deal to the country's recurring issues with external imbalances.

30 Intan Suwandi, Global Value Chains: The New Economic Imperialism (Monthly Review Press: 2019).

31 William Milberg and Deborah Winkler, Outsourcing Economics: Global Value Chains in Capitalist Development (Cambridge University Press: 2013).

32 Herman Mark Schwartz, "From Fordism to Franchise: Intellectual property and growth models in the knowledge economy", in Lucio Baccaro, Mark Blyth, and Jonas Pontusson (eds.) Diminishing Returns: The New Politics of Growth and Stagnation (Oxford University Press: 2022).

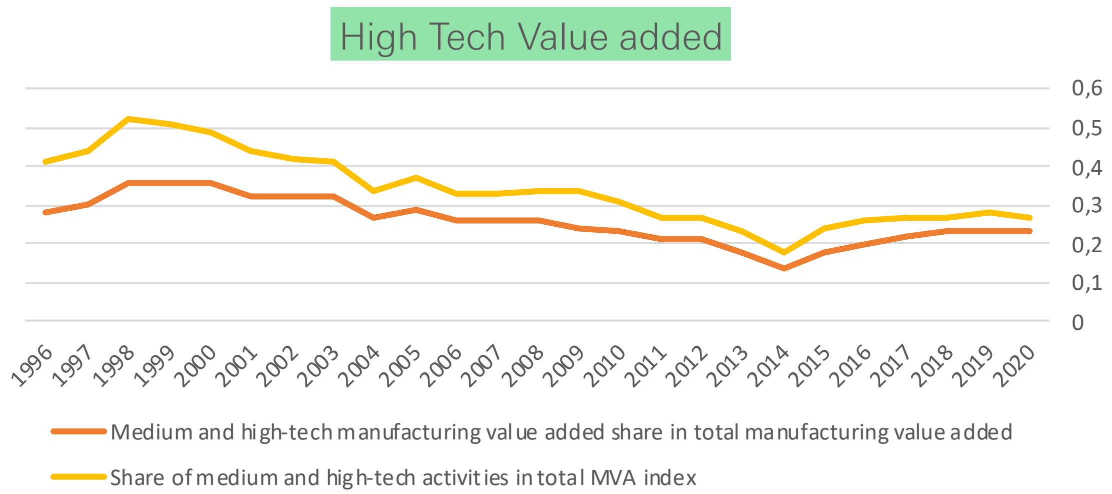
33 Data gathered by the United Nations Conference on Trade and Development (UNCTAD) shows that the export value share of Egyptian firms integrated within GVCs typically accounts for 30-40% total annual export value.

34 On continuities in export composition, see: Amr Adly, Cleft Capitalism: The Social Origins of Failed Market Making in Egypt (Stanford University Press: 2020).

b. Currency Hierarchies: The System-level Effects of the Global Monetary System

System-level effects endowed by Egypt's positioning within the international currency hierarchy contribute to the economy's external imbalances, too.

The structure of the currency hierarchy we speak of derives from national currencies' differential capacities in performing the functions of money internationally. The moneyness of a national currency— its capacity to serve as a means of settlement, unit of account, and store of wealth—derives from two variables: (i) the global level of demand for it, which itself stems from an economy's size and external footprint on the one hand and from a nation state's capacity to project power on the other; and (ii) central bank access to emergency dollar liquidity.



Source: United Nations Industrial Development Organization

Access to dollar liquidity is essential because the dollar has served as the key currency for the global payments system since World War II.[35] And yet, key as the dollar is, emergency access to it is not distributed evenly: Contrarily, since the financial crisis of 2007-2009, the Federal Reserve has maintained a rigid three-tier order of access. On top are fourteen countries/regional unions.[36] By virtue of temporary or permanent swap lines that the Fed has established with the central banks of these countries/unions, their economies' retain unlimited access to dollars for all effects

35 It has this status due to it being the currency in which commodities are priced and debts predominantly denominated internationally, which has made it the foundation for exchange rates for international transactions.
The dollar's status is partially a result of the collapse of Keynes' plans for an international clearing union and new global reserve currency (the Bancor), partially a result of its post-war manufacturing and military prowess, and partially a result of deals worked out with the major oil producing countries.

36 These central banks are the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank, the Reserve Bank of Australia, the Banco Central do Brasil, Danmarks Nationalbank, the bank of Korea, the Banco de Mexico, the Reserve Bank of New Zealand, Norges Bank, the Monetary Authority of Singapore, Sveriges Riksbank, and the European Central Bank.

and purposes.[37] One level down are those countries whose central banks were made eligible to receive emergency USD liquidity through the Fed's Foreign and International Monetary Authorities (FIMA) repo facility, which began operations in April of 2020.[38] While granted immediate and on-demand access to dollars, the volume of dollars available to the central banks working through the FIMA repo facility are perforce limited by the US government securities that they hold on their own balance sheets. Assembled at the bottom of the hierarchy, finally, are the countries whose only access to emergency dollar liquidity is mediated through the Special Drawing Rights (SDRs) system managed by the International Monetary Fund.

Currencies are subject to different liquidity premia contingent up their degree of moneyness. All things being even, a high liquidity premium—corresponding to currencies which can be dependably traded into dollars without loss of value—affords an economy stability in rate of exchange and decent treatment in international capital markets. Alternatively, a low liquidity premium, attached to those currencies which can only act as a store of wealth during non-turbulent times of the global financial cycle, demands that policymakers take a number of (interconnected) actions in order to keep the exchange rate relatively stable, all of which can redound negatively onto an economy's current account. The actions in question are in the service of accumulating international reserves. These reserves are most immediately needed to cover the import bill and repayments on hard currency debts, but also for defending the currency in FX markets and maintaining investor confidence in the macrostability of the economy (thereby ensuring the ability to issue new debts in the future).

The effects of reserve accumulation on external imbalances can be appreciated through considering the consequence that stacking reserves has on an economy's net international investment position. On the liabilities side of things, where reserves cannot regularly be earned through the export of goods and services (as in Egypt), they can only be acquired through selling debt or equity to foreign parties. Due to shortages in export income, issuing bonds denominated in foreign currency will require the attachment of sizable coupon rates. Due to the low liquidity premium of the national currency, selling local treasury bills to foreign parties will require the issuer's acceptance of even higher interest payments. In this context, selling equity may appear preferable. Doing so, however, implies turning over ownership of what are often highly profitable assets to foreign parties. Either way—debt or equity—the effect is that non-nationals acquire domestic properties generating significant returns on investment.[39] The inverse obtains on the asset side of the balance sheet, however. Hoarding international reserves—typically in the form of cash deposits, US government securities, and gold—means foregoing meaningful international investment gains. It also

37 Per Murau et alia, swap lines are "contingent instruments through which the Fed stands ready to create new USD-denominated central bank deposits on demand, while accepting instruments as collateral that are issued by partnering central banks, denominated in their respective unit of account." To the extent that each partnering central bank faces no limits when it comes to creating the instruments that the Fed has agreed to accept as collateral—to the extent that the Bank of Japan is unrestricted in its capacity to issue credit money denominated in the yen—the volume of dollars available to such institutions via the swap line is theoretically unlimited. In practice, this mechanism facilitated $449 billion of swaps in March of 2020 alone. In terms of economic consequence, access to swap lines not only affects the borrowing rates that commercial banks in the aforementioned jurisdictions can secure in crisis times, but the degree to which a central bank can defend its national currency in FX markets.

38 This repo facility allows designated central banks to pledge US treasury bonds held on their own balance sheets as collateral and in exchange receive an equivalent value of dollar-denominated central bank deposits created by the Fed on the spot.

39 Note that there are also a host of other deleterious effects provoked by selling debt and equity in the national economy, including a tendency toward austerity due to crushing debt repayment schedules; lower domestic investment due to high interest rates; and a weaker growth outlook due to foreign capital's growing position disrupting the local accumulation of knowledge-based assets.

comes with the incurrence of enormous opportunity costs: In having billions sit idly in the form of reserves, far less capital is available for the building of factories, roads, hospitals, schools and the like.[40]

Taking the full balance sheet into view, then, it can be seen that accumulating international reserves through non-export means is likely to cause implicit disinvestment from social and developmental goods in addition to steady if not compounding net losses in international investment income. In the short and medium term, these outcomes will push a current account into greater deficit. In the long term, they will make external imbalances far more stubborn.

The negative impacts wrought by the international currency hierarchy are very much observed in Egypt. The country has witnessed sizable growth in net international investment losses since the uprisings of 2011. These losses have more recently run in excess of $10 billion per annum and are likely to comfortably top $12 billion starting in 2023, especially in the event that planned privatization sales involving valuable properties in the banking, telecommunications, energy, and infrastructure/logistics sectors go through. It would, of course, be oversimplification to attribute these losses entirely to the workings of the global monetary system: The Sisi regime's public finance policies have undeniably contributed to them as well. Regardless of how one apportions blame, though, the sums in question reach magnitudes where they greatly mitigate the impact that remittances have for Egypt's current account. In the context of serial trade losses, this makes closing current account deficits a great deal harder.

Nor do the effects of the global monetary system on Egypt's external imbalances end there. It is also by virtue of the existing international currency hierarchy that monetary policy choices in the United States synchronize movements of capital across borders by way of their effects on global liquidity conditions.[41] This has rendered Egypt, like any one else, partially captive to the decision making of a foreign central bank whose mandate ultimately concerns inflation and financial stability within its own national territories.

The effects of captivity have proven unsurprisingly pronounced during the tenure of Abdel Fateh el-Sisi. It was partially due to the Federal Reserve's loose monetary policies in the period since the global financial crisis that portfolio investors from New York flooded the Egyptian treasuries market at the end of the last decade in the first instance. It was also due to the Fed's interest rate hikes in early 2022 that those same investors fled the treasuries market at the beginning of last year. As discussed in the introduction, the resulting capital outflows were of a size ultimately necessitating a series of currency devaluations. Increasing the pound value of the country's imports (and hard currency debt payments) without a corresponding increase in the country's export competitiveness, the devaluations can minimally be said to have complicated Egypt's trade picture. Inasmuch as they were caused by the international currency hierarchy, these complications further attest to the relation between external systems and local difficulties. In the monetary domain as in the domain of production and exchange, system-level conditions are deeply entwined in Egypt's troubles with external imbalances.

c. Peripherality within Global Finance

Also affecting Egypt's external imbalances from the outside are effects introduced through the workings of the global financial system. This system can be understood

40 Dani Rodrik, "The social cost of foreign exchange reserves", International Economic Journal 20:3 (2006).

41 Silvia Miranda-Agrippino and Helene Rey, "The global financial cycle", Working Paper No.29327 (National Bureau of Economic Research: October 2021).

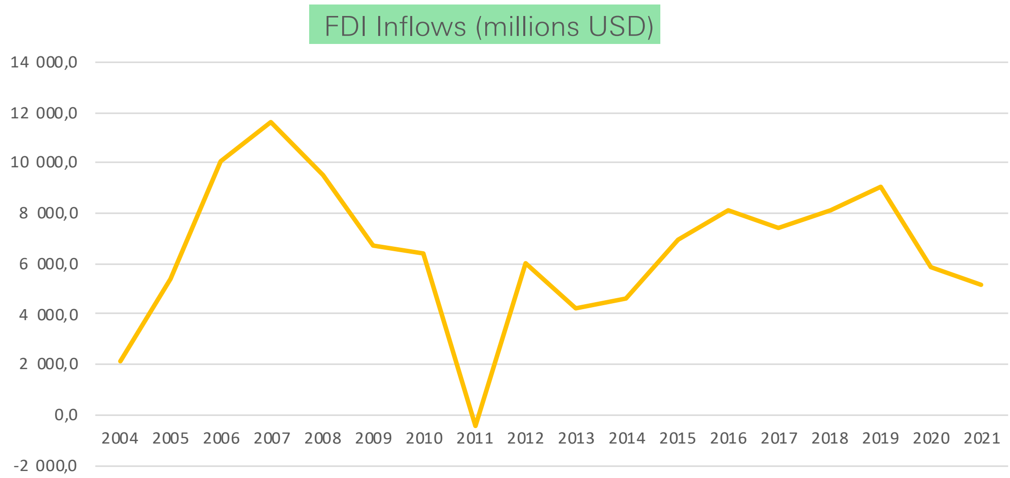
as a worldwide configuration of legal agreements, institutions, and formal and informal economic actors which together function to steer international flows of financial capital for the purposes of investment and trade financing. Insofar as the system concentrates financial capital, legal/policy influence, and knowledge production powers across a handful of sites in the global core—and insofar as the valuation and riskiness of all kinds of assets in the periphery are mediated by low liquidity premia of national currencies—baked into the configuration are a number of geographically biased tendencies.

Relevant to our concerns are two such tendencies. The first, initially discerned or at least brought to public attention by David Harvey, is the global financial system's use of built environments along the periphery as spatial fixes for the overaccumulation of capital in the core[42]: Furnishing a "sink" where surplus capital can be stored and appreciated, urban real estate in places like Egypt affords the core a means of delaying crises born of oversupply and declining rates of profit. The costs of (conscientiously or not) providing such a service for receiving economies are, of course, steep. Maximizing asset appreciation potential for investors necessitates the super exploitation of construction workers and an emphasis on luxury developments. Both imperatives present obvious social and economic downsides. Furthermore, in facilitating cross-border movements and sectoral allocations of capital in the manner required, those on the receiving end of real-estate bound capital inflows also implicitly oversee their economy's divestment from productive activities. Thereby limiting export potential, this naturally feeds back into the issue of external imbalances.

