

What Another El-Sisi Term Would Mean for Egypt

12 MIN READ

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Supporters of Egyptian President Abdel Fattah el-Sisi gather in El Korba Square in Cairo, Egypt, on Oct. 2, 2023, as they wait for him to announce his candidacy in the upcoming presidential election. (Islam Safwat/Getty Images)

Egyptian President Abdel Fattah el-Sisi's widely expected re-election will free him to pursue economic reforms and pragmatic ties with Israel, as well as measures aimed at growing the country's tourism and energy sectors. El-Sisi will very likely win a third term in Egypt's Dec. 10-12 presidential election — which will be the country's first nationwide election since 2018 — thanks to his government's sweeping crackdown on opposition candidates and supporters, along with its installation of administrative barriers that have dissuaded potential candidates from being added to the ballot. El-Sisi retains the support of the Supreme Council of Armed Forces, which heavily influences which candidates can run for office. But he has lost some support among Egyptian voters amid the country's worsening economic crisis. Winning re-election by a large margin would enable el-Sisi to claim he has a popular mandate to enact the policies he pledged to pursue during his third term, including likely painful reforms to stabilize the country's battered economy.

- After a constitutional amendment in 2019 extended the presidential term limit to six years, el-Sisi became eligible for a third term because he had not cumulatively served as president for 12 years at the time of the election.
- While el-Sisi won both the 2014 and 2018 presidential elections with 97% of the vote, voter turnout decreased between the two elections. Even fewer Egyptians are expected to participate in the 2023 election due to disenchantment with their country's political system.
- El-Sisi's campaign platform focuses on national security and development, and recent comments by the president demonstrate some ambivalence about Egyptian citizens' financial struggles, as well as a willingness to implement painful austerity measures. In a September campaign speech, for example, el-Sisi said "if the price of the nation's progress and prosperity is hunger and thirst, let us not eat or drink."
- El-Sisi's rivals in the election include Farid Zahran, chairman of the Egyptian Social Democratic Party, Hazem Omar, chairman of the Republican People's Party, and Abdel-Sanad Yamama, chairman of the New Wafd Party. Zahran and Omar's platforms advocate for political openness and human rights, while Yamama's platform focuses on economic reform to curb inflation, close the budget deficit and increase Egypt's foreign reserves. None of the opposition candidates are expected to pose a serious threat to el-Sisi's re-election.
- The Egyptian government decided to hold the presidential election in December as opposed to the original March date, to expedite the enactment of necessary economic reforms. Although protests are strictly controlled in Egypt, concerns of pre-election unrest due to the country's deteriorating economic conditions likely also factored into the decision to hold the ballot early.

The presidential election will take place against the backdrop of a cost-of-living crisis and rising security concerns connected to the ongoing Hamas-Israel war in Gaza. The global fallout from Russia's February 2022 invasion of Ukraine has exacerbated Egypt's ongoing economic crisis by further raising the cost of food and fuel imports, which have eaten into the country's foreign reserves. The

country's inflation rate hit an eye-watering 39.7% in September, with food prices increasing 72% over the past year. Increased spending on road building and large infrastructure projects (including a new capital outside of Cairo and the expansion of the Suez Canal), combined with rising global borrowing costs, has also ballooned Egypt's foreign debt levels, which stood at over \$165 billion in December 2022 — up from \$40 billion in 2015. Against this backdrop, the country's credit ratings have declined, which has deterred foreign investment as well. An ongoing energy crisis, meanwhile, has compounded Egypt's financial struggles, driven by decreased feedstock availability and high demand. The disruptive daily power outages have decreased commercial and industrial productivity and inflamed public criticism. On top of these economic troubles, the Hamas-Israel war has raised concerns in Egypt about a potential surge of Palestinian refugees flooding into the country from neighboring Gaza. Egypt has also suffered collateral damage since the conflict began on Oct. 7; errant missiles, rockets and shells have struck near the Egypt-Gaza border over the past two months, causing minor infrastructure damage and some injuries to Egyptian citizens.

