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Sovereign Debt Crisis in Egypt

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This report is published as part of the "Arab Voices for Progressive Financing for Development" project, issued by the Arab NGO Network for Development (ANND).

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Introduction

Over the past years, Egypt has been experiencing a severe debt crisis, the effect of which remain ongoing, despite partial financial support from some GCC countries. During this prolonged crisis from 2022 to 2024, Egypt suffered numerous direct impacts due to the rising debt payments, particularly foreign debts, which directly contributed to the dollar shortage crisis. This situation led to successive devaluations of the Egyptian pound, as Egypt sought funding from the International Monetary Fund (IMF) and its Gulf partners to overcome its financial and economic crisis.

Many factors- some ongoing but latent, have intersected to cause the sovereign debt crisis in Egypt, potentially triggering new liquidity crises. These, in turn, will create ongoing pressure on the balance of payments, which may lead to further devaluations of the Egyptian pound. Such devaluations would, in turn, unleash long-term inflation—particularly in food prices, as Egypt relies heavily on imports to meet a large part of its food needs, especially essential staples like wheat. Additionally, inflation induced by rising energy prices has had a direct impact on living standards.

The structural causes of the debt crisis remain unresolved, as the general economic framework and the macroeconomic policies adopted by the Egyptian government in partnership with international institutions, continue to reproduce the crisis rather than offering a definitive solution. This reflects a continuation of Egypt's structural balance of payment issues. Over the past two decades (2002-2024), Egypt has devalued its currency numerous times in an effort to solve the chronic balance of payment crisis. However, these efforts have failed to steer the country out of its recurring economic troubles and guide it toward more favorable terms to integrate the global economy that would avoid dependence on borrowing and the international debt market.

This report aims to provide an analysis of the sovereign debt situation in Egypt over recent years, specifically from 2016 to the end of 2023—a period marked by successive currency devaluations triggered by the debt crisis. The report analyzes changes in the status of domestic and foreign debt in light of numerous developments and factors, most notably the COVID-19 pandemic and the economic pressures it placed on countries, followed by the monetary tightening policies adopted by central banks in the Global North and their impact on Egypt's debt situation. The report also examines the geostrategic implications of the Russia-Ukraine war and its effects on Egypt's debt and broader economic conditions.

This report draws a comprehensive overview of the foreign and domestic debt in Egypt in order to develop recommendations to improve the management of public debt mechanisms. This aims at helping Egypt emerge from the debt crisis and achieve solid growth rates that will positively impact the economic well-being of Egyptian households.

1. Comments on the methodology and data

The report adopts an analytical approach rooted in the political economy of debt. It examines the drivers of borrowing not only from the financial perspective—such as addressing budget deficits—or in terms of addressing issues in the balance of payments and trade with the global economy, but also through a broader lens that includes the institutional arrangements of global economic integration and domestic power dynamics. In Egypt's case, these dynamics have contributed to sustained borrowing to finance large-scale spending, particularly on costly infrastructure projects, with a strong focus on construction, building, and real estate. The methodology is not merely a descriptive reading of public debt data in Egypt; rather it focuses on the social and economic dimensions of sovereign debt by integrating the various sources of the current debt crisis into a deeper analysis to enrich the economic insights offered by this report.

The report relies on quantitative analysis of sovereign debt data drawn from several key sources, most notably the Central Bank of Egypt, the Egyptian Ministry of Finance, and the World Bank's International Debt Statistics database. It also dedicates a specific section to analysing the current state of portfolio investments—commonly referred to as "hot money"—due to their significant role in shaping the dynamics of Egypt's dollar crisis and its financing gap. Although these investments are not classified as debt in the conventional sense, their volatile nature and the pressure they exert during periods of capital outflow contribute to deepening Egypt's external borrowing challenges.

With regards to data, the government adopts several strategies to obscure the extent of public indebtedness, including delaying the release of debt-related figures and failing to adhere to international standards for debt classification- particularly in terms of publishing complete data on domestic debt. In Egypt, domestic debt is distributed across multiple entities; yet, in recent years, the government has only disclosed partial figures especially those related to public institutions indebtedness, in an effort to conceal the scale of debt to GDP.

This paper will primarily use the World Bank data to analyze foreign debt, while relying on estimates from the state's budget to analyze domestic debt and interest payment.