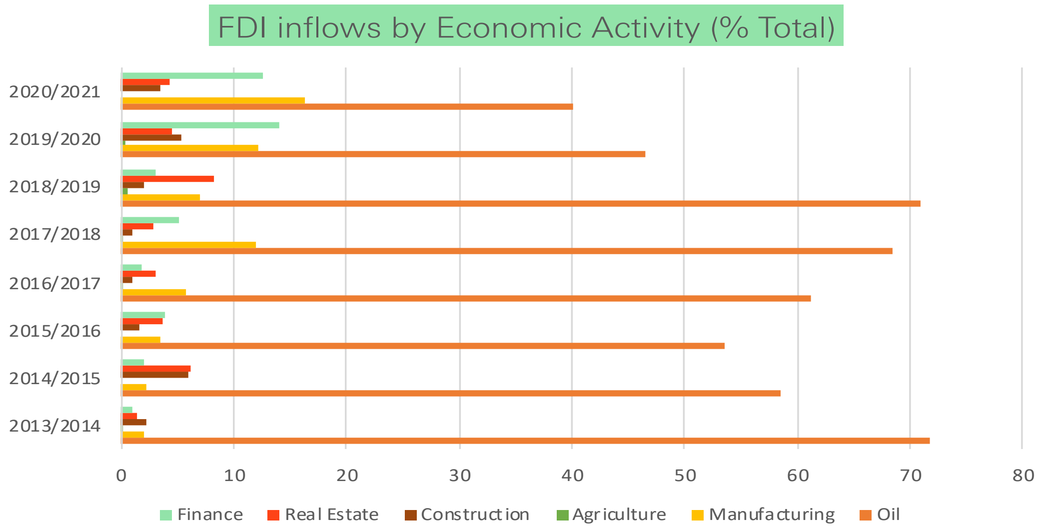
42 For one of the initial articulations of Harvey's thesis, see: David Harvey, "The urban process under capitalism: a framework for analysis", International Journal of Urban and Regional Research 2.1:4 (1978).
For a post-2007-2008 examination of the spatial fix, see: Brett Christophers, "Revisiting the urbanization of capital", Annals of the Association of American Geographers 101:6 (2011).

There is evidence to suggest the tendency of the global financial system identified by Harvey impacts Egypt to a non-insignificant degree. Critically, one does need recognize that finance capital's search for a built environment to park in has been actively and knowingly mediated by the Sisi regime. As will be reviewed at length in Chapter Two, Sisi and his policy class identified grandiose housing and infrastructure projects as a mechanism for projecting legitimacy feeding a number of key coalition mates. They also interpreted property sales as a mechanism for securing hard currency, especially from the Gulf and Libya.[43] It was their aggressive courting of foreign investors as much as foreign investors seeking out opportunities in the built environment, then, that explains the share of inflows being directed into construction and property acquisition. Nonetheless, regardless of where agency is assigned, the macro outcomes are the same, and correspond at least in part to what Harvey and others have pinpointed as an endemic feature of the contemporary global financial system: A disproportionate share of the long-term foreign investment in Egypt in recent years has wound its way to an assortment of speculative non-tradables. The acquisition of land and properties in the built environment stands out within this investment trends. Equally notable, however, is the acquisition of assets in the financial, insurance, and telecommunications sectors, all of which serve a similar function to real estate purchases: They too provide facilities for the appreciation of capital and for the extraction of resources from the domestic market which do not contribute to global issues of oversupply.

43 See: Sofian al Naceur, "Al-Sisi's 'New Republic': How the real estate frenzy in Egypt sustains the regime's grip on power", Rosa Luxemburg Stiftung North Africa Research Paper Series no.4 (October 2022).



Source: UNCTAD



Source: Central Bank of Egypt

The second relevant tendency of the contemporary global financial system is the preference that resident and non-resident financiers exhibit in deploying interest-bearing instruments when investing along the periphery.[44] This preference derives from a number of variables, amongst which a lack of faith in quality of the rule of law and institutional competence cannot be discounted. That said, the preference stems most directly from the low risk, high reward opportunity that lending in these spaces afford. For non-resident investors, the exceedingly low borrowing costs prevailing for the better part of a decade within their home countries have created massive opportunities for arbitraging differences in global interest rates: Borrow cheap at home, lend cher in the global periphery, and walk away rich. For residents, meanwhile, the high interest rates which peripheral central banks are pressured into maintaining also renders the writing of credit lines a dependably profitable business.

In terms of borrower, resident and non-resident investors alike evince a bias toward the governments, publicly-guaranteed private sector firms, and individual households of the periphery. At a structural level, the attractiveness of household lending is enhanced by the dearth of high growth potential firms, something which

44 Fathimath Musthaq, "Dependency in a financialised global economy", Review of African Political Economy 48:167 (2021).

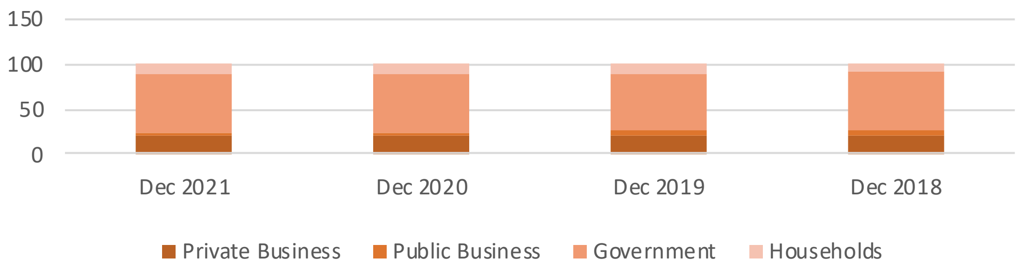
is itself a partial function of the global production system. Most immediately, it also enhanced by the effects of wage compression.[45]

The relation between these kinds of investments and current account issues is fairly direct: the interest-bearing capital being deployed in peripheral economies generally serves to elevate consumption while, all things being even, having a limited effect on export potential. The latter obtains even when loans are directed to corporate parties: The firms which have their obligations guaranteed by the state, after all, are typically internally-facing. Their debt-financed investment therefore translates into little in the way of hard currency receipts.

There is evidence to suggest that this second tendency of the global financial system impacts Egypt to a non-insignificant degree. Now, like with investment into the built environment, one does need appreciate that it is a tendency which has been actively encouraged by the Sisi regime: Seeking a quick way to square trade imbalances, policymakers proffered, through state treasuries, some of the highest returns that creditors could find on the planet. Never likely to turn down such an advance, foreign and domestic investors predictably flocked to the local currency sovereign debt market. With the Egyptian Central Bank also keeping interest rates elevated, these same parties plowed into household debt by way of the banking sector, too. Clearly, then, it has taken two to tango when it comes to Egypt's dance with hot money.

Be that as it may, and regardless of which dance party was the lead, the result is the same: As the tables and graphs below make plain, interest-bearing capital has turned yields indicative of super-exploitation in Egypt—yields which have pushed the country's net international investment position deep into the red. Providing no meaningful increases to the country's productive capacity in exchange, the aggregate impact of this on the current account have been determinedly negative.

Relative Structure Of domestic Credit By Sector
(% of total credit extended)



Source: Central Bank of Egypt

*Addendum: As the graph attests, lending to households has represented the largest relative growth market for domestic commercial banks in recent years.

II. THE CONSEQUENCES OF POLICY FAILURES

Through an assortment of channels, the previous subsection can clarify how system-level effects impact Egypt's external imbalances. In drawing attention to their structural nature, it is our hope that these passages convey why such effects would make themselves felt regardless of action taken by local policymakers. And yet, that can all be true without implying

45 Nadine Reis and Felipe Antunes de Olivera, "Peripheral financialization and the transformation of dependency: a view from Latin America", Review of International Political Economy (2021).

the actions of local policymakers to be meaningless. It is these actions, after all, which mediate the intensity of a system's effects in any given place.

In Egypt, the actions of both the Sisi regime and its predecessors can be shown to amplify effects transmitted through the country's peripheral positioning within global systems of production, money, and finance. To parse current governors' responsibility for outcomes from their forebearers', we will commence this subsection with a brief historical review.

a. Endowments from History

Upon seizing power in 2013, the then Army Chief Sisi and his allies inherited a development paradigm, tenets of which had come into place iteratively across a number of decades. Some of the relevant foundations had been laid by Anwar Sadat after Nasser's ventures in import substitution and (Soviet-financed) heavy industry development came undone in the face of dependence on capital imports and an inability to generate hard currency.

Linguistic intimations not withstanding, Sadat's much discussed infitah unwound neither Nasser's protectionism nor his etatisme: Throughout Sadat's time in office, market access remained curtailed, the state the lead investor in the economy by a wide margin, and state-owned enterprises pervasive. Working at the margins instead, the self-styled economic opening of Egypt's third president was marked by the introduction of corporate welfarist measures targeted initially at foreign investors[46], vertical industrial policies (executed through the establishment of industry-specific tariff, tax, and interest rates) and highly discretionary interventions designed to reward those proximate to power.[47] Incoherent in design and inconsistent in application, these policies bequeathed disinvestment and the steady deterioration of the industrial base.[48] Both became path dependent fixtures of the economy thereafter.

Following the signing of the Camp David Accords in 1978, Sadat proceeded to set down what would become two additional pillars of the modern Egyptian economy. First, he repurposed the military—now without an existential enemy or revanchist mission to justify its status—into a developmental actor. Leveraging ownership and control of all desert land, the institution henceforth ascended into position of nearly unmatched influence when it came to the organization of the economy.[49] Just as momentously, Sadat also helped midwife a rent-seeking bourgeoisie. Benefiting from exclusive licensing arrangements, access to submarket land sales, and privileged standing within public procurement processes, members of this fraction of domestic capital acquired dominant positions within a number of sectors by the early 1980s.

As the years turned, the three major economic legacies of Sadat's tenure—public divestment, an interventionist military and a rent-seeking bourgeoisie—evolved into constitutive features of Egypt's emergent market economy. Hosni Mubarak's contributions to the form of that economy, however, were even more significant. Early in his tenure, Mubarak

46 The various tax abatements and investment incentives provided to foreign investors in Law no.43 were extended to domestic investors in 1977.

47 Moheb Zaki, "Egyptian Business Elites: Their Visions & Investment Behavior", Report: Konrad Adenauer Stiftung (1999).

48 Investment settled at roughly 25% GDP under Sadat. It was only by way of a buoyant global commodities market—redounding positively onto Egypt via energy sales and remittances—and receipts from Suez Canal traffic, both of which funded public sector hiring, that this did not result in a deepening of the unemployment crisis.
See: H Beblawi, "Economic growth in Egypt: impediments and constraints (1974-2004)", Commission on Growth and Development Working Paper 14 (World Bank, 2009).

49 See: Robert Springborg, Mubarak's Egypt: Fragmentation of the Political Order (Westview Press: 1989).

and his lieutenants retrofitted Sadat's corporate welfarism for modern times by expanding foreign investment incentives and establishing territories apart from existing labor and customs law in the form of free economic zones. After making his move against the popular Minister of Defense Abd al-Halim Abu Ghazala, Mubarak also facilitated the military's expansion as a commercial actor.[50] (The greenlighting of a constellation of special funds in the 1990s and 2000s would allow military officers and other senior members of the bureaucracy to siphon off billions in pounds into personal accounts[51]). The halflife of the two initiatives—enclave-based export promotion governed by libertarian principles and a vast commercial empire controlled by the military—proved long indeed.

The same can be said of changes wrought upon Egypt's turn to the IMF in 1989. Contrary to the prevailing discourse, initial yields on lender-coerced privatization would be relatively meager.[52] Those produced through the broader structural reform initiative however—a process which commenced with 1991's Economic Reform and Structural Adjustment Program (ERSAP)—did transform things in a number of ways. To begin, the roll back of public investment accelerated, observable in 64% of post-ERSAP expenditure cuts coming from the investment account.[53] For two reasons, the state's withdrawal from its role as lead investor ultimately begat aggregate declines in fixed capital formation: The first was a contemporaneous decline in foreign direct investment. Despite Mubarak officials endorsing a series of bilateral investment treaties drafted almost entirely by the foreign signatory[54]—treaties that would condemn future policymakers to straitjacket of a poorly conceived incentives arrangement—FDI inflows between 1990 and 2003 dropped 70% below the levels witnessed in the 1980s.[55] The second reason was inadequate domestic private investment: Though family-owned multisector conglomerates—birthed by Sadat and now flush with credit due to their preferred status in the eyes of commercial banks—did invest, they did not do so at magnitudes sufficient to close the gap opened by the secular fall in public investment. In terms of economic activity, then, while Mubarak's rule might see the private sector share of output increase steadily, insofar as total investment remained low and private sector growth unaccompanied by any meaningful upturn in productivity, it also saw industrial backsliding continue. The concentration of the export basket in a handful of import-intensive goods with low technological content thereby became semi-permanent.[56] Following from a different causal process altogether, so too did the state's descent into chronic fiscal distress. The latter was a result of customs revenue losses brought on by post-ERSAP rounds of trade liberalization. Never made up for by either income taxes or (increasingly) punitive value-added taxes, these losses pushed tax revenues as a percentage of GDP below

50 On the military's gradual commercial expansion, see: Charles Clover and Roula Khalaf, "Military unease as radar locks on business ties", Financial Times (March 1, 2011).

51 Nizar Manek and Jeremy Hodge, "Sisi's secret gardens", London Review of Books (July 2015).

52 For a full review of this period, see: Eberhard Kienle, A Grand Delusion: Democracy and Economic Reforms in Egypt (I.B. Tauris: 2001).

53 Jane Harrigan and Hamed El-Said, "Egypt's successful stabilisation without structural reform" in Jane Harrigan and Hamed al-Said (eds.) Aid and Power in the Arab World: World Bank and IMF Policy-Based Lending in the Middle East and North Africa (Palgrave and Macmillan: 2009).