- Nearly a third of Egypt's 112 million citizens currently live in poverty. The country's unemployment rate has hovered around 7%, while the labor force participation rate has steadily declined since 2011.
- On Nov. 3, the Egyptian government announced a 14.3% increase in domestic petrol prices, in an effort to reduce demand for costly fuel imports.
- Moody's Investors Service downgraded Egypt's rating to Caa1 on Oct. 5, citing outstanding obligations of "poor standing and high credit risk." Similarly, Fitch Ratings further downgraded Egypt's credit score into junk territory in November.

To unlock needed funding from the International Monetary Fund (IMF), the el-Sisi administration will likely pursue unpopular economic reforms — including another currency devaluation — shortly after its re-election. In December 2022, Egypt received a \$3 billion loan from the IMF conditioned on implementing reforms to stabilize its economy, including enacting a flexible exchange rate and measures aimed at reducing external debt and strengthening social safety nets. The international lender has also

conditioned access to \$700 million in loan tranches and a \$1.3 billion resilience fund on Egypt selling state-owned assets, which it has partially completed. The IMF agreed to merge its first and second reviews of the rescue package after Cairo only enacted some of the anticipated reforms, but if the review is successful, the country will gain access to crucial additional funds. Although Egypt receives other forms of external funding, lenders are unlikely to keep giving the country money unless it aligns its economic policy with the IMF's reforms for stability. To secure that needed external financing, the el-Sisi administration will try to quickly signal its commitment to economic stability shortly after securing its third term in office. To that end, Cairo will likely devalue the early next year, in order to balance its external payments and, in turn, increase its chances of a successful IMF review. Further devaluation of the pound would decrease the cost of Egypt's exports, which would help Cairo pay its external debt liabilities and replenish its foreign exchange reserves by increasing global demand for cheap Egyptian goods. But another currency devaluation would also make imports all the more expensive, thus further reducing Egyptian citizens' purchasing power. Although unlikely, if food inflation increases significantly, Egyptians may take to the streets despite the el-Sisi government's political repression to protest their deteriorating living standards. The el-Sisi administration will also sell additional state assets to increase its reserves of both hard currency and foreign currency. To cut spending, Cairo will scale back its fuel subsidy program and other similar programs as well, though the country's bread subsidy program will likely remain in place as there is more tolerance as Egyptians have historically tolerated fuel price hikes better than food price hikes. However, the government remains unlikely to curb spending on megaprojects, which are closely tied to the military — el-Sisi's primary backer. While Cairo may postpone some projects, it will avoid canceling them, which would risk losing legitimacy among el-Sisi's key supporters in the country's security forces.

- The Egyptian pound has already been devalued three times since 2022.
- The head of the Sovereign Fund of Egypt said that it will sell seven hotels by the end of 2023, though this may extend into 2024. Egypt has sold minority stakes in oil, petrochemical, and steel industries to Arab Gulf states and closed a \$700 million

hotel deal in July 2023 to a consortium that included the Egyptian Talaat Mostafa Group Holding Co.

- In January 2023, Cairo ordered the postponement of new national projects that rely on foreign currency and announced that ministries would now be required to obtain approval for foreign currency expenditures.
- Poor economic conditions saw Egyptians take to the streets in 2019 and 2020 despite the threat of brutal police crackdowns and arrests. If IMF austerity measures worsen the country's economic conditions, there may be more significant protests, especially if rhetoric from Cairo appears ambivalent to their struggles.
- The IMF's managing director, Kristalina Georgieva, encouraged Cairo to devalue the Egyptian currency to prevent the draining of its foreign reserves.
- The European Union is also considering offering Egypt a \$9.8 billion multi-sector investment plan, expedited due to the economic impact that the Hamas-Israel War has had in the region. If Cairo obtains such an agreement, it will be more likely to delay implementing economic reforms due to the short-term influx of additional funds.