2. The reality of sovereign debt in Egypt

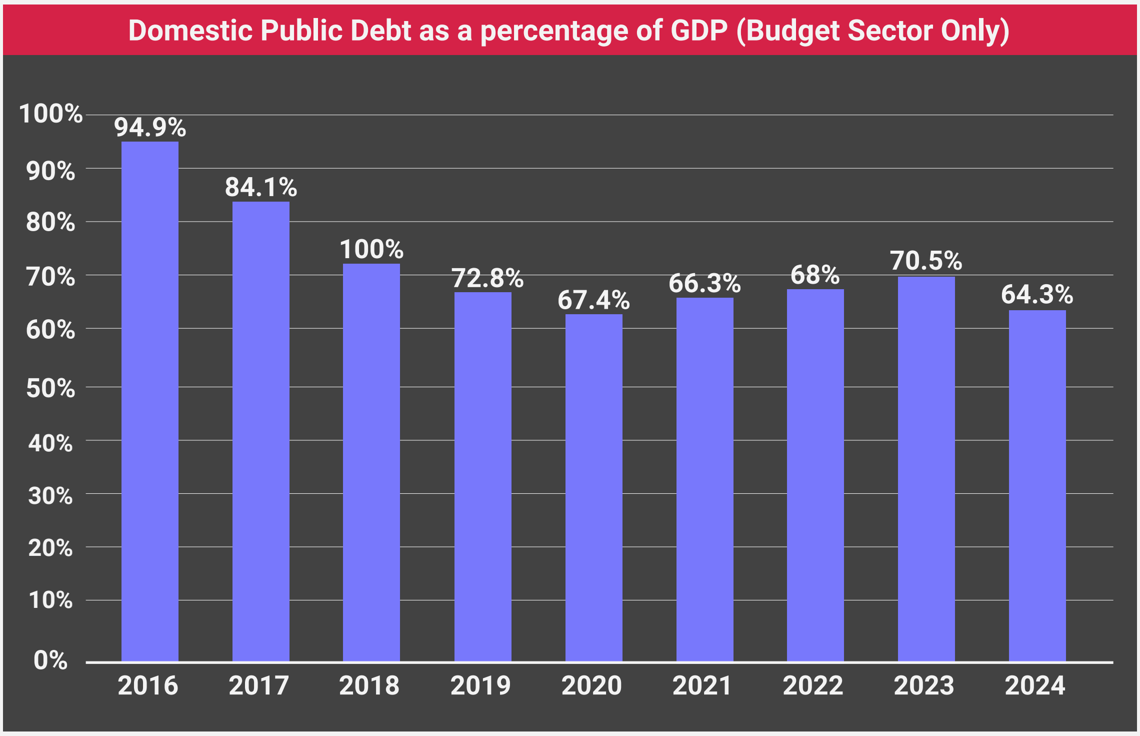
Since 2014, and 3 years after the wide-scale social uprising that raised the slogan "bread, freedom and social justice", Egypt began to increasingly rely on international debt markets. While the country had not been disconnected from them, the borrowing pace accelerated since 2014 to date. The earliest borrowing initiatives aimed to finance the construction of new power plants to resolve the electricity crisis, contributing to political discontent with the Muslim Brotherhood government in 2013 and leading to its overthrowing alongside other factors. Borrowing was also directed toward funding major infrastructure projects, most notably the New Administrative Capital and a series of newly planned cities, heavily driven by public investment in infrastructure to create a more favourable environment for the growth of the real estate sector. This focus on large-scale infrastructure spending was a key driver of the rapid increase in borrowing during the 2014–2019 period, prior to the onset of the COVID-19 crisis.

2.1 Public (domestic and foreign) debt and service

Between 2014 and 2020, Egypt's total domestic debt grew from 1.8 trillion Egyptian pounds to over 4.7 trillion pounds. Since then, the government has not updated total domestic public debt official figures. Instead, it has continued to publish only partial estimates on the debt of budgetary entities in the annual budget. According to these estimates, Egypt's total public debt in 2024—including debt held by budgetary agencies, economic authorities, and foreign debt—amounted to 101.9% of GDP, or 17.4 trillion pounds (approximately $354.9 billion at current exchange rates[1]). This debt-to-GDP ratio is extremely high by international standards and continued to rise steadily over the past decade.

The ten-year period from 2014 to 2024 can be summarized into two main borrowing trends, the first between 2014 and 2017, where the Egyptian government primarily relied on domestic borrowing to finance the budget deficit. During these three years, the government borrowed extensively from local banks through the issuance of local treasury bills and bonds. At the time, interest rates on domestic debt instruments were relatively low. However, this approach shifted significantly after the currency devaluation in November 2016 following Egypt's agreement with the International Monetary Fund (IMF). From that point on, the government increasingly turned to foreign debt markets to meet its financing needs. Low interest rates on the US dollar and other major currencies played a key role in encouraging the Egyptian government to increase its external borrowing during the period from 2016 to 2020. This trend is clearly observable, both in absolute terms and as a percentage of GDP. As illustrated in the chart below, Egypt's foreign debt rose sharply from around $40 billion in 2014 to nearly $162 billion by 2022—a more than fourfold increase in less than eight years.

With regards to domestic debt, total domestic public debt has grown significantly. However, as a percentage of GDP, it began to decline following the currency devaluation. Currency devaluations tend to reduce the relative size of domestic debt (denominated in Egyptian pounds) when measured against nominal GDP, as shown in the following:

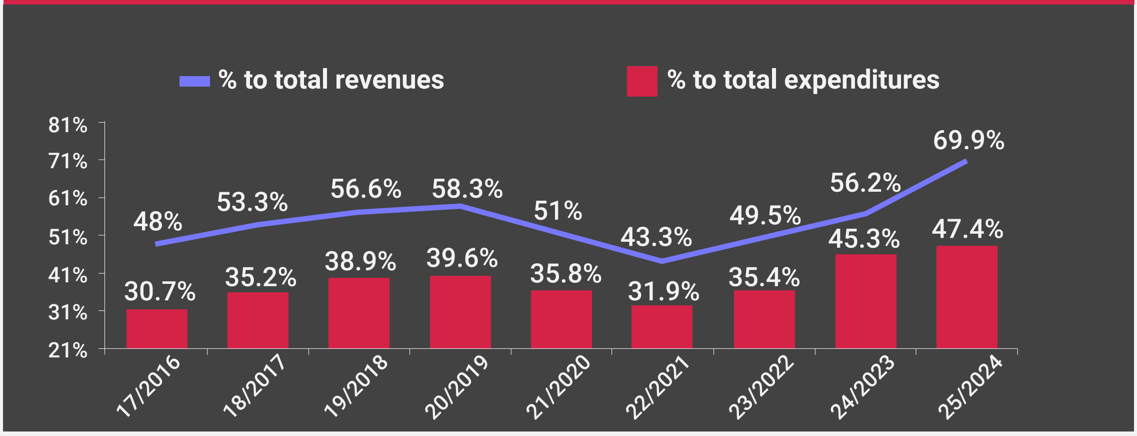


Source: state budget data, various figures, debt balance as of end of June for fiscal year.

From the previous data on domestic debt-to-GDP, two points can be made. First, discrepancies due to GDP recalculation (FY 2016-2017), where the ministry announced a recalculation of the GDP based on the 2018 economic census. This led to a notable increase in the estimated GDP size, which in turn lowered the domestic debt-to-GDP ratio, i.e. the financing structure shifted instead of a sustainable strategy to manage public debt.

The decline in domestic debt as a percentage of GDP after 2016 did not prevent a continued rise in annual interest payments on public debt in Egypt's state budget. Despite the relative decline in the debt-to-GDP ratio, interest payments have consistently consumed a large portion of both government expenditures and revenues. The following chart illustrates interest payments on public debt, through which a noticeable increase can be observed in the share of interest payments relative to government spending and revenue starting in 2022.