54 See: Mohamed Mossallem, "Exit, Quasi-Exit, and Silence: How Developing Countries React when Discontent with the Investment Treaty Regime", PhD Thesis: SOAS University of London (2018).

55 Mohammed Mossallam, "Egypt's foreign direct investment regime: evolution and limitations" in Robert Springborg, Amr Adly, et al (eds.) Routledge Handbook on Contemporary Egypt (Routledge: 2021).

56 See: N. el-Megharbel, "The impact of recent macro and labour market policies on job creation in Egypt" in H. Kheir el-Din (ed.) The Egyptian Economy: Currency Challenges and Future Prospects (American University of Cairo Press: 2008).
Roberto Roccu, "State-business relations in neoliberal Egypt: the global political economy of subordinate integration" in Robert Springborg, Amr Adly, et al (eds.) Routledge Handbook on Contemporary Egypt (Routledge: 2021).

1980 levels, where they have more or less loitered since.[57]

Still encountering regular balance of payments issues at the turn of the millenium—a testament of policy failures made only more pronounced by the fact that Egypt was beneficiary of significant Gulf War-related debt relief—Mubarak would try one last reform push of enduring consequence. This one was directed by the businessmen's government of Prime Minister Ahmed Nazif and orchestrated behind the scenes by Mubarak's son Gamal, who had overseen the de facto takeover of the National Democratic Party by a fraction of domestic capital in the lead-up. More ambitious than its predecessors, the businessmen's agenda spanned a wide array of policy domains.[58] Privatization was aggressively advanced, with eighty-seven state-owned enterprises sold off within a year. Customs tariffs were cut further, as were subsidies and marginal tax rates for corporations and persons. (Changes to the tax code also installed a constellation of incentives for investors and savers). The financial sector was liberalized and the capital account opened up. Business registration procedures were simplified and market access for foreign investors selectively increased. The enclave-based model of corporate welfarism was doubled down on and further institutionalized.[59] Industrial policy, finally, was turned over to a newly founded Ministry for Trade and Industry. Therein, policy design was steered by a group of experts drawn from the coalition of Gamal Mubarak. Taken at face value, their approach, articulated most comprehensively in the 2006 Egypt Industrial Development Strategy (EIDS), represented a significant step-up on the state's recent efforts.[60] In actuality, however, the EIDS would be compromised by its disproportionate funneling of resources to large established players, enduring neglect of small and medium-sized enterprises (SMEs), and the inadequacy of measures meant to boost technology absorption and prompt domestic innovation.

While not without achievement, on balance, the era of the businessmen's government failed to change Egypt's fundamental condition. Yes, their reign was contemporaneous with a jump in total manufacturing exports and the movement of certain family-owned multisector conglomerates into higher value-added activities.[61] Beyond that, however, Nazif et al.'s record attests to their deepening of the country's structural problems. Under their watch, investment appeals and privatization sales brought an uptick in FDI, but no change in those inflows' developmental indifference: Roughly three of every four dollars in FDI received wound up in the energy sector, with most the remaining balance split across the financial, real estate, tourism, and telecommunications industries.[62] The businessmen also proved hapless in changing the domestic investment picture. Whether happy to see creditors finance the businesses of friends and family or unable to find a policy configuration capable of reducing the risk aversion of the

57 Mohamed Sultan, "Egyptian exchange taxes: Efficiency and equitability", Policy Paper: Alternative Policy Solutions (American University of Cairo: 2018).

58 For a full review, see: Markus Loewe, "Industrial Policy in Egypt 2004-2011", Discussion Paper 13: German Institute for Development (2013): pp.31-46

59 The Ministry of Investment established a General Authority for Investment and Free Zones (GAFI) in 2005, entrusting the latter with administering the incentives regime available within what would become forty-two special territories

60 Amongst other things, the EIDS contained measures nominally meant to boost access to capital for small enterprises; to facilitate vertical linkages between export-oriented firms and local suppliers; to upgrade firm capacity through funding and technical assistance deployed by an Industrial Modernization Centre; and to spur R&D and technology adoption through twelve Technology Transfer and Innovation Centres.

61 Per el Kabbani and Kalhoefer, a remarkable 93% of manufacturing value-added in 2010 was contributed by a handful of large private enterprises. See: Rola el Kabbani and Christian Kalhoefer, "Financing resources for Egyptian small and medium enterprises", Report: German University in Cairo Faculty of Management and Technology (2011).

62 Loewe, (2013): 14

country's commercial banks, the capital starving of SMEs proceeded unchanged. As these firms' disarticulation from the export-oriented sectors of the economy was also left unaddressed, so too did Egypt's sizable import bills for intermediate inputs.[63] Just as damningly, though capital market reforms brought increased trading volumes on the stock exchange, they did not facilitate capital increases for firms.[64] With the biggest profits to be had in energy and banking, moreover, manufacturers' in particular struggled to secure debt or equity financing. As a result, their share of total annual investment hovered around just 20% throughout, and a great deal less than that if one excludes firms in the oil-processing business. Distressingly from a long-term perspective, the inadequacy of industrial policy design and implementation meant that private and public outlays into R&D loitered at negligible levels as well, while metrics on technological transference actually evinced a decline in performance in the 2000s.[65]

If successful in shifting who owned Egypt's assets, then, Nazif et al did little to shift the actual character of the national economy. By consequence, the country's export-basket stayed stubbornly dominated by primary goods: Energy, food, and raw material products comprised roughly 80% of all merchandise exports during the Nazif era. Products with high technological content—which had contributed 1% to non-energy exports as of 1985—meanwhile, could claim but a 2% share of the total. That regional peers like Morocco, Tunisia, and Jordan witnessed jumps of seven to thirteen percentage points when it came to the share of high-tech exports in their export baskets during this same period only clarifies the scale of an era of policy failure further.[66]

b. Policy under Sisi

All things considered—the structural conditions Egypt encounters as a country on the global periphery included—it is difficult to dispute that the development paradigm in place as the transition from the Mubarak regime commenced was unfit for purpose. And yet, while that fact made it incumbent upon post-uprisings' governors to chart a new path, the one set by Abdel Fateh el-Sisi and his allies reproduced if not intensified the economy's tendency for external imbalances.

In the first instance, the Generals failed to enhance the economy's productive capacity. This can in part be attributed to choices in the domain of investment policy. Showing a lack of imagination and understanding, policymakers not only retained the constellation of investment incentives which had been developed by their predecessors but made them more generous, first via a 2015 legislative amendment and then again through a 2017 one.[67] They did so, of course, despite the ledger of these incentives showing few successes inside Egypt and despite the literature showing the general effects of tax abatements and the like on capital inflows and technological transference to be negligible at best. What is more, Sisi's policymakers then compounded their error by pairing what might be called non-conditioned corporate welfarism with a disregard for investor sensitivities vis-a-vis the rule of law, transparency, and institutional quality. Indeed, across the President's nearly ten years of rule, officials have been non-plussed by businessmen's unease over market access, competition regulations, and, of course, the military's

63 For the most comprehensive discussion of the causes and effects of Egypt's lack of SMEs, see: Amr Adly, Cleft Capitalism: The Social Origins of Failed Market Making in Egypt (Stanford University Press: 2020).

64 See: Sultan (2018).

65 See: Loewe (2013): 51.

66 Ibid: 16

67 See: Amr Adly, "Too big to fail: Egypt's large enterprises after the 2011 uprisings", Report: Carnegie Middle East Center (2017).

extralegal supremacy.[68]

If always a low probability prospect, this half way in-half way out attempt at courting foreign capital ensured FDI did not change its pre-uprisings' stripes in Egypt. Certainly, that inevitability did not stop Sisi's men from pandering to multinational corporations: They have done so through intensified crackdowns on labor organizing (especially aggressive in the country's free zones)[69], banning third party litigation on government contracts without public tender and assigning judicial review powers of embezzlement charges to the GAFI (rather than the court system), and disciplining the activist State Council's Administrative Court which had attempted to invalidate dubious late Mubarak-era privatization and procurement deals.[70] Nevertheless, for reasons having to do with structural factors discussed in the previous subsection as much as with the regime's ambiguous position on the law and competition, pandering yielded few changes of note. Western-domiciled MNCs have chosen to stay away from all but Egypt's oil and gas industries, and even in the latter instance, investments have been fairly meager. Just as uncomfortable with the business environment, the Gulf eschewed productive investment too, preferring to instead park what limited amounts of capital it allocated to the relative safety of real estate. The upshot is that the FDI contribution to export income budged little above the depressed levels of the pre-Sisi era.

FDI after Egypt's New Extended Fund Facility from the IMF

The weak developmental contributions of FDI in Egypt are unlikely to change going forward, and that is even if the (optimistically) projected inflows from the GCC do materialize in 2023 and 2024. At the time of writing as in the past, all indications suggest these prospective inflows will be resource and market seeking—targeting acquisitions in the banking, telecommunications, and retail sectors. The gains they stand to deliver to the current account are therefore marginal, and that is without factoring in the second-order effects of treating FDI as a de facto balance-of-payments fix: In selling off profitable assets like United Bank and Vodaphone Egypt to foreign principals as Sisi et al are planning to do, after all, they are to worsen the country's annual losses in net international investment income. In an era when countries like Indonesia are leveraging MNCs' desperation for raw nickel into transfers of technology and local investment in high-sophistication industries like battery production, the listlessness of Egypt's investment policy truly stands out.[71]

Impacting stagnation in productive capacity as well have been the Sisi regime's more direct interventions in the economy. These interventions are considerable in size and diverse in form. There are the input subsidies and loan guarantees provided to state-owned enterprises. There are the supports of various kinds offered

68 This supremacy is manifest in the special courts that firms owned by the Ministry of Defense take recourse to in the event of commercial dispute. See: Amr Adly, "Authoritarian restitution in bad economic times: Egypt and the crisis of neoliberalism", Geoforum 124 (2021): 298.

69 Fatima Ramadan and Amr Adly, "Low cost authoritarianism: the Egyptian regime and labor movement since 2013", Brief: Carnegie Middle East Center (2015).

70 See: Mossallam (2021) and Jan Claudius Volkel, "The Fingers of the 'invisible hand'", in Robert Springborg, Amr Adly, et al (eds.) Routledge Handbook on Contemporary Egypt (Routledge: 2021).

71 Kate Mackenzie and Tim Sahay, "Developments: G7, China, South-South Cooperation", Newsletter: The Polycrisis (Phenomenal World: April 2023).

to military controlled firms and entities.[72] There are the mega stimulus efforts of 2013-2014, financed by old Gulf War I-era GCC deposits and UAE capital injections, respectively.[73] There are also the billions in subsidies that the Central Bank of Egypt has granted to credit creating institutions since 2016.[74] These subsidies have been directed to benefit industrial, construction, tourism and agricultural sectors as well as first-time home buyers.[75]

As pertains to our problematique, the trouble with the state's direct actions in the economy are less their inefficiency than their non-contribution to the economy's export earning potential. Backstopping SoEs, for instance, helps keep many companies afloat that would otherwise head for insolvency, though these supports are neither designed nor executed in a manner that might make beneficiary firms externally competitive. The same can be said of the constellation of vertical interventions boosting Sisi's militarized national champions: While the Ministry of Defense's National Service Projects Organization (NSPO) owns and operates firms in the fields of mining, construction, agriculture, chemicals, steel, and hospitality, the vast majority of the milary's firms only serve the domestic market.[76] If assisting them potentially assists in keeping the import bill down, then, it nevertheless provides little value-add when it comes to the economy's dollar and euro stock.

Just as detached from concerns with external imbalances were the stimulus spends of 2013-2014. The enormous expenditures mobilized certainly translated into infrastructure upgrades, new homes, and various monuments-to-the-regime's glory. Nonetheless, only the expansion of the Suez Canal stands to potentially generate anything in terms of extra dollar receipts—and at great expense in terms of debts. Likewise, the Central Bank's interventions in the credit market been weak in balance of payment pay-offs. Yes, these actions have helped reduce operational costs for companies in certain instances (and brought down mortgage rates for a select few). In attaching no conditions to the carrots provided, however, the Central Bank's credit supports have not facilitated improvements in firm productivity or competitiveness. As is such, they cannot be said to have meaningfully changed the outlook for external income.

Viewed in full, then, it can be seen that direct state interventions in the economy under Sisi have been compromised less by a lack of resources than by a lack of thoughtfulness. This is perhaps unsurprising given the President's preference for spending first, asking questions later. Fault of personal folly or not, the reality is that these policy measures, in absorbing a preponderance of the public resources available, have worked at cross purposes to the goal of easing Egypt's external imbalances.

The same charge can be applied to the Sisi regime's approach to public finances and financial sector regulation. In and of themselves, the fiscal deficits run up

72 Along with tax benefits and billions in public contracts, control of land sales and the military's prerogative in commanding discretionary transfers from the Ministry of Finance when facing debt repayments count prominently amongst these supports. These also opaque efforts like allowing the military to establish an independently managed investment fund out of surplus Suez Canal revenues. On the last of these mechanisms, see:
Maged Mandour, "Sisi's Suez Canal Debacle", Carnegie: Sada (February 2023). On the remainder of the benefits in question, see: Claudius Volkel (2021): 111

73 Amr Adly, "The economics of Egypt's rising authoritarian order", Report: Carnegie Middle East Center (2014).

74 For a review of these subsidies, see: World Bank Group, "Egypt Public Expenditure Review for Human Development Volume I: Macroeconomic Context, Social Assistance & Pensions", Report (September 2022): 28-33

75 International Monetary Fund, "IMF Country Report No.23/2: Arab Republic of Egypt Request for Extended Arrangement under the Extended Fund Facility—Staff Report" (2023): p.13

76 Yezid Sayigh, "Owners of the Republic: An Anatomy of Egypt's military economy", Report: Malcolm H. Kerr Carnegie Middle East Center (2019).

during the early years of the Generals' rule were always bound to crowd out private investment. By coupling this spending with Central Bank policies which opened up new possibilities for mortgage and consumer lending, however, the intensity of the crowding out effect ended up especially pronounced.[77] With banks having recourse to profits on government and household lending, private sector businesses would receive just a quarter of all credit facilities from the late 2010s onward. This precipitated a severe reduction in private fixed capital formation[78], a reduction which has necessarily redounded onto Egypt's trade performance through weakening the economy's productive capacity. Just as consequently, Tarek Amer's attempts at upscaling bank lending to SMEs failed to pair credit support with policies designed to connect SMEs to exporting firms hitherto dependent on imported inputs.[79] The result: SMEs remained disarticulated from the large enterprises producing for external markets, and Egypt's import bill for intermediate inputs remained costly as ever.