To bolster its foreign currency revenue, Cairo will also try to expand its tourism and energy sectors, which have both been hit hard by external shocks in recent years. In January 2023, Egypt's tourism ministry announced plans to double the number of visitors to the country to 30 million by 2028. After securing another term, the el-Sisi administration will continue working toward that goal by implementing measures aimed at increasing private sector involvement in archeological site management, and increasing flight capacity at Egyptian airports. Egypt's tourism sector, however, has proven particularly vulnerable to external shocks in recent years, including those brought on by the COVID-19 pandemic, Russia's invasion of Ukraine and, most recently, the Hamas-Israel war. And this susceptibility to global economic disruptions and regional unrest — combined with Egypt's degraded credit rating — makes it a risky investment, which will complicate Cairo's ability to secure the private funding needed to grow the tourism industry. To obtain a stable source of foreign currency, the government also plans to expand its liquified natural gas (LNG) exports to Europe, with the goal of increasing its LNG exports by 40% from 2025.

But the growth of the energy sector will rely in part on Egypt purchasing foreign natural gas imports — mostly from Israel — to then export as liquified natural gas, and Egypt's ability to export is dependent on the amount of natural gas it can import, as well as its domestic production capabilities and the demands of its domestic consumption.

- Since the start of the Israel-Hamas war, Egypt's tourism sector has declined by around 10%. The energy sector, meanwhile, has suffered from reduced quantities of natural gas imports from Israel and rising domestic petroleum prices in early November. Increased government investment will help these sectors recover in the long term, but it will also make the Egyptian economy more susceptible to future external shocks if other conflicts in the region break out.
- Egypt's energy ministry has announced plans to increase natural gas imports from Israel and begin oil and gas exploration for additional offshore sources that are anticipated to be discovered by 2025. Egypt's two LNG export terminals have positioned it as a regional natural gas hub for the Mediterranean as other countries, including Israel and Cyprus, have gas fields, but the natural gas would need to be converted to LNG for export to Europe.

Egypt will maintain pragmatic relations with Israel even in the event of an extended war in Gaza, and will likely increase energy trade with the country after the conflict eventually ends. Despite ardent Egyptian public support for the Palestinian cause, Cairo will maintain pragmatic relations with Israel to facilitate the growth of Egypt's energy sector, which includes increasing imports of Israeli natural gas for exporting as LNG. The el-Sisi administration will also continue to cooperate on existing joint initiatives with Israel, such as border security, facilitating humanitarian aid across the border into Gaza, and bilateral trade. Cairo will align with Arab nations in negotiations and post-war plans for governance in Gaza and take a practical approach due to its shared borders with Israel. In addition, Egypt will support post-war plans for governance in Gaza that diminish the possibility for additional fighting and foster regional security by proposing a demilitarized Palestinian state or one with a temporary international security force. Egypt will most likely delay signing any additional economic agreements with Israel until after the war to

prevent domestic unrest among its pro-Palestinian population that could morph into wider anti-government protests. However, if the Hamas-Israel war results in mass Palestinian displacement or in a governance situation where Palestinians in Gaza do not have a degree of autonomy, Cairo will be compelled to strengthen its borders with Israel, which would strain bilateral ties, but Egypt would be very unlikely to take any military action against Israel.

- On Nov. 24, El-Sisi suggested establishing a Palestinian state that is "demilitarized with guarantees and the presence of European, American or U.N. forces."

Finally, el-Sisi will work to either extend his reign via another constitutional reform, or solidify his legacy via a hand-picked successor. After the constitutional reform in 2019 that enabled him to run for a third term, el-Sisi will likely seek additional ways to remain in power. The Egyptian president has consolidated power with the military and stifled dissent through political crackdowns and mass arrests. After his very likely re-election, el-Sisi may advocate to reform the constitution again to extend his ability to remain in office. If he wins the election by a landslide, as anticipated, he would likely be able to leverage the results to advocate for an additional term. The el-Sisi administration's crackdowns on political dissent would likely prevent any mass protests if he pursued such a power grab, but such unrest could occur if economic conditions significantly deteriorate. Alternatively, though less likely, el-Sisi may appoint a successor, likely his son Mahmoud al-el-Sisi, to carry out the policies that were enacted during his administration.