Interest payment to public budget entities (relative to expenditures and revenues)



Source: Egypt budget 2024-2025

Interest payments represent a major challenge for the overall government budget, as they have accounted for high proportions of total revenues and expenditures in recent years. For example, in the current budget, interest payments are expected to reach 1.83 trillion Egyptian pounds, approximately 10.7% of the estimated GDP for the current fiscal year. This effectively means that interest payments consume the largest share of tax revenues in the budget, which themselves account for 11.8% of GDP[2].

Large interest payments over the past years have had a significant impact on social spending. By comparing the budget structure between 2014 and 2024, we can better understand the true sources of the general budget deficit and the changes in the expenditure composition according to the government's shifting economic plans over the past decade. These plans have involved continued austerity measures on social spending, including subsidies, education, and health, while interest payments have consistently increased as a proportion of government expenditures.

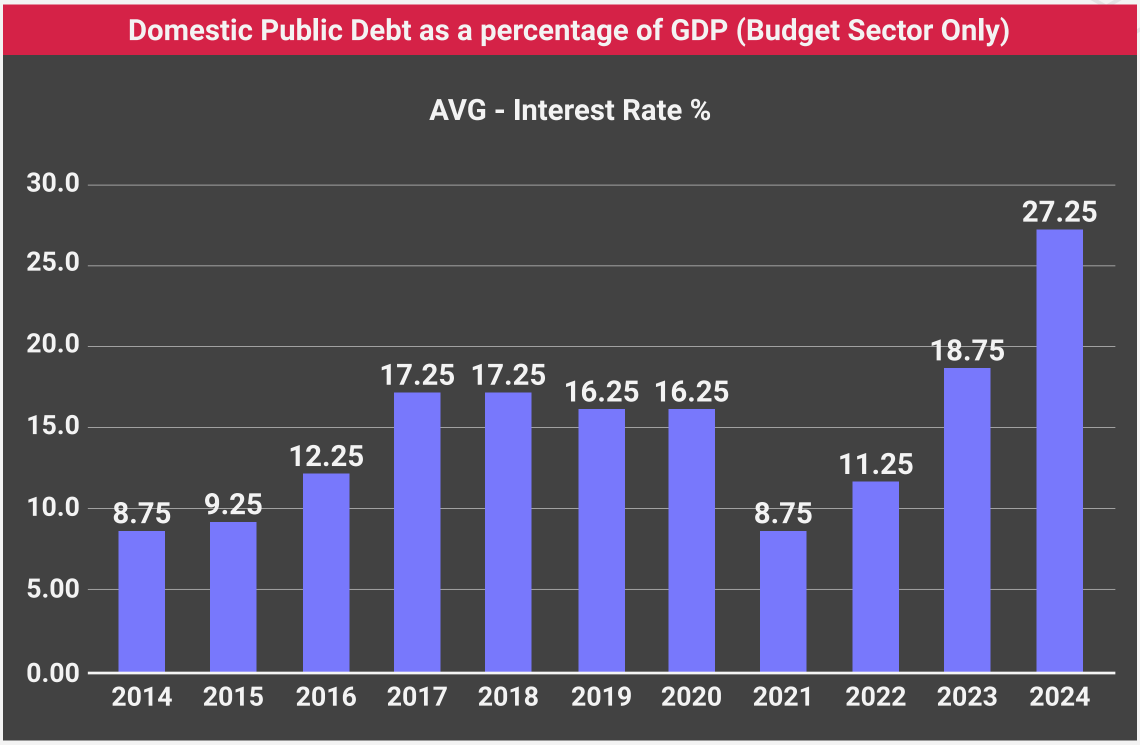
Item	% expenditures in 2014	% expenditures in 2024
Employees' salaries and compensation	26%	173805
Purchase of goods and services	4%	4%
Subsidies, grants and social benefits	30%	17%
Interest payments	25%	47%
Purchase of financial assets (investments)	9%	13%
Other expenditures	6%	4%

Source: state budget, various figures.

The above table clearly illustrates the ongoing impact of the austerity program implemented under the sponsorship of the International Monetary Fund (IMF), particularly since 2016. During this period, wage percentages of GDP dropped from 8.6% in 2014 to approximately 3.4% in the current budget. In other words, the austerity program successfully reduced wages as a share of GDP by more than 60% over a span of 10 years. Similarly, subsidies decreased from 9.7% of GDP in 2014 to around 3.7%, meaning that spending on subsidies and social protection was effectively reduced by about 61.8%. However, despite removing these two major items, which had historically represented the largest share of the budget deficit, the deficit problem remained unresolved—primarily due to the accumulation of interest payments. In fact, interest payments rose from 8.3% of GDP to nearly 10.7%, and investment spending also increased from 2.8% in 2014 to approximately 5% of GDP today. Most of this investment was concentrated in the construction and real estate sectors, with significant geographic imbalances, especially in megaprojects located in East Cairo, such as the New Administrative Capital and infrastructure serving the broader plan to relocate Egypt's capital. However, the increase in interest payments and investments alone does not fully explain the dramatic change in the budget's expenditure structure—unless we also consider loan repayments, which have consumed a significant share of total budget uses, particularly over the last four years. In total, public expenditures represented 22.6% of GDP in 2024, down from 32.8% in 2014. This indicates that approximately 10.2% of GDP has gone toward repaying principal debt, following years of debt accumulation during the 2016–2022.

The total uses in the budget represent the sum of expenditures + loan repayments + acquisition of financial assets. In recent years, the share of loan repayments in the total uses of the budget has increased significantly. For example, in the most recent budget, loan repayments accounted for 29% of total uses, while in the previous budget, they made up about 30% of total uses. The repayment of loans is largely financed through the issuance of new debt, making it difficult to avoid indebtedness —especially concerning domestic debt—amid a high-interest-rate environment.