On trade itself, Sisi's policymakers showed themselves out of their depth again. Opportunities for opening and/or growing markets on the African continent would be mostly been foregone. More saliently, little effort was taken in addressing vulnerabilities to non-tariff barriers measures currently limiting trade volume with Europe and the Gulf. Relevant here are the lack of technical procedures for assessing product conformity and the inadequacy of sanitary and phytosanitary regulations for ensuring product safety. Such relatively minor policy failures disproportionately affect agri-food and chemical industries, eating into two key sources of hard currency earnings.[80] In retaining an agriculture policy regime whose tenets had long engendered low levels of productivity from domestic cultivators[81], Sisi's policymakers also left the country deeply dependent on imported food stuffs and therefore deeply exposed to the vagaries of international commodities markets. This proved predictably costly in 2022. The world's largest single wheat importer at the time of the Russian invasion of Ukraine—and one keenly dependent upon Ukrainian suppliers to boot[82]—the coalescence of genuine supply shocks coalesced with speculative action in futures markets caused spikes in prices of grains sufficient to nearly double the import bill for wheat during the first five months of the year.[83]

Forward-looking policies in the area of innovation promotion have also been starkly disappointing. Though Egypt Vision 2030 made a lot of noise about technology adoption and domestic knowledge production, public and private investment into R&D has amounted to little more

77 Of course, the Sisi regime's tense relations with the elite fraction of Egyptian capital, drivers of most the country's export industries as they are, only deepened onrushing trends toward private disinvestment. See: Amr Adly, "Too big to fail: Egypt's large enterprises after the 2011 uprisings", Report: Carnegie Middle East Center (2017)

78 Robert Springborg, "Snapshot—Follow the money to the truth about al-Sisi's Egypt", Report: Project on Middle East Democracy (January 2022).

79 While governor of the Central Bank, Amer endeavored to increase lending to these firms through a 2018 ordinance dictating that banks increase the SME share of their total loan portfolio to 20% by 2020. (The ordinance in question also capped interest rates on loans to SMEs while making the whole arrangement worthwhile for participating banks by reduce the level of mandatory reserves they needed hold at the Central Bank. Though appearing good on paper, oversight related to firm classification was lacking, diminishing the pass-through effects that these provisions had on SMEs actual economic activity. Critically, Amer also did not pair credit support with policies designed to connect SMEs to exporting firms hitherto dependent on imported inputs. See: Lucy Fitzgeorge-Parker, "Central bank drives lending bonanza for Egypt's SMEs", Euromoney (October 2018).

80 Chahir Zaki, "Why Egypt's trade policy failed to improve its external competitiveness", in Robert Springborg et al (eds.) Routledge Handbook on Contemporary Egypt (Routledge: 2021).

81 For a brief historical review of food policy's flaws in Egypt, see: Yumna Kassim, Mai Mahmoud, Sikandra Kurdi and Clemens Breisinger, "An agricultural policy review of Egypt: first steps towards a new strategy", Working Paper 11: IFPRI Middle East and North Africa (2018).

82 Sarah el Safty, "Egypt relied on competitive Russian wheat as imports dipped in 2022-data", Reuters (January 12, 2023).

83 Staff Writer, "Economic crisis pushes up Egypt's wheat, oil imports to $15.6 bln in 2022", Arab Finance (May 16, 2022).

than a rounding error in the years since the grand strategy's unveiling[84]: 0.72% GDP as compares to an OECD average of 2.37% GDP.[85] Grandiose plots for creating an innovation "quadruple helix" of local authorities, universities, companies and citizens, meanwhile, remain confined to the realm of powerpoint presentations at the time of writing. Just as predictably, performances of fidelity to intellectual property rights—the latest being the National Strategy for Intellectual Property announced in September 2022—have done little to sway foreign corporations' perspectives on technological and knowledge transfers.

Equally ominous from a long-term perspective is the regime's approach to education. Divestment from public education systems is unrelenting, compromising the capacity of the workforce to engage in sophisticated economic activities with each passing year: Adjusted for testing performance, current eighteen year-olds in Egypt now possess education levels equivalent to the average eleven or twelve year old elsewhere in the world while college graduates rank 133rd of the 137 countries evaluated by the World Economic Forum. In view of the regime's devotions to private education—most baldly revealed in a former Minister of Education's suggesting that constitutional provisions concerning citizens' rights to free education need be reconsidered—this can only be expected to decline further in the years ahead. Indeed, investments into private educational institutions were already outpacing investments into public ones as of 2022, abetted to no small degree by the regime's sovereign wealth fund's allocations into an EFG Hermes portfolio for private education development.[86] Appraised alongside innovation policies, the Sisi regime's approach to education can only be deemed an abject failure. Undermining the economy's knowledge production capacity from two ends, policymakers have mapped less an escape route from structural heterogeneity than a path to development.

Zoomed out to the highest level of abstraction, this chapter demonstrates how structural conditions and policy choices together inform the recurrence of Egyptian economy's external imbalances. For the governors of the Sisi era as for those of the past, managing this without triggering inflation has demanded a mix of two possible policy responses: (i) the imposition of welfare declines in the form of reductions in domestic consumption or (ii) the mobilization of hard currency through debt and equity sales. In the next chapter, we explore how the current regime leaned on the second of these options in attempting to keep the economy ticking over, and how this ultimately led to the debt and currency crises of 2022 - 2023.

84 Incentives put in place by the IT Industry Development Agency to encourage the private sector to pick up R&D slack consist of corporate tax reductions, rebates on overhead, grants, reimbursements on operating expenditures, exemptions on rental fees, and a constellation of subsidies.

85 See: OECD, "OECD and Arab Republic of Egypt inaugurate three-year programme to support key reforms", Press Release: OECD (October 16, 2021).

86 See: Robert Springborg, "Views: Sustainability of the Sisinomic Development Model", Rowaq Arabi 28: 1 (2023).

CHAPTER TWO:

Debt and the political economy of sisi authoritarianism

As has been the case since the oil bonanza of the 1970s, Egypt under the rule of Sisi has seen the strains of the country's trade imbalances eased by a few special sources of income. Remittances, drawn home in part the attractive rates offered on bank deposits, have run between 5.6 and 10% GDP the last eight years. In nominal terms, they have exceeded $25 billion per annum since 2018.[87] Though yet to justify the investment, transit fees from the Suez Canal revenues have also topped $5 billion for the majority of the generalissimo's tenure. With shipping costs jumping through the roof post-pandemic, these rents hit nearly $8 billion in 2022 and are likely to remain thereabouts going forward. Tourism furnishes additional billions in hard currency, while oil and natural gas sales, if not always sufficient to keep net energy spending in the black, has recently represented a sizable boon to the economy, too. On the back of greater exploitation of the Al-Zohr field, a June 2022 agreement reached with Israel and the EU[88], and heightened global demand, earnings from natural gas sales posted an all-time high of $10 billion in 2022.[89] Crude oil and petroleum products, meanwhile, brought in another $6 billion.

Despite benefiting from these hard currency inflows, Egypt's current account under Abdel Fateh el-Sisi has, for all the reasons discussed in the previous chapter, remained mired in deficit. As a result, policymakers have needed choose between reducing the population's welfare and financing deficits through debt and equity sales.

The record of the past decade shows officials toggling back and forth between the two options. On the one hand, pain has been selectively inflicted to bring down domestic consumption and, by extension, the demand for imports. In pumping interest rates up after 2016 in order to please creditors, for instance, the Central Bank drove millions from the workforce and brought the population-employment ratio down to the lowest level in contemporary history.[90] Nor have policymakers been content to compress demand through the employment lever alone: In service of the same end, Sisi era officials also reduced the labor share of income. This reduction was achieved in part through the repression of independent labor organizations, the co-optation of the country's official labor federations, and the aggressive patrolling of industrial zones. It was also advanced through restricting real public sector salary increases to the top layer of the civil administration alone.[91] Breaking promises made during the heady days of 2013-2014 has, then, clearly been a part of the policymaker playbook when it came to mitigating the economy's external imbalances.

A larger part of that playbook, however, has been the debt financing option. This is evinced in the growth of the hard and local currency sovereign debt stock post-2014: In conjunction with the regime's favoring of external debt when it comes to

87 See: IMF Balance of Payment Data.

88 Sarah el Safty and Ari Rabinovitch, "EU, Israel and Egypt sign deal to boost East Med gas exports to Europe", Reuters (June 15, 2022).

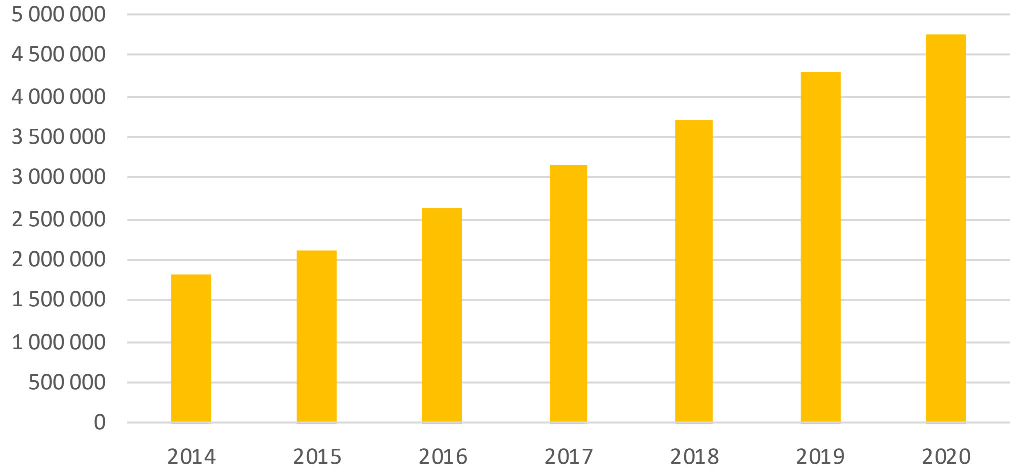
89 This figure was posted by the Ministry of Petroleum and Mineral Resources in December 2022.

90 To make matters worse for the country's precarious lower and middle classes, these actions, if potentially helping arrest the consumer price index's (CPI) upward momentum, did nothing to control the costs of essential goods: The prices of food products doubled between 2015 and 2019, with the inflationary wave affecting staples more than anything else.
Osama Diab, "Fighting inflation fiscally", Brief: Alternative Policy Solutions (American University of Cairo: April 2022).

91 See: Ramadan and Adly (2015).

funding security and logistics upgrades, its preferences for using the capital account to even out trade deficits—and treasury bills to fund debt repayments and recurring expenditures—predominantly explains the steepness of the debt's growth curve.

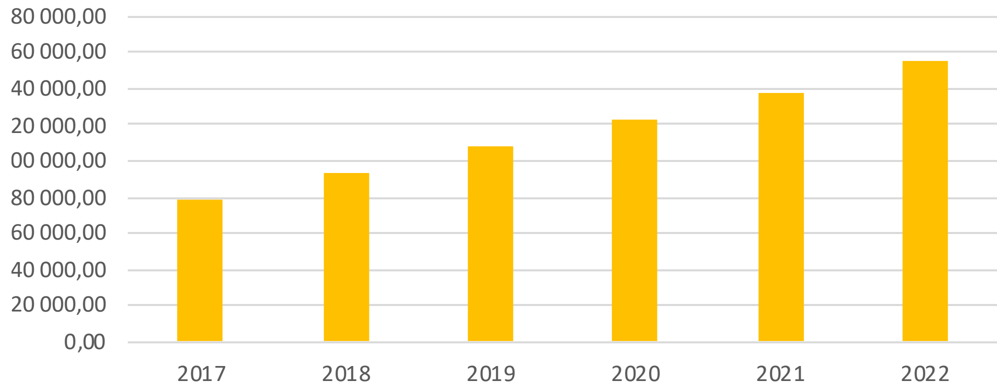
Gross Domestic Debt Stock of Egyptian State
(Million of egyptian Pounds)



Source: Central Bank of Egypt

* As a percentage of GDP, the government's gross domestic debt has hovered between 66% and 70% for the last four years.
** The Central Bank has not reported precise figures for domestic debts incurred in 2021 and 2022. The IMF's January 2023 Report suggests a sizable increase, however.

Total External Debt Stock
(Millions of USD)



Source: Central Bank of Egypt

I. DEBT CHARMERS: SISI'S ECONOMIC MANAGERS

To understand why the regime attempted to borrow its way out of macroimbalances, one need grapple with the political economy of the generalissimo's coalition maintenance. Before digging into this subject matter, however, it is appropriate to begin with the how of it all: Namely, how did Sisi's policymakers establish and retain access to providers of dollar liquidity? Insomuch as it is often personnel that makes policy, this requires that we address the who of it all as well.

