What's next for Sisi's Egypt?

While Sisi's rule does not appear to be in imminent danger, it is unwise to ignore the real and multiple difficulties confronting Egyptian society

EGYPT'S PRESIDENT Abdel Fattah al-Sisi has now been in power for three and a half years. In consolidating his rule, Sisi has based his claim to legitimacy on a formula familiar to authoritarian regimes: wrapping oneself in the flag of patriotism, along with promises for economic betterment and stability for the population in return for its acquiescence to a de-politicization of society. Also in use is harsh repression of political opposition, severe checks on independent civil society organizations, including the media, and restrictions on judicial independence.

Until recently, this formula appeared to be working. In addition, the need to cope with an ongoing violent jihadist insurgency in Sinai and accompanying terrorist attacks further confirmed public support for Sisi. His recent high-profile attendance at the Coptic Christmas celebrations, just two weeks after a horrific jihadist bombing in an adjacent church, was a strong statement of support for the beleaguered Copt minority.

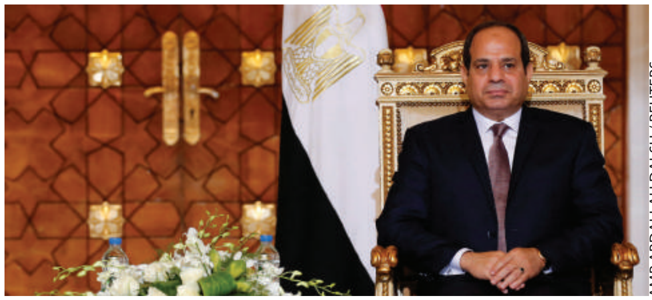
However, times have become especially tough for ordinary Egyptians. As my Tel Aviv University colleague Paul Rivlin wrote in July 2016, the optimism for Egypt's economy generated by the $8 billion expansion of the Suez Canal and the discovery of large natural gas reserves off of Egypt's Mediterranean coast, had dissipated. Revenue from tourism, one of the mainstays of the economy, declined 50% during 2015-16 from the previous year, thanks especially to the downing of a Russian passenger airliner in Sinai by jihadists. The decades-old trend of declining rates of population growth had been reversed between 2010-15. According to official statistics, Egypt's population increased 17.3 million to 94 million over the past decade, with all the attendant burdens on social services, the educational system and labor market that that entails. Official unemployment stood at 14%; youth unemployment at more than 40%.

Facing large government and current account deficits and an acute shortage of foreign currency, the Sisi government negotiated a large-scale, three-year loan package of $12 billion. It was contingent on major reforms, including the imposition of VAT on most economic transactions, lowering domestic energy subsidies, currency rate adjustment and trimming the bloated public sector. An earlier 14% devaluation of the Egyptian pound in March had had little effect apart from sparking inflation and a large black market in scarce foreign currency.

Egyptians confronted acute shortages in essential goods, ranging from sugar, poultry and rice to medications. Pharmacists incurred the wrath of the public which faced high prices or empty shelves. They, in turn, blamed the drug companies and government.

Meanwhile, the deal with the IMF proceeded apace. A civil service law aimed at cutting the number of public sector employees was enacted. In September, the first payment, $2.75b., was transferred to Egyptian coffers.

The real quid pro quo came in November: the floating of the Egyptian pound, whose value vis-à-vis the dollar was immediately halved, to more than 18 pounds. Concurrently, domestic energy subsidies were slashed, leading to fuel price increases of 30-45%. For importers and investors who had already incurred dollar debts, the new exchange rate step was potentially catastrophic and calls went out for immediate government relief. The pound's 100%+ devaluation caused a spike in inflation, which reached 24% in December while the prices of some goods rose more than 80%.



AMR ABDALLAH DALSH / REUTERS

Egypt's President Abdel Fattah al-Sisi sits atop a potential tinderbox of unrest. His country faces a high birth rate, economic woes, and a jihadist insurgency in Sinai

International agencies and analysts looked favorably upon the government's steps. In December, the World Bank approved a $1b. development policy finance operation in support of the government's economic reform program. Investors in emerging markets reportedly viewed Egypt's prospects favorably, as did Moody's credit rating agency, which forecast 4-4.5% growth rates during the next two years.

Sisi himself has asked the public to be patient for the next six months as the positive effects of the reforms take effect. By then, he said, the exchange rate will have stabilized, while he himself will have inaugurated a new factory producing medicines. A "parallel exchange market" that would ensure the availability of goods at affordable prices was on the drawing board.

In addition, the army, "using its own budget without burdening the state's general budget," has launched such projects as a cement factory, fish farming and importing large quantities of cattle to provide meat at reasonable prices. The reference to the army was telling: It's the only institution in the country Sisi really trusts.

Egypt has muddled through its economic woes before, and it would be rash to suggest that Sisi's rule is in any imminent danger. But neither would it be wise to ignore the real difficulties confronting Egyptian society and assume that there will be no political fallout. ■

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