High interest rates—resulting from the tight monetary policies adopted by the Central Bank between 2016 and 2024, except during the COVID-19 period—have placed significant pressure on debt and interest payments. In addition to the government's increasing share of bank savings through these high interest payments, by the end of 2023, bank lending to the government and public institutions accounted for 53% of banking sector assets in Egypt. This continues to push private and household sectors out of accessing loans for investment, which could otherwise better drive long-term economic growth[3].



Source: Egyptian central bank data, interest rate by end of June every FY.

The continuous interest rate hikes during the crises of 2016 and 2022 aimed to maintain currency stability, prevent widespread dollarization during the crisis, and control inflation. However, these measures did not protect the currency from collapse, as the Egyptian pound lost nearly 81% of its value against the US dollar between 2016 and 2024. This depreciation triggered a sustained series of price increases, which in turn negatively impacted the living standards of most Egyptians.

2.2 Foreign public debt and service

With regards to foreign debt, the government relied on a series of local and international loan packages from Egypt's Gulf allies or international institutions, and from international loan markets following the currency devaluation in 2016. In November 2016, the International Monetary Fund approved a financial package for Egypt, the largest in the region at the time. It included $12 billion in loans in exchange for Egypt's commitment to uphold several conditions, including devaluing its currency. Egypt devalued the official exchange rate, and overnight, the exchange rate of the dollar against the pound dropped from 8 pounds to nearly 18.5 pounds in 2017, before stabilizing around 16 pounds in the years following the currency devaluation in November 2016 until March 2022.

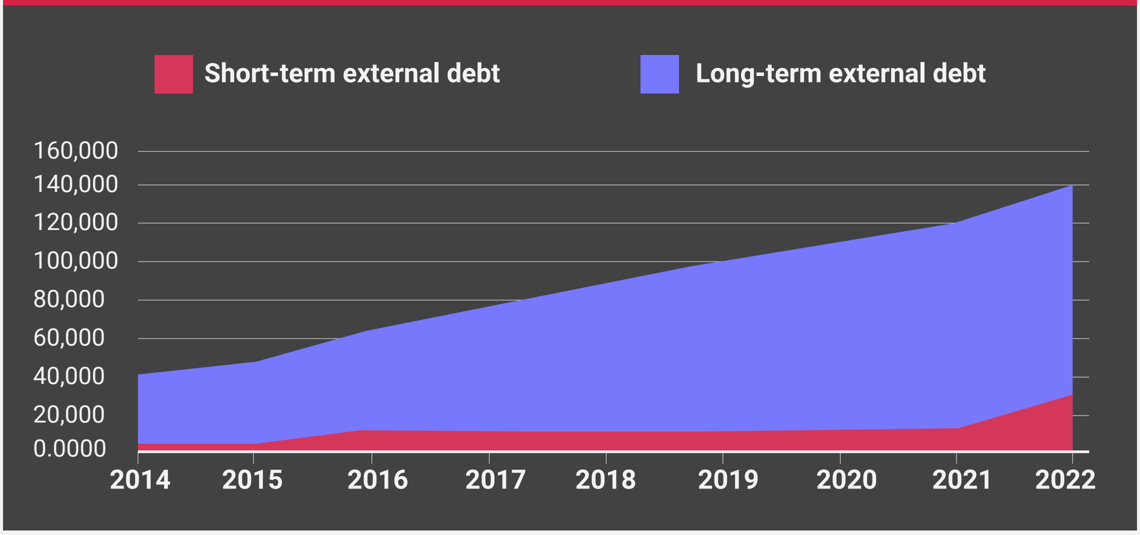
From 2014 until the end of 2023, the size of Egypt's foreign debt more than quadrupled, rising from approximately $44 billion to $168 billion — an increase of about 281% in just nine years, with an annual growth rate exceeding 31%[4]. Development was the pretext for these continuous increases in government foreign debt. According to the IMF and international institutions, this development was successful. The IMF and these institutions praised Egypt's economic performance in the period following the 2016 currency devaluation. Based on their narrative, the economic reforms proposed by the IMF for Egypt were largely successful — up until the recent debt crisis, which led to a further currency devaluation following the outbreak of the Russia-Ukraine war[5].

The continuous rise in foreign debt occurred under the supervision of the IMF and the financial institutions supporting the Egyptian government. These institutions praised the economic reforms—chief among them the public debt management strategy launched by the Egyptian government after its agreement with the IMF. This strategy focused on extending the maturity of debt and relying more on long-term borrowing than short-term debt to finance economic growth. However, in practice, public debt management failed to prevent the consistent increase in short-term debt.

From 2014 to the end of 2022, the share of short-term debt in Egypt's total foreign debt rose from 6% in 2014 to nearly 16% in 2022. Short-term debt places a continuous burden on public finance and creates immediate risks to financial stability. It poses significant refinancing risks: when a large portion of debt matures over a short period, the government faces the challenge of securing the liquidity needed to repay these obligations or rolling them over with new borrowing. Short-term debt also presents a greater problem in environments of rising interest rates, as it carries much higher interest rate risk compared to long-term debt.

On the other hand, the volume of long-term foreign debt did indeed rise from $44.6 billion in 2014 to nearly $129 billion in 2022. However, at the same time, short-term foreign debt also grew—from $3.1 billion in 2014 to nearly $26.6 billion in 2022. The following chart illustrates the evolution of Egypt's long-term and short-term foreign debt over the past decade.