In terms of the principals, it is best to start with Tarek Amer. A former deputy governor of the Central Bank and a disciple of one of the Mubarak era's grand financial policymakers, Farouq al-Okdah, Amer was director of Egypt's largest state-owned commercial bank (the National Bank of Egypt) when he was raised to the highest post at the Central Bank in 2015. Pretenses aside, Amer was not selected to run the single most important economic institution in the country based purely on technocratic merit, but rather, because he was man who could be trusted to do right by the military. His standing in this regards derived from deep familial connections the military aristocracy. Not only a nephew to a prominent member of the Free Officers who had orchestrated Nasser's taking of power in 1952, Amer's wife Dalia Khorshid—who herself served as Minister of Investment between 2016 and 2017—has also long alleged to be the investment manager of the country's foreign intelligence service.[92] (As CEO of the majority Abu Dhabi-owned Beltone Financial Holding, Khorshid is also a key node in Amer's connections to the Gulf)[93].

Accompanying Amer in designing the financial engineering of the contemporary Egyptian economy were two other men. The first was just as embedded within Egypt's military old guard: Mahmoud Mohieldin. Himself a nephew to a Free Officer, Mohieldin was a close associate of Gamal Mubarak and linchpin to the businessmen's takeover of the National Democratic Party in the early 2000s. Unlike Amer (and Maait), he would be prevented from directly serving in government post-2011 due to concerns over corruption charges. Nevertheless, Mohieldin still played an influential behind-the-scenes policy role for the regime through his post at the World Bank and, later, as an Executive Director for the International Monetary Fund.[94] The second man in question was Mohamed Maait. Unlike his colleagues, Maait appears to lack personal and social connections to the country's officer guardians. As Minister of Finance since 2018 and as a Vice and Deputy Minister prior to that, however, he too has demonstrated his respect for military primacy while playing an essential role in ensuring Egypt's payments stay current.

While hardly the sole parties involved, these three individuals can be seen as the main financial managers, so to speak, of the Sisi regime as it attempted to resolve external imbalances and feed key constituencies in the post-2015 period. Note that in carrying out the duties tasked by the President, they were free of legislative or any other kind of oversight. On the fiscal side, autonomy derived from a 2014 constitutional amendment stipulating that parliament cannot alter a government's draft budget if doing so might burden the citizenry. On the monetary side, it followed from the Central Bank's independence and was enhanced by Law no.194 of 2020, which granted the CBE Governor wide-ranging discretionary powers.[95]

Operationally, the three's primary objective throughout was to retain access to dollar liquidity: Without unceasing flows of dollar credit, the economy of Sisi's Egypt would be bound for a swift balance of payments crisis, and the Generals' capacity to maintain their coalition would be compromised (see: Subsection II). Their secondary objective, hardly divorced from the first in practice, was to solicit high levels of demand for local currency treasuries: This would allow the state to spend big, including on debt repayments, without needing to raise taxes.

In view of Sisi et al.'s relatively anonymity in the eyes of official creditors and the uneasy

92 See: Stephan Roll, "Loans for the President: External Debt and Power Consolidation in Egypt", SWP Research Paper (Stiftung Wissenschaft und Politik: December 2022).

93 Reuters Staff Reporter, "Abu Dhabi Chimera buys majority of Egypt's Beltone Financial", Reuters (August 9, 2022).

94 For more on Mohieldin's role, see: Roll (2022).

95 See: Mohamed Leila, Eslam Saleh, "The governance of Egypt's central bank under its new law", Post: The FinReg Blog: Duke Financial Economics Center (December 7, 2020).

relations that the regime developed with the businessmen who, under Mubarak, mediated Egypt's engagement with global finance, fulfilling these objectives was no walk in the park. With macroimbalances consolidating as a result of the upheaval of the early uprising years and the feckless stimulus packages of 2013-2014, it first required coming to terms with the International Monetary Fund (IMF). Not only a provider of credit itself, the IMF also serves as both the delegated negotiator of bilateral and multilateral official lenders and as the gatekeeper of international capital markets. The institution's blessing—expressed in the establishment of a loan facility subject to conditionalities and regular oversight—is, as a result, a sine qua non for peripheral countries seeking to borrow in dollars.

For Sisi and his team, the gravity of the IMF was not altogether inauspicious. They had a man on the ground in Washington in the person of Mohieldin, after all, who could advocate for their cause with the institution and who, through his mentoring relationships with Minister of International Cooperation Rania al-Mashat and Deputy Minister of Finance Ahmed Kouchouk, could also help smooth the negotiation process.[96] Upon Amer's appointment to run the Central Bank, a move welcomed by the Fund officials due to their long-standing frustrations with Hisham Ramez, they also had someone in Cairo who held the confidence of the lender.

As it worked out, the placement of regime allies on both sides of the negotiating table would have a subtly positive effect on the terms of the lending arrangement ultimately reached with the IMF in 2016. Though a number of the Egypt's Gulf backers, concerned over Sisi's prodigality and obvious lack of economic chops, encouraged the IMF to push the structural reform agenda aggressively[97], the $12 billion, three-year Extended Fund Facility (EFF) that was agreed to in November contained few measures related to market opening, state-owned enterprises, and competition. By consequence, it infringed only marginally upon the military's commercial interests. And while the inclusion of conditionalities around austerity, currency devaluations, and interest rate hikes did promise profound social and developmental hardship for the country, they simultaneously proved a boon to the debt-based coalition management strategy that Amer and Maait were to oversee. This is because those very conditionalities, if directly contributing to the pauperization of millions, validated the credit worthiness of the Sisi state. A historic uptick in sovereign borrowing could thereafter commence.

Indeed, credentialized by the imprimatur of the IMF, capital flows rushed into Egypt from any number of channels from late 2016 onward. Within months of the EFF deal, new lending arrangements worth billions were extended from multilateral development banks near and far.[98] Bilateral financial supports of different kinds flooded in, too. Medium and long term loans worth nearly $20 billion arrived from China, the UAE, Japan, Germany, Kuwait, France, Saudi Arabia and Russia. It was at this time as well that China set up $2.6 billion yuan currency swap with the Egyptian Central Bank and that the UAE, Kuwait and Saudi Arabia furnished Amer's team with long-term currency deposits worth more than $17 billion. Nor did the debt bonanza

96 Ibid: 14

97 On the effect that Gulf and European states have had on the IMF's lending arrangements for Egypt, see: Stephan Roll, "A missed opportunity: Germany and the IMF Agreement with Egypt", in Tarek Radwan (ed.) The Impact and Influence of International Financial Institutions on the Middle East and North Africa (Friedrich Ebert Stiftung, 2020).

98 The MDBs most exposed to Egypt are the World Bank, African Export-Import Bank, Islamic Development Bank, African Development Bank, Arab Fund for Economic and Social Development, Arab Monetary Fund, European Bank for Reconstruction and Development, and European Investment Bank.

end there. Derisked by the governments of Paris Club states, loans from European commercial banks came fast and heavy, tallying $11.8 billion by 2019.[99] Billions in hard currency bonds would also be issued: The auctioning of these treasuries on foreign financial markets would bring in approximately $15 billion prior to the outbreak of the coronavirus.[100] Then, of course, there was the unprecedented scaling of local-currency treasury bill sales. Coinciding with the opening of the T-bill market to foreign investors, the jump in issuance volume for short-term government securities brought in more than $20 billion in hard currency prior to the fateful winter of 2020. With domestic investors, compelled by the interest rates on offer, also coming in droves to the local treasuries market, this drove the domestic debt stock to hitherto unseen heights.

As the previous chapter intimated, the debts being incurred were not to be used for financing the kinds of productive investment which might change Egypt's outlook on growth and export income. Rather, they were predominantly funneled into the built environment or used to fund costly infrastructure projects and debt repayments, respectively. Clearly, this offered little utility when it came to resolving Egypt's macroimbalances.

That said, what the post-EFF credit influx did do was underwrite a vast redistributive effort. Reduced to its basic components, this effort directed billions to an assortment of domestic and international constituencies. In different ways, each constituency was critical to the regime's hold on power. In furnishing armaments and administering the coercive apparatuses of the state, some offered a means for dominating society. In funding deficits and participating in the circuitry of capital accumulation, others buttressed the thin but existing social foundations of Sisi's power. In injecting hard currency, finally, there were still others which allowed for external imbalances to be sustained.

II DEBT-FINANCED COALITION MANAGEMENT

a. The International Constituents of the Sisi State Project

Foreign lenders contributed most directly to the sustenance of the economy's external imbalances: Many in number and diverse in form, these parties collectively bestowed the capital and access without which a balance of payments crisis would have emerged sooner than it did. Helping delay the inevitable, however, is not the same thing as helping avoid it altogether. And in not deploying capital to change Egypt's productive capacity in any meaningful way—and extracting significant interest income from their loans to the Egyptian state—Sisi's external creditors can be accused of doing just that.

The credibility of such an accusation is attested for by the record of foreign lending to the Sisi regime. For sequencing's sake, it is appropriate to commence a survey of this record with the monarchies of the Gulf Cooperation Council. It was some amongst them, after all, who helped underwrite Sisi's 2013 coup.[101] It was the same parties who also furnished the capital injections upon which the ascendant Field Marshal next consolidated his power: Within months of Morsi's removal, the UAE delivered the military government $1 billion in grant money. Under Abu Dhabi's guidance, the Emirates also parked $2 billion in long-term, low-interest deposits

99 See: Central Bank of Egypt, "External Position of the Egyptian Economic: July/March of FY 2021/2022", Report Volume no.77 (2022).

100 Upon the sizable issuance of Euro, Green, and Samurai bonds in 2021 and 2022, moreover, the intake from such hard currency fixed-income instruments grew considerably higher.

101 See: David Kirkpatrick, "Recordings suggest Emirates and Egyptian military pushed ousting of Morsi", New York Times (March 1, 2015).

at the Egyptian Central Bank, as did Saudi Arabia and Kuwait.[102] In addition, each of these petrostates mobilized billions of US dollars for Egypt in the form of concessional loans, FDI and portfolio investments. In Saudi Arabia's case, these flows were estimated to total $25 billion over the next four years.[103] In the UAE's case, they likely ran north of $10 billion during the same period.[104] On the occasion of subsequent junctures of financial distress, the same GCC states—joined, in 2022, by Qatar—would also furnish the Egyptian Central Bank with billions of USD in short-term deposits: In response to the flight of hot money in the winter of 2022, a fresh $13 billion worth of these instruments were dispatched. Looking forward, moreover, it is again the GCC's dollars—this time in the form of FDI and T-bills purchases—to which the prospects of the latest Extended Fund Facility negotiated between Egyptian governors and the IMF has been expressly tethered.

Taking all this into account, it ought be clear that absent either the long-term capital or emergency dollar liquidity furnished by leading members of the GCC, the macroeconomy of Sisi's Egypt would have long ago devolved into the crisis it now faces—and domestic allies would have long ago jumped ship on the dictator. The lifelines that have been extended Egypt from the Gulf, however, have not been free of cost. Unlike Egypt's other external patrons, the pound of flesh claimed by the GCC is not predominantly financial in nature, which is not to say that investor compensation for the khalijiyuun is entirely non-monetary.[105] Rather, the costs incurred concentrate largely in the domain of foreign policy. Indebtedness to Saudi Arabia required the Egyptian military participate in the bombardment of Yemen and that its President endorse the blockading and excommunication of Qatar. (While the transfer is yet to officially go through, it also required Egypt's handing over of the Red Sea islands of Tiran and Sanafir[106]). Beholdenness to the UAE, meanwhile, dictated that Sisi's governors support the latter's now foresaken bid to take Libya via Khalifa Haftar and stick to Abu Dhabi's lines on Gaza and Hamas (and Mohamed Dahlan's on the Palestine Authority and Mahmoud Abbas).[107] Dependence on the two, lastly, has stipulated that Egypt also cosign whatever program the khaliji benefactors pursued at the level of regional diplomacy. For a country of Egypt's history and traditional gravity in the Middle East, the consequence of the sovereignty losses inherent in the acceptance of a vassal status can be difficult to overstate.

Regardless, of more immediate concern to our line of inquiry is the negligible impact that GCC capital has had on the Egyptian economy's predisposition toward external

102 As mentioned, these deposits—which served to both buoy the Egyptian pound and reduce the state's borrowing costs—grew to $17 billion over time.

103 Declan Walsh, "Despite public outcry, Egypt to transfer islands to Saudi Arabia", New York Times (June 14, 2017).

104 Imad Harb, "An economic explanation for Egypt's alignment in the GCC crisis", Brief: Arab Center Washington DC (August 2017).

105 While rates are well below those of the market, the medium and long-term deposits Saudi Arabia houses at the Egyptian Central Bank earn it roughly $135 million per annum in interest income; those of the UAE, meanwhile, earned more than $170 million in both 2022 and 2023. In addition and as will be discussed in the conclusion, FDI flows from the GCC have and will continue targeting many of Egypt's most profitable corporate entities, be they state or privately owned. Treasuries purchases—withheld until the currency devaluations of 2023 were carried out—are certain to generate sizable returns in the months and years ahead too, barring, of course, unpredictably volatility in Forex market.

106 Khalil al-Anani, "Geopolitics of small islands: the statemate of Tiran and Sanafir's transfer impacts Egypt-Saudi relations", Brief: Arab Center Washington DC (March 2023).

