

Averroes Policy Forum

Egypt White Paper





Economic Risks



High Poverty Rate:

Egypt faces a severe cost-of-living crisis exacerbated by state-led austerity measures and the anticipated arrival of Sudanese refugees. These economic pressures have significantly eroded the middle class in the Arab world's most populous nation. Official statistics indicate that the poverty rate is nearly 30%, though analysts suggest that the real figure may be higher, with current estimates indicating that up to 60% of Egypt's 106 million citizens are living at or near the poverty line.

Public Debt Crisis:

Egypt's aggressive borrowing strategy under President Abdel Fattah al-Sisi has left the country burdened with heavy foreign debt. As foreign creditors retreat, the government increasingly turns to domestic borrowing despite surging interest rates, further expanding deficits. Servicing foreign debt has become increasingly difficult, with interest payments consuming over 45% of total revenue in the fiscal year ending June 2023. The debt-to-GDP ratio has climbed from 69.6% in 2010 to 92.7% in 2023, exacerbating Egypt's persistent foreign currency shortage.

State and Military Dominance in the Economy:

Egypt's economy remains heavily state-controlled, with the public sector accounting for 25% of employment and 74% of investment. Despite providing three-quarters of jobs, the private sector, mostly small businesses, contributes minimally to GDP and struggles to compete with state entities. The military's economic influence has grown significantly since 2013, now controlling key sectors like infrastructure and real estate. It enjoys extensive privileges, including tax exemptions, subsidized energy, and preferential contracts, undermining private-sector competition. Profits from military ventures rarely benefit civilian state agencies, while opaque finances and interventionist policies stifle growth and efficiency. This dominance exacerbates issues like youth unemployment, low productivity, and a lack of investment diversification. Egypt's inward-focused approach fuels fiscal imbalances and economic stagnation. The latest IMF package demanded sweeping structural reforms that include curbs on Egypt's huge and opaque military economy.

High Inflation:

Egypt is experiencing severe inflation (25.5%), with food prices rising by over 70% in the past years. High inflation rates, particularly for food prices, pose a significant challenge to the economy, impacting purchasing power and creating difficulties in managing foreign exchange reserves. The Egyptian pound has halved in value, worsening the financial crisis. Increasing numbers of Egyptians are desperately hunting for second jobs, cutting back on eating meat, and scrambling to find new ways to cope with soaring prices amid a worsening cost-of-living crisis. The currency crisis has led to a



surge in demand for gold, and the government struggles to control the black market for US dollars. The government has kept food and fuel prices low through controls and subsidies. This policy relies heavily on maintaining a stable exchange rate. The authorities have to reform the subsidy system, but these efforts have been generally ineffective in improving the system. To address fiscal challenges, the government raised the price of subsidized bread by 300% in June 2024—a drastic move with significant political risks given its widespread impact on the population.





Political Risks

Authoritarian Governance:

Policymaking remains under the control of anti-democratic forces, with the military and intelligence agencies holding significant influence. The president wields extensive power, while the judiciary's independence is severely compromised, and parliament serves mainly as a rubber-stamp body of pro-regime figures. In the December 2023 elections, President Abdel Fattah al-Sissi secured a landslide victory, following constitutional amendments in 2019 that allowed him to begin his third six-year term. Protests have grown since his re-election. The government is working to suppress tensions, particularly in the wake of the Israel-Hamas conflict, with military support seemingly assured.

Revolution risk:

Following Bashar al-Assad's fall, revolution seems increasingly likely. Recently, al-Mansour has gained attention on social media, posting videos criticizing President Abdel Fattah al-Sisi and suggesting he could meet the same fate as Assad while calling for a revival of the revolution. Egypt's ruling circles are deeply fearful of the post-Assad era in Syria, amid a campaign to discredit Syria's new leadership and spread fear of an uncertain future. Despite being geographically distant, Cairo has taken one of the toughest stances on Syria's developments, viewing them as undermining Al-Sisi's efforts to rehabilitate Assad and solidify the status quo. With rising youth unemployment, currency depreciation, and geopolitical tensions, the potential for social unrest threatens Egypt's political stability. The resurgence of Islamism in Syria has alarmed governments in Egypt that Syria's shift might spark uprisings elsewhere.

Crackdown on Opposition:

Political parties are legally allowed to form and operate, but in practice, activists, opposition parties, and political movements that criticize the regime face arrests, harsh prison terms, death sentences, extrajudicial violence, and other forms of pressure. Among recent cases, in September 2023, the well-known dissident and spokesperson of the Free Current Coalition Hesham Kassem was sentenced to six months in prison for defamation. His arrest came weeks after he had founded the coalition, which included liberal parties and independents. Also, political activist and former spokesperson for the April 6 Youth Movement, Mohamed Adel, was sentenced to four years in prison on charges of spreading false news on social media, after having already spent five years in pretrial detention; rights groups characterized his activity as peaceful expression. Former political prisoners have also been threatened with rearrest for their criticism of the regime. The Egypt-based families of exiled activists have faced persecution by state authorities.

Freedom of Speech:

Freedom of Speech: Egypt's media is largely pro-government, with most opposition outlets shut down after the 2013 coup. Private media are owned by those linked to the military and intelligence services. Independent reporting is suppressed through laws and intimidation, with foreign journalists facing obstruction. In August, journalist Karim Asaad was arrested after covering the Zambia airplane incident. Egypt consistently ranks poorly on press freedom, with 24 journalists in prison as of 2023. Authorities censor online content and block websites deemed a threat to national security, with 562 sites blocked, including 132 journalistic ones. Recent laws increase penalties for journalists disclosing classified information.