Short vs Lomg external debt stock (billion $)

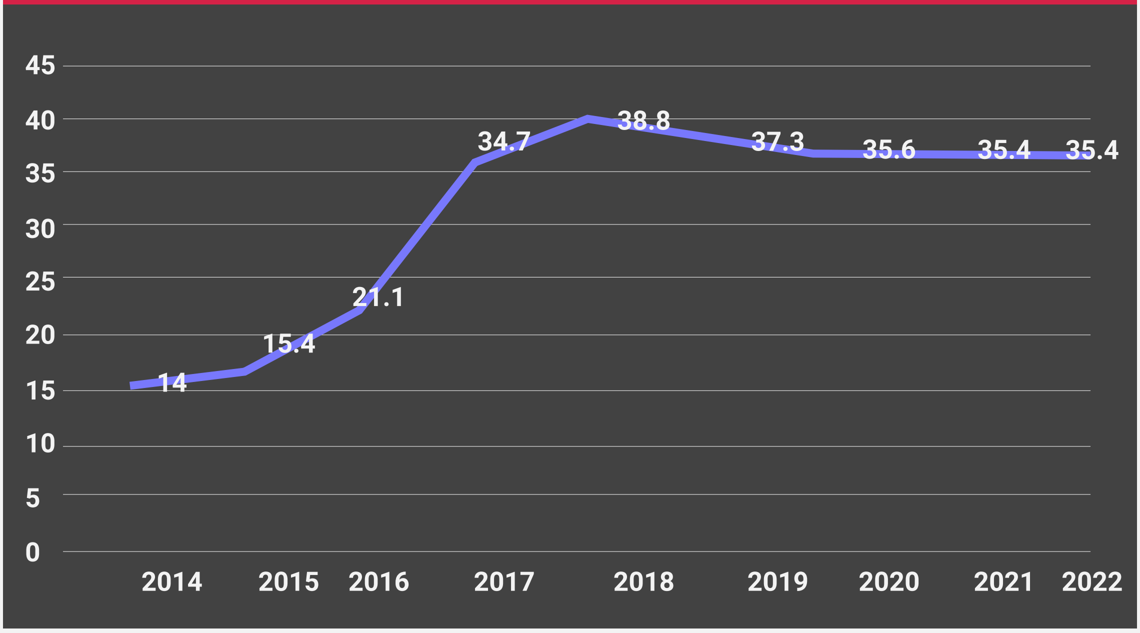


Source: international debt database, World Bank.

The increase in both long-term and short-term foreign debt in the period following 2016 and the start of the economic reform plan in cooperation with the IMF meant that the country became increasingly tied to making foreign debt payments in U.S. dollars. Given the structural problems of the Egyptian economy and its limited productive capacity to generate foreign currency, the only available path to repay these obligations was through more intensive borrowing. Since 2016, borrowing has effectively represented a recurring extension by the Egyptian government. Debt repayment figures illustrate this dilemma clearly: foreign debt interest payments rose from $1.6 billion in 2016 to nearly $11 billion in 2022, and annual principal repayments grew from $6.1 billion in 2016 to nearly $22 billion in 2022. The growing reliance on foreign debt in recent years has been driven by the need to finance large-scale investments in unproductive or low-return projects, where the government spent most of its revenues. The most notable of these include: infrastructure projects costing $400 billion, the New Suez Canal with a construction cost of $8 billion, and the New Administrative Capital, which is expected to cost $300 billion, in addition to increased arms imports—rising by 215% during 2013–2017 compared to 2008–2012[6]. The rise in debt levels often leads to financial and economic crises, as well as currency crises. A 2002 study by Carmen Reinhart found that in 84% of all debt crisis episodes across a sample of 59 developing and developed countries between 1970 and 1999, were followed by a currency crisis within 24 months. This typically forces governments to adopt austerity measures aimed at preventing a currency collapse—measures that often carry long-term negative consequences for development[7].

During the same period, the ratio of foreign debt to GDP rose from 14% in 2014 to nearly 35% in 2022, as illustrated in the following chart:

Foreign debt stock to GNI(%)

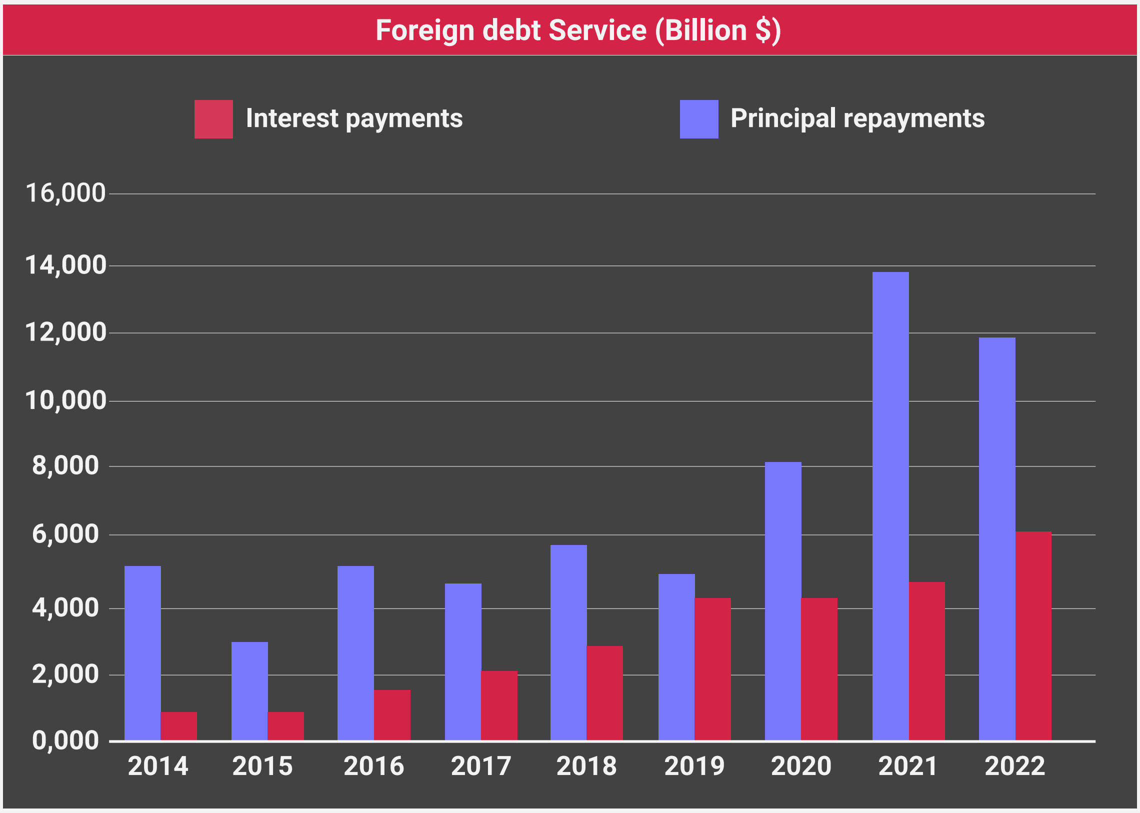


Source: international debt database, World Bank.