107 Concerning the UAE's more recent warming to Dbeiba in Tripoli, see: Emadeddin Badi, "The UAE is making a precarious shift in its Libya policy. Here's why", Brief: Atlantic Council (October 2022).
On the UAE, Egypt and Palestine, see: Jonathan Ferziger, "The UAE's invisible Palestinian hand", Argument: Foreign Policy (2020).
Maged Mandour, "Egypt's shifting Hamas policies", Brief: Carnegie Sada (July 2021).

imbalances. As we established earlier in this report, inflows of Gulf capital during the tenure of Abdel Fateh el-Sisi have largely functioned to fund stimulus spending and construction booms, respectively. By being put to use in this manner, the impact of these inflows on Egypt's productive capacity would be minimal. By extension, their impact on that which drives the country's declining terms of trade and recurring current account deficits would also be minimal. As is such, though Gulf credit lines and currency swaps helped keep hard currency levels high and lubricated Sisi's debt-based coalition maintenance strategy in the process, these supports did not reset an economic trajectory otherwise bound for a balance of payments crisis.

A similar effect is observed in the loans of the International Monetary Fund and the constellation of multilateral development banks (MDBs) that it coordinates with. In total, the IMF has extended the Sisi regime more than $21 billion in credit across four separate lending facilities. The MDBs' lending portfolio in Egypt during the Generals' tenure is quite significant as well. As of March 2022, the stock of loans extended by these institutions to Egypt was still above $30 billion. In relative terms, this means roughly a third of the state's external debts are currently owed to the IMF and its partner MDBs.[108]

In function, the capital injections of these international financial institutions (IFIs) have funded development projects, recapitalized domestic financial institutions, underwrote lending to designated enterprises, covered budget gaps, and paid for emergency spending. By way of the conditionalities and advisory service contracts which accompanied their arrival, the multilateral's capital also granted Egypt access to international capital markets, paving the way to the country's re-inclusion within the JP Morgan Emerging Markets Bond Index in late January 2022. Accounting for all the dollars and euros unlocked, it would be no exaggeration to say these lenders were as critical as any other actor to the Sisi regime's hold on power. As both creditors and gatekeepers, they are the parties that twisted the spigot of dollar inflows open, that kept the prospect of a default at bay and the engine of the debt-financed economy ticking over.

In their own way, however, the IFIs also contributed to the deepening of Egypt's external imbalances. They have done so in the first instance simply by extracting debt repayments. At the time of writing, Egypt represents the IMF's third largest source of revenues[109]: Even if benefiting from concessional lending rates, covering interest obligations to the Fund as well as the special surcharges that are levied due to the size of outstanding debts still requires that Egypt mobilize hundreds of millions in dollars each year. The surcharges in question, in fact, increase annual repayments by approximately 40%, or $230 million per year for the 2023-2025 period.[110]

Repayment obligations to the MDBs are similarly significant. After all, these institutions have built a sizable collective portfolio of their own in Egypt, and one that is comprised of both concessional and non-concessional lending facilities. Together with the IMF, they are to claim more than $1.6 billion in interest income from the country in 2023 and more than $1.3 billion in 2024.[111] These are numbers whose consequence for Egypt's macrostability can hardly be pooh poohed: While faithful repayment—in helping keep

108 For the data, see: Central Bank of Egypt, "External Position of the Egyptian Economy: July/September 2022/2023", Report Volume no.79 (March 2023).

109 In 2022 and 2023, only Argentina and Ukraine generate more income for the IMF.

110 See: Francisco Amsler and Michael Gallant, "The growing burden of IMF surcharges: an updated estimate", Report: Center for Economic and Policy Research (April 2023).

111 See: Central Bank of Egypt, "External Position of the Egyptian Economy: July/September 2022/2023", Vol. 79 (March 2023): 42

the lights on at offices in Washington—may make it easier for Egypt to secure new checks from these same institutions, it also makes digging out of the debt hole a lot more difficult. Nor, for that matter, have the IFIs institutions contributed to issues of external imbalances solely through imposing financial tolls: They have also done so through policy-targeting lending conditionalities. By disallowing the implementation of ambitious industrial policies, for instance, multilateral creditors bear some blame for the reprimarization of Egypt's export basket. By pushing financial reform and a price stability agenda at the Central Bank, they also came to share the responsibility for the country's destructive dalliance with hot money. And in enforcing fiscal consolidation—which lowered the growth outlook and with it, the outlook for tax revenues—these institutions implicated themselves in Egypt's the sovereign debt crisis, too.[112] Just as the multiaterals' interventions helped adhere Sisi's debt-funded bid for authoritarian restitution, then, they also helped hasten the troubles of 2022.

This two-sidedness is evinced in Sisi's engagement with the governments and private financial institutions of the Paris Club as well. On the one hand, the hard currency injections furnished by these actors preserved liquidity levels. In the short term, this underpinned the President's debt-based coalition management strategy. On the other, Paris Club money, like other foreign moneys, did little to shift the Egyptian economy's productive capacity while loading the state with a heavy debt burden to boot. In the long term, these lenders therefore also made the bursting of Sisi bubble far more likely.

The duality of their financial interventions can be observed through tracing the movement of public moneys mobilized by Paris Club member states for Egypt. In the case of Germany, a closed-loop dynamic—worsened by the use of interest-bearing loans—is apparent within flows of both bilateral aid and closeted financial supports. Evidence of this, through export credit guarantees, the federal government backstopped a €4.1 billion credit line from a consortium of commercial banks to the Egyptian state in 2015-2016. These loans were used to fund the construction of three gas-fired power plants. That project was contracted to Germany's Siemens in the then single largest business transaction in the company's history. In 2022, the German federal government stepped up again to guarantee a majority of an €8.1 billion loan extended to the Egyptian state to finance the building of a 2,000 kilometer stretch of the country's high speed rail network. This project—and an auxiliary one for the delivery of trains and building of stations—was also awarded to Siemens. In and of themselves, neither the energy or infrastructure upgrades that have been carried out by German companies portend gains in productivity or export income for Egypt. Their impact on the country's trade deficits is, consequentially, ambiguous. Making matters worse, not even ambiguity abides when it comes to these projects' impact on external imbalances. These upgrades were, after all, financed in Euro-denominated loans, and not at the cheapest rates either. On balance, then, the deployment of German capital to Egypt resolved immediate issues of liquidity for the regime just as it created larger ones over the horizon.

The Italian, British, and French states have indulged in arrangements of cognate form to those practiced by Germany.[113] In certain instances, theirs too have centered upon infrastructure contracting. Starting in 2016, the French Treasury and the Agence Francaise de Developpement (AFD) funneled sizable public moneys by way of

112 Even the IMF is beginning to recognize the relationship between fiscal consolidation and worsening debt problems. See: International Monetary Fund, "World Economic Outlook: A rocky recovery", Report (April 2023).

113 See: Roll (2022): 16

the Egyptian borrower—from whom they also collect sizable interest payments—to VINCI Construction Grand Projets, Bouygues Travaux Publics, and other French contractors for the building and maintenance of the Cairo metro.[114] By way of €3.8 billion in conditional infrastructure financing furnished through a June 2021 arrangement, the French state—working on this occasion through the Treasury, AFD, and commercial banks whose loans it has guaranteed[115]—subsequently expanded its footprint, funding a great many other contracts for its national champions. This includes the contract its Egyptian borrower recently awarded to France's NGE for constructing a 330 kilometer section of the aforementioned high speed rail network.[116] The macroeconomic consequence of each of these debt-financed infrastructure projects is indistinguishable from those of the German projects discussed above.

In addition, different from Germany, the French state has also used credit lines to the Sisi regime for funding business for its own defense industry (and, of course, for generating more profits for the country's public and private financial institutions). Flouting export controls installed by the EU's Foreign Affairs Council in 2013, French parliament greenlit, and the French state guaranteed[117], billions in commercial bank loans between institutions like Credit Agricole and the Egyptian Ministry of Defense.[118] All these loans were earmarked for purchases of French-manufactured war materiel and surveillance technology.[119] It is by such means, in fact, that Egypt emerged as the single largest buyer of French arms.[120] This development not only renders the French state, like the American one, complicit in the Sisi government's capacity to maintain power through the repression of domestic subjects, but explains why French leadership is uniquely content with the state of things in Cairo.[121] As pertains to our problematique, moreover, it also explains why Sisi's approach to managing international constituents like the Elysee Palace implies the reproduction of external imbalances. Viewed as a single transaction, after all, what we see here is (i) French public resources being used to backstop the profits of French banks and French industry; and (ii) that this is done not only without generating development gains for Egypt, but by inflicting a double expense on the country: her people suffer the consequences of better equipped security forces, and her economy from the drain of hard currency that must be summoned to pay back debts. If the Generals might have temporarily won out through this scheme, then, theirs was a victory that nonetheless expedited the crisis of last year.

114 See: Agence France-Presse, "France to invest $4.6 billion in Egypt's infrastructures", Africanews (June 14, 2021).
Peter Reina, "French joint venture to expand Cairo Metro to 100 kilometers", Engineering News-Record (April 18, 2016).

115 Maged Mandour, "The Cairo-Paris Axis", Report: Carnegie Sada (January 2022).

116 Agence France Presse, "French firms to build Egypt's first high-speed rail link", Barron's (February 23, 2023).

117 Guarantees are provided through the state's backstopping of credit insurance policies furnished by privately owned entities like the Companie Francaise d'Assurance pour le Commerce Exterieur (COFACE). See: Reuters Staff, "3.2 billion euros of Egypt-French arms deal financed by loan from Paris: Sisi", Reuters (February 28, 2015).

118 See: Defenseweb, "Egypt funds military weapons buy from France", SLDinfo (March 2016).

119 Armaments Observatory, FIDH, the Cairo Institute for Human Rights Studies, and the Human Rights League, "Egypt: A repression made in France", Report (June 2018).

120 Ministere des Armees, "Rapport au Parlement sur les exportations d'armement de la France: 2022" (September 2022).

121 See: Amnesty International, "Egypt: How French arms were used to crush dissent", Report (October 2018).

Capital Flows from the United States

Roughly $1.4 billion in financial assistance has been granted annually by the United States to Egypt for most the years of Sisi's rule, with the vast majority of this sum (more than 91%) arriving in the form of Foreign Military Financing (FMF).[122] Naturally, FMF cannot be spent freely but must be allocated for purchases of armaments, equipment and technologies from American manufacturers.[123] Ergo, American aid to Egypt in actuality constitutes an intra-US transfer of capital between the state and defense companies. Its effects on Egypt's long-term economic outlook is, by extension, designedly negligible. Conversely, its effects on the Generals' capacity to consolidate power through repression is designedly positive.

Though contributing to financial stability and Egypt's capacity to meet external obligations, investment and liquidity support from Russia and China has likewise failed to shift the productive capacity of the Egyptian economy.[124] The rekindling of the Russian flame has first and foremost seen Egypt become a huge export market for the former.[125] Following its invasion of Ukraine, it also saw Egypt become a critical partner for Russia's sanction circumvention schemes as the El Hamra oil terminal transformed into a major transshipment hub for Russian crude and oil products.[126] On the balance of evidence, such a restrengthening of bilateral ties cannot be classified as developmentally auspicious for Egypt, and that is without even factoring in the trade problems that the country's plots to secretly export drones to Russia might create down the road. This is because none of the exchanges being engaged in with Russia affect the Egyptian economy's primary defect, which is its inability to produce technologically sophisticated goods. As is such, though imports of Russian fuel at submarket prices may ease current account deficits in the years through allowing Egypt to export more of its own natural gas, this will likely constitute but a temporary boon.[127] As for Chinese capital injections, though undoubtedly helping the Central Bank protect the pound, the balance of these moneys have wound up in the accounts of the Chinese firms building the financial district of the new capital and refurbishing the metro of Ramadan 10th city.[128] In other words, these debts, like those from the GCC, have primarily funded growth in Egypt's built environment. If inflating the land and housing market via this growth helped Sisi appease key domestic constituencies—and if constructing grand "edifice projects" like his new capital may furnish the regime with a degree of legitimacy[129]—the effects of Chinese investment on Egypt's external imbalances are also fairly marginal.

122 See: American Chamber of Commerce in Egypt, "U.S. Foreign Assistance." Available at <https://www.amcham.org.eg/information-resources/trade-resources/egypt-us-relations/us-foreign-assistance-to-egypt>

123 See: Jeremy Sharp, "Egypt: Background and U.S. relations", Report: Congressional Research Services (July 2022).

124 The Russian state began extending loans to private and public entities in Egypt at scale in 2020, committing $1.033 as of March 2022. China, meanwhile, grew into Egypt's single largest bilateral lender during Sisi's tenure: By spring 2022, public and publicly guaranteed debts owed to the Chinese state amounted to $4.5 billion. Note that this figure excludes the 18 billion yuan currency swap agreement China also entered into with the Egyptian Central Bank in 2016—a swap subsequently renewed in 2020.
For details on these figures, see: Central Bank of Egypt, "External Position of the Egyptian Economy: July/March of FY 2021/2022", Volume no.77 (2022).

125 See bilateral trade data since 2015 for the trade imbalances run between the two countries.

126 Alex Kimani, "Egyptian port serves as new route for Russian oil", OilPrice (August 3, 2022).

127 The same can be said of Rosatom's ongoing construction of a nuclear powerplant, which may also facilitate greater energy exports for Egypt in the future

128 For details, see: Seetao, "Egypt to spend 300 billion to build new capital", Special report: Seetao (May 27, 2022).

129 For the centrality of these projects to Egyptian rulers past and present, see: Amr Adly, Cleft Capitalism (2020): 160.