Environnemental Risks

Elevated Sea Levels:

Egypt faces rising sea levels, coastal erosion, and land subsidence, leading to flooding, saltwater intrusion, and increased soil salinity. These issues exacerbate water scarcity, food production, and human security. Egypt's low-lying coasts are already prone to flooding, with 2.4% of its territory classified as a Low Elevation Coastal Zone (LECZ), less than 10 meters above sea level. These impacts are already being felt. Between 1993 and 2010, Mediterranean Sea levels rose by 2.6 cm per decade. By 2100, sea levels could rise by 22 cm, though these are conservative figures. Projections suggest that by 2030, 45 million Egyptians will be severely affected, and by 2060, 63.5 million people will live in the LECZ, a 249% increase over 60 years.

Rising Temperatures:

Climate change in Egypt is driving higher temperatures. Average annual temperatures have risen by 0.1°C per decade from 1901 to 2013, but in the past 30 years, the rate has accelerated to 0.53°C per decade. In the Nile River Basin, surface temperatures have risen by 0.16°C to 0.4°C, with regions like El-Minya reaching 40°C to 44°C in recent years. Climate models predict an average rise of 2.1°C by mid-century and 4.4°C by the end of the century, with areas like South Sinai and Aswan experiencing even higher increases. This trend of hotter weather poses significant risks to Egypt's human security, food production, and water availability, potentially causing 2,000 to 5,000 additional deaths per year and economic losses of 20 to 48 billion Egyptian pounds annually. The impact will not be felt equally across the population. Egypt is part of a region that is warming twice as fast as the global average. An average rise in global temperature toward 1.5 degrees Celsius translates to a rise of 3–4 degrees Celsius in Egypt and neighboring countries. It is unclear whether this would move Egypt toward full or partial inhabitability. But undoubtedly, the summer months would become difficult to bear and Egypt's natural resource base would suffer tremendously, thereby undermining social, economic, and political fabrics in ways that may not always be anticipated.

Water Scarcity:

Egypt is already facing a severe water scarcity crisis, with demand surpassing supply from the Nile since the late 1970s, despite fully utilizing available Nile resources. The Nile provides 98% of Egypt's renewable water supply. Between 1977 and 2022, the per capita annual renewable water supply fell from 1,426 cubic meters to 558 cubic meters. Since the early 1990s, Egypt has been below the water scarcity threshold of 1,000 cubic meters, and it is now approaching the critical level of 500 cubic meters per capita, which could be reached in the next five years if population growth continues. Unsustainable consumption patterns and rising water demands further threaten access to water, with projections indicating that by 2025, Egypt could face "absolute scarcity" below 500 cubic meters per capita. This situation could worsen with a 1.5°C global temperature rise, causing increased evaporation, disrupted rainfall, floods, and prolonged droughts.



Air Pollution:

Cairo's air pollution is a major concern, with pollution levels in downtown Cairo exceeding global standards by 10 to 100 times. The city's layout, with tall buildings and narrow streets, creates a "bowl effect" that traps pollutants due to poor ventilation. Particulate matter is the primary pollutant, largely caused by transportation, industry, and open-air waste burning. Additionally, dust from arid areas like the Western Desert contributes significantly to pollution.





Geopolitical Risks

Israel-Gaza War:

Egypt's relationship with Israel is increasingly strained over the Philadelphia Corridor, a narrow strip of land on the Gaza-Egypt border. While Israel claims that tunnels connecting Gaza to Sinai pose a security threat, Egypt insists that there are no active tunnels and highlights its efforts to dismantle any that exist. Cairo views Israel's focus on the corridor as an attempt to shift the burden of Gaza's instability onto Egypt. If Israel continues to prioritize control over the Philadelphia Corridor and extend its military operations in Gaza, it risks damaging long-term relations with Egypt and other key regional actors. While Egypt is unlikely to sever ties with Israel immediately, the growing tension over the corridor could destabilize the region.

Trump's Administration, Israel, and the Ethnic Cleansing of Gaza:

Donald Trump's proposal to ethnically cleanse Palestinians from Gaza to Egypt and Jordan has been met with strong opposition from both countries, as well as from Palestinian leadership. Trump is planning to coerce Egypt to accept the displacement of Gaza people. Egypt has consistently rejected the idea of resettling Gaza's population within its territory, citing concerns about sovereignty, security, and the broader implications for the Palestinian cause.

Houthi Rebels and Suez Canal:

The Houthi rebels in Yemen have been attacking shipping routes in the Red Sea and Gulf of Aden, forcing major shipping lines to seek safer alternatives. This has led to a 60% drop in Suez Canal traffic, which is a crucial source of revenue for Egypt. As a result, shipping companies are rerouting vessels around the Cape of Good Hope, increasing both costs and transit times. The broader geopolitical context involves the ongoing conflict between the Houthis, backed by Iran, and the Saudi-led coalition, further destabilizing the region and highlighting the vulnerability of key maritime chokepoints like the Suez Canal.

Ethiopia and Nile Dam Crisis:

Tensions between Egypt and Ethiopia have escalated after Ethiopia unilaterally filled the Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile, raising concerns over Egypt's water supply. Egypt, heavily reliant on the Nile, fears the dam could disrupt its access to vital water resources. To address this, Egypt has initiated technical and political consultations with Sudan. It is preparing a comprehensive file for the Trump administration, which had previously promised to prioritize the GERD issue. Egypt's Ministry of Irrigation is also assessing the damages caused and the financial resources allocated to water desalination in recent years.



Sudanese Civil War:

The Sudanese Civil War has had a significant impact on Egypt, particularly on refugee management and border security. Since the conflict erupted in 2023, Egypt has seen an influx of around 500,000 official Sudanese refugees and approximately 1.2 million new arrivals. This has placed immense strain on public services and infrastructure. Additionally, the war has disrupted key trade routes crucial for Egypt's economy, leading to shortages of essential goods and rising inflation.