Although the increase in the foreign debt-to-GDP ratio was not alarming—since most of Egypt's debt still relied on domestic borrowing—this continuous rise did not contribute to improved economic development. In fact, between 2014 and 2022, Egypt's average annual GDP growth was around 4%, while the rate of debt accumulation was significantly higher. On average, foreign debt grew by approximately 250% over the same decade, translating to an annual average growth rate of about 25%. This rise in debt also failed to contribute to technology transfer, a role foreign debt can sometimes play. As previously mentioned, most of the debt growth was directed toward non-productive sectors, particularly infrastructure and real estate. However, foreign debt poses increasing risks, as it reflects growing dependence on foreign creditors—whether international institutions, foreign governments, or international bond investors. This, in turn, undermines financial sovereignty due to the high level of conditionality imposed by foreign creditors—unlike domestic creditors, especially in Egypt's case, where the government still controls the majority of domestic savings through state-owned banks. Moreover, foreign debt repayments in foreign currency increase the country's exposure to exchange rate crises, as seen in Egypt's own experience. This situation technically reproduces a vicious debt cycle: the more the exchange rate declines, the higher the cost of repaying foreign debt becomes[8].

As the volume of foreign debt accumulates to high levels, adopting a fixed exchange rate regime becomes necessary to keep debt service costs under control. Monetary policy then becomes subordinate to exchange rate policy in order to maintain the currency peg. As a result, the central bank loses a powerful and effective tool for correcting monetary and economic imbalances and for absorbing external shocks, which negatively affects economic development and the availability of financing.

The following chart illustrates the evolution of Egypt's foreign debt payments from 2016 to 2022, based on official data from the Central Bank of Egypt, which—as previously discussed—shows significant surges in these payments.



Source: international debt database, World Bank.

2.3 Breakdown of External Public Debt by Creditor

With regards to the current structure of Egypt's foreign debt, we realize that it is divided into three main components:

Multilateral institutions: multilateral institutions such as the IMF and the World Bank, represent the largest share of Egypt's foreign debt. This reflects Egypt's reliance on financial engagement with international organizations that typically offer loans tied to economic reform. While such financing can support economic stability and development, it also presents challenges—including strict austerity measures that affect living standards through actions like cutting subsidies on food and energy. Engagement with multilateral institutions enhances international investor confidence in Egypt's economy. Reaching an agreement with the IMF, for example, sends a positive signal to markets that the country is committed to economic reforms. However, the disruption of these reforms—as occurred throughout 2023—intensified pressure on the local currency. At the same time, these loans can contribute to improving the country's credit rating, which facilitates access to other sources of financing.

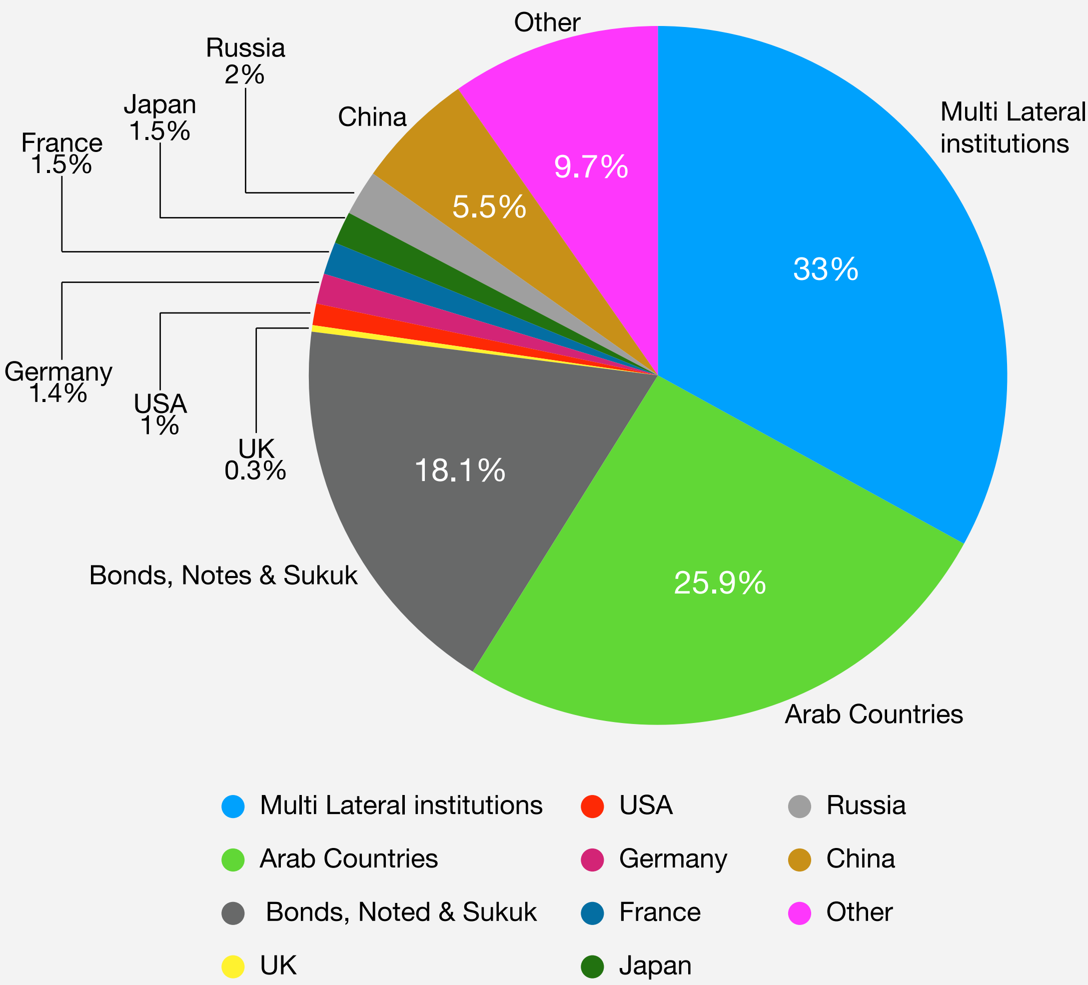
Arab countries (GCC): debt from Arab countries reflects the strength of regional relations and Egypt's reliance on financial support from Gulf Cooperation Council (GCC) countries, particularly Saudi Arabia and the United Arab Emirates. This support often comes in the form of direct loans or deposits at the Central Bank of Egypt. This dependence is a double-edged sword: while it underscores the importance of regional solidarity, it also places Egypt in a position where its economic policies may need to align with the geopolitical interests of its creditors.