Lastly, there are the arrangements reached between the Sisi regime and the investment firms of Wall Street to consider.[130] Courting of these parties actually began in 2013 while Mohamed Morsi was still President: Cognizant that domestic commercial banks were approaching their upper limit when it came to purchases of sovereign debt, Hisham Ramez at the Central Bank restarted a mechanism allowing foreign investors participating in the local currency treasuries market to repatriate capital without restriction via withdrawals from a ring-fenced facility called the Foreign Investment Fund).[131] Though the move did not sway investors by itself, upon the agreement of the 2016 Extended Fund Facility with the IMF and the currency devaluation which followed, these actors would take a growing interest in Egypt. Indeed, thereafter, Wall Street moved into the T-bill market in force. The drivers of their eagerness at the time were not subtle. Egyptian T-bills were offering some of the highest interest rates in the world. With the Central Bank also maintaining a de facto currency peg post-2016, these securities represented one of the safest and most lucrative assets in emerging market debt—and a massive opportunity for the practitioners of the carry trade. That interest income and capital gains on T-bills trades are tax-exempt for non-residents only made the getting more good.[132] Purchasing these securities through the secondary market, over the next three years, foreign holdings of Egyptian T-bills soared from a mere $60 million to more than $20 billion.[133]

130 Though investors from Bahrain, Saudi Arabia, Jordan and Europe also participated in the short-term debt securities market, Central Bank data shows that the market has been dominating by American financial institutions since late 2016.

131 Asma Alsharif, "Egypt tries to attract foreign investment in state debt", Reuters (March 17, 2013).

132 PricewaterhouseCoopers, "Individual Tax Summary: Egypt" (2022)

133 Maged Mandour, "Dollars to despots: Sisi's international patrons", Brief: Carnegie Sada (2020).

These capital inflows undoubtedly buoyed Egypt's marostability in the short-term: Excluding the deposits of the GCC countries, the dollars received by way of foreign fixed-income investors swiftly came to represent a significant majority of the country's international reserves. For a time, this allowed Egypt to stay current on its import bill, pay off maturing debts, and keep accounts looking healthy in the eyes of creditors. All this was essential to the regime's grip on power.

However, volatile as portfolio investments fundamentally are and speculative as were the interests of those directing them, the arrangement that the regime had entered into with the traders of New York and other financial capitals was always a uniquely reckless one. As it played out, shifts in global investment sentiment—the first in the winter of 2020, the second in the winter of 2022—would trigger a simultaneous rush to the exits from all those who had rushed into the local debt market beginning in 2016. On both occasions, capital flight amounted to roughly $20 billion. On the second of them, the resulting losses of international reserves precipitated what are still unwinding sovereign debt and currency crises. While fixed income traders may have helped underwrite the Egyptian economy's appearance of stability, then, they also created much of the blowback currently threatening the Generals' rule. As is such, even if one were to ignore how the extreme interest rates being paid on T-bills also worsened the state's debt burdens and how the shortening of the state's debt maturities exposed it to significant roll-over risks[134], the corrosive effects of Sisi's ride with hot money would already be apparent.

134 See: International Monetary Fund, "Staff Report: Arab Republic of Egypt Request for Extended Arrangement under the Extended Fund Facility", Country Report no.23/2 (January 2023): 13-14

b. The Domestic Constituents of Sisi's Debt Financing

The Sisi regime's creation and circulation of debt for purposes of consolidating power and maintaining short-term stability did not only involve international parties, of course. Domestic actors too participated in, and benefited from, the arrangements in question, and no one more so than the Armed Forces.

Like the national champions of Europe, commercial entities owned by both the Ministry of Defense and retired senior officers have been enriched through the regime's debt financed public procurement processes. To give some sense for scale, months after seizing power, Sisi awarded a consortium prominently including the Armed Forces Engineering Authority multibillion dollar contracts for expanding and reconstructing the Suez Canal. Through consultancy and management contracts, a non-insignificant share of this capital would be redirected into accounts of firms and carveouts owned by current or retired military men: Through his ownership of the firm Amlak Contracting, the President himself benefited from such subcontracting arrangements.[135] Furthermore, when the Suez Canal Authority—the Army-directed institution managing the project—subsequently fell into arrears on the $1.4 billion debt taken on as part of the expansion, the Ministry of Finance also stepped in to cover roughly 66% of the Authority's debt repayments to local commercial banks. Hardly an outlier event, access to bailouts of this kind are baked into the business models of the military's commercial dealings, as the Ministry of Military Production's regular reliance upon the MoF subventions attests.[136] Looking forward, entities and firms controlled and/or owned by the Ministry of Defense are also likely to again absorb the lion's share of the $50-60 billion that Sisi et al hope to mobilize for the second phase of Sisi's Suez Canal development project, which is to center in Port Said.[137] Whether this capital is raised from non-budgetary sources or not, it can also be expected that the state will again backstop the project itself and the debts of military entities participated therein.

From two different channels, then—the awarding of a relevant contract and the covering of obligations—infrastructure projects have facilitated sizable transfers of resources to corporate and private persons associated with the Armed Forces. The consequence of such distributive measures for Egypt's external imbalances are, predictably, negative. The upgrading of the Suez Canal was, after all, funded through the incurrence of staggering debts. Insofar as the investment is still only yielding transit fees equivalent to 60% what Sisi's planners had estimated—figures that may be improved, though only marginally, by the 10-15% price increases instituted in January 2023[138]—the project's net effect on hard currency stocks remains mired in the red, and that is without accounting for opportunity costs. The same can be said for innumerable other infrastructure contracts awarded military agencies. These contracts pertain to everything from the laying of national roads connecting Cairo to the northern coasts to the construction of the Capital International Airport, Sphinx International Airport, and Melleez National Airport. Were it deficiencies in logistical infrastructure that was obstructing Egyptian companies from reaching external markets, a case could be made that the military's construction efforts, even if debt financed, will contribute to turning around the country's external imbalances. However,

135 Mahmoud Khalid, "Egypt's expanding military economy", Carnegie Sada Center (March 2020).

136 See: Volkel (2021):111-112

137 See: Yezid Sayigh, "A military unbound: transformation in the Sisi era", Owners of the Republic: An Anatomy of Egypt's Military Economy (Carnegie Middle East Center: 2019).

138 See: Staff writer, "Egypt's Suez Canal registers record revenue of $7.9 billion in 2022", Hellenic Shipping News (December 12, 2022).

as it is a lack of endogenous productive capacity rather than infrastructure which drives these imbalances, the billions funneled to military are unlikely to have any such effect.

The Military and the Building of Sisi's New Capital

Business furnished to the Armed Forces via the construction of the new administrative capital is compromised by the same tension: If helping buy the loyalty of key allies in the short-term, these dealings simultaneously deepen the imbalances threatening the economy's long-term viability.

In the capital, the Ministry of Defense and its senior leadership cash in through a diversity of separate arteries. The Armed Forces' National Service Projects Organization (NSPO) earns significant returns from arbitrary possession of property titles. By Presidential decree, the entity was granted ownership of the 17,000 acres upon which the new capital was to be built. It subsequently sold these lands to private developers coerced into participating in Sisi's grand project or leveraged ownership to claim equity shares in constructions developed.[139] The Administrative Capital Urban Development (ACUD) Company—an umbrella institution bringing the Army's Land Projects Agency (LPA), the NSPO, and the New Urban Communities Authority, an entity nominally controlled by the Ministry of Housing—meanwhile, secures recurring management and planning fees as well as construction contracts. As a final coup de grace, ACUD was also cleared by Sisi himself in the summer of 2022 to lease buildings of which it is the nominal owner to other government ministries: The company seeks $212 million a year in rent.[140]

The state's exact exposure to debts incurred by military agencies as part of work in the new administrative capital is difficult to determine. The combination of a project freeze, turnover at the top of ACUD in the fall of 2022, and the government's recent issuing of $500 million in Chinese yuan-denominated Panda Bonds, however, suggests the buck here too stops with the Ministry of Finance.[141] Nor does the regime's ledger when it comes to its new citadel end with the underwriting of military profits. To those expenses one must add the cornucopia of construction materials imported; the public housing sold in the adjoined Badr City being at cost to civil servants, who also benefit from mortgages subsidized by the Central Bank[142]; the tax breaks and subsidized credit granted to the private developers coerced into participating in the building of the new city;[143] and the opportunity costs inherent to devoting land, public and private investment, and political capital for the purpose of raising another grand cathedral from the desert. Taking this all into account, the bill for the new administrative capital is steep to say the very least.

139 The NSPO's right to sell public lands is established via Land Law no.96 of 1995.

140 Staff writer, "Egypt: Army-owned company asking government for $212m to rent offices", Middle East Eye (July 6, 2022).

141 Mohamed Elsayed, "More hurdles could delay opening of Egypt's new administrative capital", Al-Monitor (September 4, 2022).
Grady McGregor, "China emerges as lead funder for Egypt's new administrative city", Al-Monitor (December 20, 2022).

142 See: Patrick Werr, "Egypt rushes to build public housing for new capital employees", Reuters (August 16, 2021).

143 Participating developers include Hassan Allam, Palm Hills, the Holding Company for Construction and Development, and the Talaat Mustafa Group.

Making matters worse, like with the bill that pays for the subsidies and tax breaks afforded military companies serving the domestic market, it is one that promises to generate no additional external income for the country. Keep the top men in uniform and a handful of other domestic constituencies happy, then, this is another instance of the Sisi regime's debt-financed schemes expediting the arrival of a balance of payments crisis.

Efforts in funding operations through domestic lenders—and in compensating the latter generously for their service—were compromised as well, furnishing yet another instance where the regime attempted to buy peace today by selling out the future.

The lenders in question corresponds to Egypt's wealthiest decile. For the Generals, it was critical that this class fraction be enlisted as a silent partner of the post-coup order, and that space be opened between them and those who were agitating for genuine social transformation both before and after the uprisings of 2011.[144] Beyond appealing to fears of Islamism and democratic upheaval, such a partnership was ultimately sealed through the regime's deliverance of material benefits. Operationally, this was primarily though not exclusively carried out through public financing strategies. Central in these regards was the issuance of pound-denominated treasury bonds and treasury bills. For the Sisi regime as for predecessors of the late Mubarak era, the selling of these debt instruments would serve dual functions. On the one hand, sales funded the state's massive infrastructure investments. As we have seen, these investments allowed the regime to feed key domestic and international constituencies by way of public procurement processes and to generate a degree of popular legitimacy by way of infrastructure (and housing) improvements. On the other, sales furnished a simple if ultimately combustible mechanism for avoiding tax increases while delivering remunerative savings vehicles to Egypt's wealthy.[145]

This second utility of treasury issuance can be most easily observed after taking the mechanics of sovereign's local borrowing into view. This process commences with the Ministry of Finance's regular auctioning of treasuries through a primary dealers system. The primary dealers system is comprised of fifteen commercial banks, some which are state owned, like the National Bank of Egypt (NBE) and Banque Misr, and some of which are foreign owned, like Citibank and Credit Agricole Egypt. For any given issuance, both the volume of debt sold and the coupon rate which is to be paid on it are determined at the intersection between the offer of the state and the bidding of auction participants. Thereafter, commercial banks in possession of the government's securities may hold the asset to maturity or sell them on a secondary market populated by credentialed investors. The latter encompasses individuals and institutions, both local and foreign. The purchasing capacity of the commercial banks in the primary system, meanwhile, partially derives from the liabilities they owe in the form of deposits. It is this link to depositors which metabolizes the connection between Sisi regime's public financing schemes and upper and upper middle classes. This is because the household savings of these social groups constitute the overwhelming source of bank deposits in Egypt.[146]

144 See: Hesham Shafik, "Financialisation of politics: the political economy of Egypt's counterrevolution", Review of African Political Economy 48:168 (2021).

145 See: Adly, Cleft Capitalism: 137

146 See: I. Hammad, "Union of Egypt's Banks: 90% of Egyptians do not deal with banks [bunuk misr: 90% min al-misriyin la yata'malun ma'a al-masaref], Elwatan News (September 18, 2015).

To retain depositors in the face of increasing market competition[147], banks under Sisi as before him have needed provide relevant persons with savings accounts and certificates of deposit (CDs) which protect their wealth against inflation and which generate passive income. As they are prevented from investing in the equities market by dint of financial reforms introduced during the tenure of the businessmen's government in the early 2000s, funding the returns on savings accounts and CDs has hinged on banks' successful deployment of interest-bearing capital. Since 2016, the relative scarcity of lending opportunities in the real economy—a function of Egypt's positionality within global production, amongst other things—has led banks to direct their lending predominantly to the government. Indeed, be it through more discretionary lending arrangements or treasuries purchases, the vast majority of banking credit during the last seven years has flowed to the state: As of the close of 2022, in fact, a remarkable 50% of the banking sector's assets were in the form of loans to the public sector.[148]

Whether due to the regime's awareness of the hazards it presents as a borrower or its appreciation for political imperatives, it has consistently paid some of the world's highest interest rates on the debts it has incurred. Paying this interest has, in turn, allowed commercial banks, the state-owned ones in particular, to offer depositors CDs and other savings vehicles with extremely high yields. In terms of magnitudes, in March 2022, the NBE and Banque Misr sold $16 billion in special CDs. With yields of 18%, these savings vehicles earned their buyers considerably more (+4%) than commercial banks were making on their purchases of government treasuries at the time.[149] With inflation still rampant nine months later, the two state-owned banks next offered one-year CDs with 25% yields—a prospect enticing enough to attract 100 billion pounds into their coffers the course of days. At the time of writing (April 2023) and with Central Bank governors unflinching in their attempts at draining liquidity from the economy, they have also begun selling two different kinds of three-year CDs, the first of which pays a fixed return of 19% per annum, the second of which pays a 22% return the first year before declining to 18 and 16% returns in the years thereafter.[150] To be sure, the real returns on these CDs—like the real returns on the T-bills that wealthy individuals have acquired through trades in the secondary market—are likely to be but a fraction of the nominal ones. Nevertheless, they are of a magnitude to establish that if anyone's wealth is to be preserved during Egypt's most recent bout with inflation, it is to be the wealth of her upper middle class.

