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The IMF and UAE Swoop In to Ease Egypt's Economic Crisis

by Ben Fishman **(/experts/ben-fishman)**

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Brief Analysis

Cairo's main lender and top Gulf donor have come to the rescue once again, offering major loans, investments, and Central Bank transfers that could halt the country's latest slide despite short-term consumer pain.

On March 6, the Central Bank of Egypt **announced (https://www.cbe.org.eg/en/news-publications/news/2024/03/06/05/42/special-mpc-press-release-6-march-2024)** a long-expected currency devaluation to pave the way for an expanded $8 billion IMF loan program. The move was seemingly enabled by a cash infusion from a massive land deal completed with the United Arab Emirates two weeks earlier. In the short term, though, Egyptians will likely suffer through price increases during Ramadan despite the IMF and Central Bank's focus on limiting inflation.

The Mega-Sale

On February 23, Egyptian prime minster Mostafa Madbouly presided over a $35 billion deal with the UAE that includes development of Ras al-Hikma, a section of Mediterranean coast between Alexandria and Marsa Matruh. The Emirati sovereign wealth fund ADQ **agreed to purchase (https://www.egypttoday.com/Article/3/130674/Funds-from-Ras-El-Hekma-Project-with-UAE-begins-arriving)** 171 million square meters of land for $24 billion, while also paying Cairo $11 billion from the UAE's existing deposits in Egypt's Central Bank. **According to Madbouly (https://www.egypttoday.com/Article/3/130697/Egypt-receives-5B-in-1st-installment-of-Ras-El-Hikma)** , $5 billion of these deposits will be transferred to Cairo as part of the Ras al-Hikma deal, while $6 billion **will be used (https://www.adq.ae/newsroom/adq-led-consortium-to-invest-usd-35-billion-in-egypt/)** for "investment in prime projects across Egypt to support its economic growth and development." A new Red Sea resort area may be the next target.

Slated to break ground in 2025, the Ras al-Hikma project is expected to attract $150 billion in investment to transform the area (https://www.youtube.com/watch?v=m44GSjx8XpQ) into a tourist destination, industrial zone, and airport, creating jobs for Egyptian companies and workers in the process. Egypt will retain a 35 percent ownership stake in the development—one of the named partners is the Talaat Moustafa Group, a construction conglomerate that is close to the government and a key player in building the new administrative capital outside Cairo.

Controlling around $200 billion in assets, ADQ is the smallest of the UAE's three sovereign wealth funds, behind the Abu Dhabi Investment Authority ($1 trillion) and Mubadala ($275 billion). Both ADIA and ADQ are chaired by National Security Advisor Tahnoun bin Zayed al-Nahyan, the influential brother of President Muhammed bin Zayed. The Ras al-Hikma investment represents over 10 percent of ADQ's portfolio. More important, it reaffirms the close relationship between the two countries' leaders and the UAE's commitment to Egypt's stability, which Abu Dhabi has demonstrated more than any other Gulf donor since President Abdul Fattah al-Sisi came to power.

Economic Impact

In the near term, the cash infusion will help alleviate Egypt's financial crisis and inject much-needed dollars into the economy, which has suffered from record inflation and a currency crisis. Immediately after this week's currency float, the Egyptian pound began trading at a rate of 50 per dollar after spending most of the year at 30; the black market rate climbed as high as 70. This was the fifth currency devaluation since April 2022, when the rate was 15. According to the Central Bank, "Unification of the exchange rate is crucial, as it facilitates the elimination of foreign exchange backlogs following the closure of the spread between the official and the parallel exchange rate markets." Indeed, the shortage of dollars has slowed imports, led to shortages of critical supplies, and inhibited investment.

The first installment of the Emirati deal—$10 billion has been delivered—should help offset this currency devaluation, while also easing bank withdrawal limits and reversing the drop in remittances (which had fallen due to worries that transfers would not be accessible). The UAE is expected to pay the remaining portion within two months.