By the end of 2023, Gulf deposits amounted to approximately $29 billion—about 83% of the Central Bank of Egypt’s total foreign exchange reserves, which stood at $34.9 billion at that time. These deposits are split between around $15 billion in long-term deposits—renewed by the UAE, Saudi Arabia, and Kuwait since 2013—and approximately $14 billion in short-term deposits (less than one year), provided as part of the current IMF financial rescue program.

Short-term Gulf deposits account for nearly half of Egypt's total short-term foreign debt. This marks a significant shift in the Gulf’s support strategy: in the past, support came in the form of long-term deposits with maturities of 3 to 5 years. However, starting in 2022, the Gulf countries began shifting toward an aggressive asset acquisition strategy—replacing part of their deposits with ownership stakes. One notable example was the UAE converting $11 billion of its deposits into part of the payment for the Ras El Hekma land deal.

International bonds and instruments: the large share of debt in the form of international bonds and sukuk (Islamic financial instruments) reflects Egypt’s continued reliance on international debt markets between 2017 and 2021—before global interest rates began to rise. Even after that period, Egypt issued international instruments in early 2023 at a very high yield of 11%, raising $1.5 billion, mostly from Gulf-based investor. The growth in the use of instruments aligns with Egypt’s strategy to attract Islamic investors and diversify its financial portfolio. These instruments provide the government with a mechanism to raise funds, but they also expose it to market risks, including interest rate volatility and investor confidences.

Foreign debt structure by creditor end of March 2024



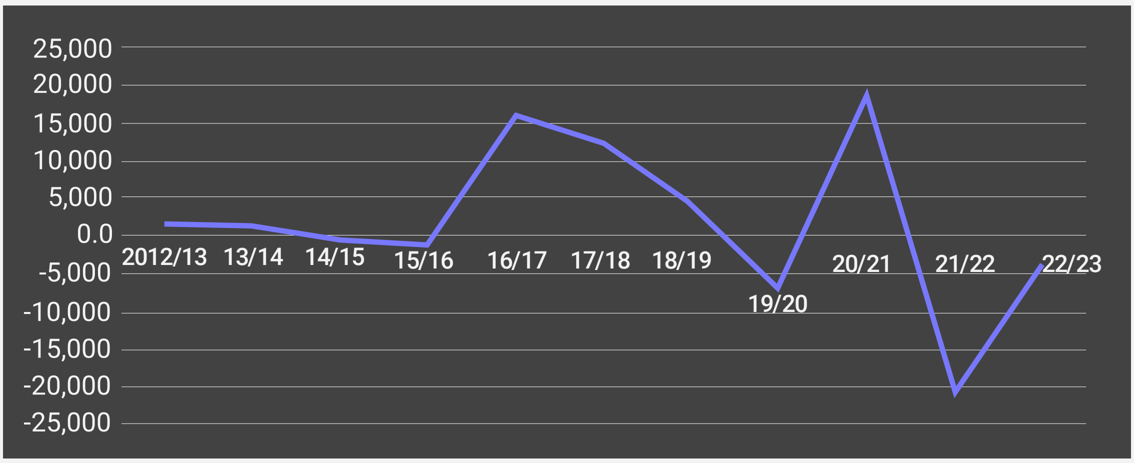
Source: Egypt Central Bank data, Egyptian economy foreign situation report.

3. Debt-driven growth

The government borrowed heavily from international debt markets while also relying on hot money flows, intensively borrowing from international debt markets on the long-term—i.e. bonds with maturity of more than 3 to 5 years. In addition, Gulf deposits held at the Central Bank since 2013, or loans from the IMF and World Bank with repayment periods of five years or more, constitute a way to finance Egypt's immediate foreign currency gap through inflows from hot money investors. Although hot money is not officially counted as part of foreign debt, it has been one of the key sources of instability during Egypt's current and previous financial crises. Successive waves of capital flight by hot money investors have exacerbated pressure on the local currency, pushing the government to borrow even more to address its financial problems. This, in turn, has led to a continuous accumulation of foreign debt.

The government has continued to attract hot money flows from 2016 until today—even after experiencing three separate foreign currency liquidity crises caused by the exit of hot money investors. These crises, as acknowledged by former Finance Minister Mohamed Maait, were a key driver of Egypt's financial instability. In 2022, before his eventual dismissal, the minister stated: 'Over four years, I've dealt with three shocks caused by hot money,' noting that approximately $15 billion exited Egypt during the emerging markets crisis in 2018, nearly $20 billion during the COVID-19 pandemic in 2020, and in 2022, Cairo faced a similar crisis when Russia invaded Ukraine and the United States began raising interest rates—prompting the withdrawal of an estimated $22 billion in investment portfolios[9].

The following chart illustrates portfolio investment (hot money) flows into Egypt over recent years, clearly showing the high volatility in this market and its subsequent impact on Egypt's foreign currency liquidity crisis:



Source: Egypt Central Bank data.