The Sisi Regime and Egypt's Savers

The financial relation connecting Egypt's savers to the regime should be undersold. To gain a sense for this sinews' importance, consider that it is the members of this class who, through and alongside a constellation of Egyptian public and private financial institutions, collectively owns the vast majority (more than 75%) of the state's debts. Their ownership encompasses a large share of the state's external debts as well: For a sense of the sums involved when it comes to hard currency obligations, as of June 2022, Egyptian residents held $153.9 billion of the state's Treasury and Eurobonds. As pertains to pound-denominated claims, these same parties held more than $90

147 See: Adly (2020): 133-142

148 IMF (2023): 9

149 Patrick Werr, "Egypt state banks sell $16.6 bln in 18% CDs, absorbing post-devaluation liquidity", Reuters (March 29, 2022).

150 Staff writer, "National Bank of Egypt, Banque Misr issue new high yield deposit certificates", Egyptian Streets (April 2, 2023).

billion worth of treasury bills and $53.3 billion of nontradable domestic debts as of the same juncture.[151]

The figures listed above do not, of course, screen for the debt holdings that are in the possession of foreign-owned though domestically operating commercial banks like Qatar National Bank or Credit Agricole Egypt. They also do not discount for the holdings of pension funds, which draw a larger share of the middle class into the distributive circuit of sovereign debt. Furthermore, they offer little insight into the nature of arrangements between state-owned commercial bank like the NBE and the state itself: Where the NBE's purchase of the state's securities certainly translates to the yields given to depositors at the NBE (and Banque Misr), the entanglements between the NBE, the Central Bank, and the state make it difficult to parse which liabilities on each institutions' balance sheet are real. These limitations aside, the figures listed above still give a ballpark sense for who is funding the state and who is collecting on the state's indebtedness. Insomuch as the state's interest payments on domestic debt represented 32.9% of public expenditures in 2020/2021 and are to represent 33.6% in 2021/2022, the distributional impact of this can hardly be overstated.[152] It is partially through claims on these debts—as ever an instrument of primitive accumulation in the global periphery—that Egypt's richest 1% has seen their wealth grow at a rate of 2% per annum this millenium.[153]

151 International Monetary Fund (2023): 40

152 For these figures, see: Central Bank of Egypt, "Economic Review Vol.62 No.2" (2021/2022): 37

153 See: Nader Osama, "Toward a wealth tax in Egypt", Policy Paper: Alternative Policy Solutions (American University of Cairo): 2018.

To one degree or another, the wealth preservation vehicles offered to Egypt's upper and upper middle classes via sovereign debt can only but have engendered legitimacy-based gains for the regime. As the same financial transaction have also spared the state from needing to levy taxes on the groups in question in order to pay for expenditures, it is not unreasonable to speculate that those gains might be quite significant, in fact.

Alas, as is the case with the tactics adopted in managing international lenders, those used by the regime in managing domestic ones also contributed to the emergence of Egypt's current economic impasse. This can be appreciated through the considering the consequences of the state borrowing at the volume and rates it did while spending so little on productive investment. In the first instance, this coalescence of decisions increased the state's debt stock, raised the cost of debt servicing, and introduced an inflationary pulse. With personal and corporate income tax revenues so weak, it also demanded that ever more debt be issued—and at ever higher rates—just to cover the bills on the old debts coming due.

This was fine so long as foreign creditors, whose support was essential for maintaining the stock of international reserves, did not bat an eye. When they at long last did in the winter of 2022, however—and when the extremities of the state's debt obligations were finally forced into the light—the whole thing promptly came undone. Within months, foreign currency shortages were omnipresent and the risk of a sovereign default clear and present. Ergo, if it was the connected financial flows of local treasuries that allowed the regime to fund expenditures and win a narrow social base, then, it was also they which helped usher in the crisis Egypt now faces.

There are two intertwined truths of the Sisi regime which this chapter has endeavored to elucidate. The first concerns the Generals' consolidation and reproduction of power, particularly after 2016. As the preceding pages lay out, this was achieved to no small degree through the mobilization and distribution of sovereign debt. In obtaining credit obtained from international and domestic lenders and circulating it to critical partners, Sisi's lieutenants were able to build a coalition, so to speak, and to keep members of it relatively content with life under their leadership. By this means amongst others, the regime could stabilize its rule for a time and fend off accelerating losses in popular legitimacy.

The second truth concerns why this approach to consolidating and reproducing power strategy also led to the economic catastrophe still unfolding in Egypt at the time of writing: Principally, because just as borrowing at the scale and terms detailed and directing debt financing into the investments described may have won the regime the support of critical stakeholders, these actions also intensified balance of payment issues and expedited the arrival of a sovereign debt crisis. The seeds of social and economic destruction for millions was therefore contained within the very means by which the regime buttressed its control.

CONCLUSION

In the early days of January 2022, Abdel Fatah el-Sisi and his senior lieutenants had reason to sleep peacefully. At the time, the Federal Reserve was still anchored to the notion of inflation as a transitory phenomenon. Content to keep credit cheap, the Fed's position meant the world's great financial centers were likely to remain flush with liquidity for a time longer and in search of high returning assets. For Egypt, this was news to celebrate. By hook and by crook, after all, Sisi's moneymen had made their country into a favorite stop for foreign creditors. Domestic lenders were pretty happy, too. High interest rates and escalating government borrowing might spell disaster for businesses and workers, but for the wealthy, the policy program delivered sky high (and tax-free) returns on savings. With inflation having also dropped below the lower band of the Central Bank's target range since early 2020[154] and sizable appreciations in home values having been brought to the luxury end of the market by way of building restrictions and Central Bank mortgage subsidies, Egypt's richest 10% had little to complain about indeed.

Alas, the good times proved fleeting, and for all the reasons discussed in this report. Most simply put, the regime had used the issuance of sovereign debt and the distribution of financing thereby secured to pay its bills, avoid the imposition of welfare declines, and win the buy-in of a number of international and domestic constituencies. It did so, however, without addressing either the structural issues or the policy failures which together propelled the economy toward deepening external imbalances. Once a series of exogenous shocks forced these imbalances to the attention of creditors at home and especially abroad, Egypt's fate was sealed. Access to USD credit money promptly dried up. Short on the lubricant without which the machinery of the debt-financed economy could not run, the country thereafter made a turn toward hyper inflation, mass pauperization, and looming default.

Rescue ultimately arrived just before Christmas in the form of a new Extended Fund Facility (EFF) from the IMF. Given the terms of the loan and the rather heroic assumptions contained therein, however, it is exceedingly unlikely that this latest emergency bailout will deliver Egypt from its current impasse.

In substance, the Fund's program centers upon three pillars: monetary policy reform, fiscal policy reform, and structural reform.

In the monetary domain, loan conditionalities tasked Egypt's Central Bank with transitioning to a liberalized FX regime and recommitting itself to price stability, respectively. Hoping to demonstrate good faith on the exchange rate, Abdallah allowed the pound to trade relatively freely on the interbank market for the first two weeks of January, at which point the currency promptly ceded 25% of its value versus the dollar. Though the Central Bank subsequently stabilized the exchange rate at a hair more than 30 EGP/USD, it is a certainty that further devaluations, upwards of 30%, will be needed in the months ahead.[155] As for price stability, in addition to raising reserve requirements in September 2022, the Monetary Policy Committee of the Central

154 International Monetary Fund, "Arab Republic of Egypt: Ex-post evaluation of exceptional access under the 2020 Stand-By Arrangement", Country Report no.22/237 (July 2022): 16-17

155 In March 2023, 3-month forward contracts at were betting on the pound shedding another 15% and 12-month forwards projected a slide to 38 EGP/USD by spring 2024. See: Mirrette Magdy and Abdel Latif Wahba, "Egypt's pound weakens in black market on devaluation bets", Bloomberg (March 6, 2023).

Bank increased the rate on overnight deposits to 16.25%. With another jump of 200 basis points in spring 2023, the rate sits at 18.25% at the time of writing.[156]

On the fiscal reform side of things, meanwhile, policymakers have been required to reavow commitments to austerity—as will be validated by the reproduction of sizable primary surpluses throughout the duration of the loan. If too early to determine fidelity in this area of their creditors' demands, the budget being prepared for fiscal year 2023/2024 suggests fiscal consolidation is indeed the order of the day.

Concerning structural reform, the 2023 EFF asked Cairo to "reduce the state footprint and increase the role of the private sector in the economy."[157] In terms of objectives, the idea was to double the private sector's share of economic activity, facilitate the state's exit from non-strategic sectors, attract $40 billion in private investment over four years, and deal with the armed elephant in the room: the Egyptian military.[158] Of great importance, this is a structural reform push designed not only with an eye on freeing the market but on closing the external funding gap: The IMF and Sisi regime's gambit rests upon privatization helping attract foreign direct investment (FDI) inflows of $10 and $17 billion per annum over the next half decade, dollars meant to pay down debts and cover current account deficits.[159] Absent FDI inflows of these magnitudes and annual receipt of $6-8.5 billion in net hot money receipts, the rescue plan for Egypt provides no mechanism for avoiding another BoP crisis.

Even in the most optimistic scenario, it is difficult to imagine that the IMF rescue leads anywhere except back to the quagmire of Sisi's invention. The whole thing, after all, hinges on the unwinding of the military's commercial empire and the receipt of staggering FDI inflows, respectively. Given the dictates of power and Sisi's particular needs, the former was always a low probability prospect. It now strikes as a virtual impossibility, what, with the Army having been allocated new desert lands just weeks after the EFF was signed[160]; with amendments to the regulation of the Suez Canal Authority having been announced which look to have furnished the armed forces with a new off-budget slush fund[161]; with just two military-owned firms—Safi and Wataniya—having been included on the list of thirty-two state-owned companies targeted for sale or partial sale in 2023[162]; and with revelations having come to light that the Army was stripping assets from those firms it is being forced to sell and transferring them to ones they will keep.[163] Meanwhile, if always a low odd proposition itself, a historic about face from FDI in this context is even more unlikely. Outside prospective outlays into the energy sector, western investors—mindful of the unreliability of the judicial system and the military's vast and non-diminishing commercial interests—are likely to continue to maintain their distance. Gulf investors, meanwhile, are showing reluctance in closing deals at either the scale and valuations preferred by Cairo.[164] Yes, the transactions in question (and many others) will almost certainly go through in

156 The Ministry of Finance, meanwhile, has pushed the coupon rate on T-bills up well over 20%.

157 International Monetary Fund (2023): 10

158 Staff Writer, "Importers can now turn the page on L/Cs", Enterprise: The State of the Nation (January 2, 2023).

159 International Monetary Fund (2023): 37

160 Staff Writer, "More FDI for electronics assembly?", Enterprise: The State of the Nation (January 31, 2023).

161 Maged Mandour, "Sisi's Suez Canal Debacle", Carnegie Endowment for International Peace (February 2023).

162 Staff Writer, "Rebooted privatization program to see stakes in 32 companies sold to strategics, public investors", Enterprise: The State of the Nation (February 9, 2023).

163 Staff Writer, "Egypt's army seems to want to make pasta as well as war", The Economist (April 13, 2023).

164 In spring 2023, this has led to delays on the offloading of key assets like Telcom Egypt's share in Vodafone Egypt, the Damietta and Port Said container terminal operators, and United Bank.

the end. In view of the extent to which GCC investors have the Sisi government over the barrel, however, assets will just as surely be changing hands at the price points desired in the Gulf. With the dollar yield of state retreat thereby diminished and greenfield investment to amount to little more than the typical trickle, it is fanciful, to say the least, that FDI inflows might reach the levels needed to resolve Egypt's short-term external imbalances.

By extension, policymakers are to inevitably find themselves trying to (again) tame portfolio inflows in the years ahead. Hastening these inflows' return, however, will require the extension of even more usurious payments on treasury bills, further exchange rate adjustments, and the promised establishment of a futures exchange.[165] Each of these measures come with considerable costs and negative externalities attached, and none of them will suffice to stop rapid outflows like was seen in the winter of 2022. Indeed, dating back to last summer, many a Wall Street investor was already indicating that they would only be looking for a quick scalp in Egypt, nothing more.[166] Without a reversal of course at the Federal Reserve, then, it is difficult to imagine that hot money will chart a path out of external imbalance for Egypt. And even if capital arrived in the quantities needed, this would do little to mitigate the medium and long-term risks thereby accepted. This is because treating FDI as BoP fix is only to change who owns extant assets. To wit, Gulf states rather than the Egyptian state will own a constellation of firms, but nothing about the firms themselves will be altered, and there will be no new productive activities brought on line. Ergo, the structural drivers of Egypt's external imbalances will remain in place. They may even be worsened, in fact, both by losses run up in the country's international investment position and declines in private domestic investment brought on through the high interest rates that are needed to attract foreign capital into the debt market. Taking in the balance of evidence, it is reasonable to prognosticate that Egypt at the close of this EFF program will be no closer to the end of its economic nightmare than it is today.

Sisi's authoritarian restitution has been advanced through a debt-financed configuration mixing military cronyism, welfarism for the country's wealthy, and the delivery of consistent returns for foreign investors of different stripes. Though this configuration has pushed the country toward developmental obsolescence, it is sadly difficult to see how it might be displaced. For Egyptians, this augurs nothing good. A heightening of deprivation most certainly lies ahead. In the worst case scenario, a Lebanon-styled breakdown may even threaten.

165 The Financial Regulatory Authority is aiming to launch a future's exchange in the summer of 2023.

166 See: Bloomberg TV, "Malik: Behind curve on interest rate, FX", Bloomberg Daybreak: Middle East (August 26, 2022).