In addition, the cash should also alleviate Egypt's debt crisis. As of September 2023, the country's external debt to GDP ratio (https://www.cbe.org.eg/-/media/project/cbe/listing/research/position/external-position-83.pdf) was over 42 percent, while short-term debt and debt servicing neared $40 billion, compared to $35 billion in foreign reserves. At the same time, revenues are way down, partly as a result of the Gaza war. Tourism has plummeted, and foreign currency receipts from Suez Canal crossings have been halved—from $700 million in January 2023 to $350 million this January—due to continued attacks (https://www.washingtoninstitute.org/policy-analysis/houthis-and-red-sea) on commercial shipping by Yemen's Houthi movement.

It remains unclear exactly how the transfer of $11 billion in Emirati deposits will work in practice. As of October, the UAE held $6.3 billion in Egypt's Central Bank plus an unspecified portion of the $16 billion that various Arab countries have previously delivered to help Cairo through past economic troubles. Although the $11 billion cannot be easily converted to investments, it will provide an immediate boost to the Central Bank's balance sheet, which totaled $35.3 billion in international reserves as of February 1.

IMF Reform Benchmarks

Following Egypt's currency float, the IMF announced a staff-level agreement to expand its loan program to $8 billion. The previous program of $3 billion had been established in December 2022, when the parties agreed to an Extended Fund Facility after the COVID-19 pandemic and Ukraine war dramatically increased the cost of wheat. That deal made Egypt the IMF's second-highest borrower behind Argentina. As part of the 2022 program, Cairo agreed to float its currency, curb spending, and implement a privatization program by selling portions of state-owned companies (see below). Yet most of these measures were postponed throughout 2023 amid Sisi's reelection campaign, spurring IMF managing director Kristalina Georgieva to warn that Egypt will "bleed reserves" **(https://www.bloomberg.com/news/articles/2023-10-05/imf-s-georgieva-says-egyptian-pound-must-be-devalued)** unless it devalues.

Georgieva has been more sympathetic since the Gaza war broke out last October, recognizing the conflict's impact on Egypt's economy. Most recently, she called the UAE land deal **(https://www.reuters.com/world/africa/imfs-georgieva-sees-completion-egypt-loan-reviews-weeks-2024-02-27/)** "a very positive sign." Notably, however, the $8 billion IMF program is smaller than the originally predicted amount of $10-12 billion.

Regarding privatization, the previous IMF program called on Egypt to implement its own privatization plan by selling thirty-five state-owned companies, including some military-owned enterprises. In December, Madbouly announced **(https://www.madamasr.com/en/2023/12/20/news/u/egypt-announces-small-additional-sale-in-privatization-program/)** that the government had raised $5.6 billion from the total or partial sale of fourteen companies, including industrial firms, hotels, and renewable energy initiatives. Most of the buyers were private Egyptian firms close to the government (who focused on snapping up hotels) and Emirati entities.

The $5.6 billion figure is difficult to verify since many of the reported deals cited a range of ownership stakes and did not specify the actual sale price. Given that most of these purchases were minority stakes, the buyers may have limited influence on the companies' performance and efficiency—one of the main purposes of privatization. Yet new investors might emerge once the pound stabilizes. For now, the most valuable state-owned companies remain unsold, including banks and insurance firms.

The U.S. Role

From Washington's perspective, Egypt's economic perils have been overshadowed by the Gaza war and Cairo's central role as an intermediary with Hamas. Addressing the financial crisis and its potential effects on Egypt's stability is a lingering U.S. objective but not an urgent priority, particularly since observers expect that ending the war will improve Cairo's revenue stream and pave the way for Egyptian companies to participate in Gaza's reconstruction. Moreover, the UAE has far greater leverage over Egypt's economic decisionmaking than Washington, with a massive portfolio of current and future investments and a compatible view of human rights.

Yet the United States can still play an important role by encouraging sounder economic practices, from reducing public spending to implementing other components of the IMF reform program. These include working with the IMF and Egypt to improve the private sector by limiting the advantages of state- and military-owned firms. The Biden administration and Congress should also encourage private American investment in Egypt, as well as public-private initiatives like the Egyptian-American Enterprise Fund **(https://www.eaefund.org/)** , which has invested in profitable private equity firms despite challenging economic circumstances over the past decade.

Ben Fishman is a senior fellow in The Washington Institute's Rubin Program on Arab Politics. ❖

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