Despite this, the Central Bank of Egypt began raising interest rates on local treasury bills starting early 2022, and over just two years—during a time of mounting financial pressures—it tripled interest rates. However, this did not reduce the volatility of hot money flows. At the same time, the central bank implemented successive currency devaluations, with the U.S. dollar eventually stabilizing at around 49 Egyptian pounds, compared to a range of 15–16 pounds between 2019 and March 2022. As interest rates rise and the value of the local currency falls against the dollar, local currency-denominated treasury bills and bonds become more attractive to hot money investors. Moreover, Egypt offers full tax exemption on treasury bill returns for foreign investors. For example, if the discount rate (yield) on treasury bills is 20%, a foreign investor receives the full amount, while an Egyptian investor—or any local citizen buying treasury bills from a domestic bank—would receive only 16%. The government introduced this exemption on all types of taxes and fees on bonds and treasury bills in August 2020 as a way to attract more hot money. Relying on hot money offers no viable long-term sustainability, yet since 2016 the government has expanded this approach. Hot money investors earned large profits from high interest rates and tax exemptions, while the government effectively bought time before the crisis escalated. The real loser, however, has been the Egyptian citizen—whose taxes ultimately funded those interest payments to foreign investors.

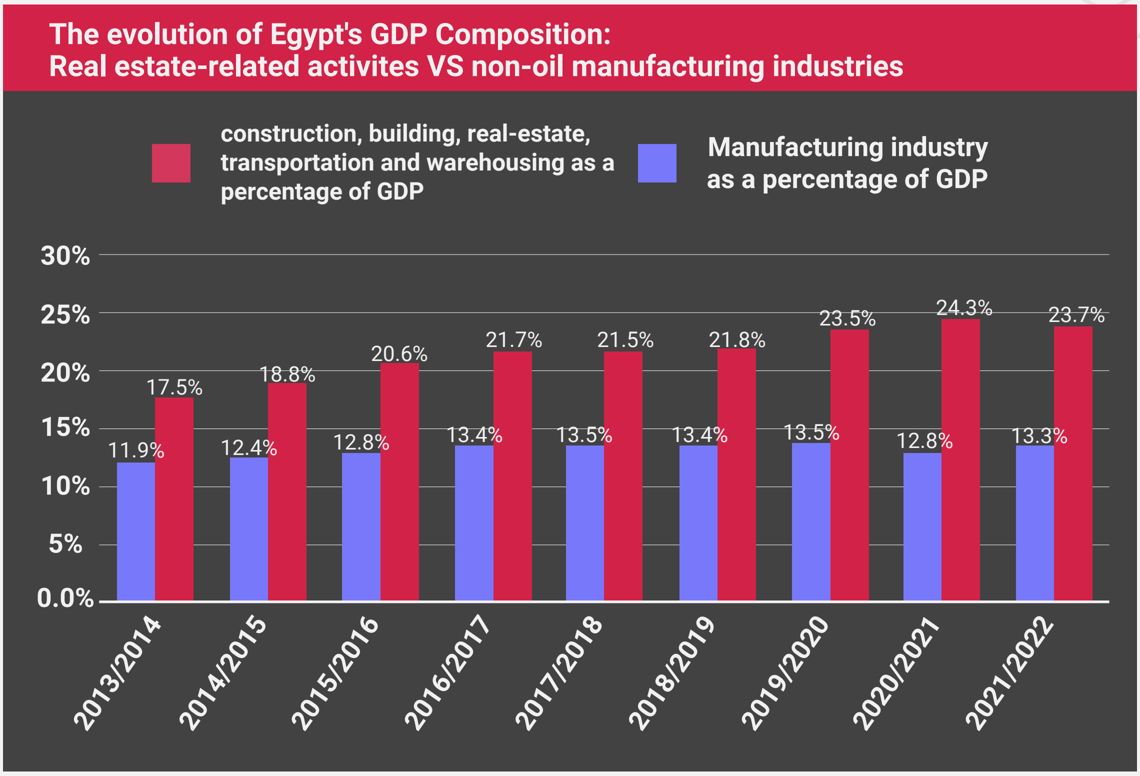
The Egyptian government turned to increased external borrowing to finance national projects, the details of which were largely shaped by political institutions following 2014. The plan began with heavy spending on infrastructure, aimed at keeping unemployment rates low. However, this intensive spending—promoted as a long-term strategy to boost foreign currency inflows by increasing levels of foreign direct investment—did not yield the expected results. During the same period, the government gradually reduced the share of the general budget allocated to social spending, particularly subsidies, wages, and social protection programs. These components consistently declined as a percentage of total expenditures, and their real value—after adjusting for inflation—also dropped year after year.

Egypt has spent many billions over the past decade on its national projects. Accurately quantifying the total is difficult due to the massive scale of these projects and the lack of detailed public data on how the funds were allocated. However, statements from officials offer a glimpse of the overall figure. In July 2021, President El-Sisi stated that the cost of national projects ranged between $390 and $400 billion[10]. This large number is supported by another figure shared by Planning Minister Hala El-Said, indicating that between 2014 and 2022, Egypt spent an average of around $50 billion annually on national projects. This level of spending represents a significant share of GDP in recent years.

Government and private investments have been concentrated in three main sectors. The first is the construction sector, which contribution to GDP rose from 4.3% in 2014 to 7.6% in 2022—an increase of nearly 80% over eight years, with an average annual growth rate of about 9.5%. This is an exceptionally high rate in the Egyptian context, given that overall GDP growth during the same period averaged only around 4.5%. In fact, between 2015 and 2020, the construction sector grew at an annual average of roughly 10%, more than double the economy's overall growth rate during that time.

The second sector targeted by government investments in recent years has been real estate, which the state viewed as an opportunity to extract rent and generate profits, similar to the private sector. The government identified vast desert lands in the urban outskirts of major cities, especially Cairo, and decided to capitalize on them—either by selling them to the private sector or by acting as a real estate developer itself, through the Ministry of Housing, the New Urban Communities Authority, and later the Administrative Capital for Urban Development Company, formed as a joint venture between the military and the New Urban Communities Authority. Between 2014 and 2022, the real estate sector's contribution to GDP grew significantly—from 9% to 11%. This is a notable increase, especially when compared to a sector like non-oil manufacturing, whose contribution to GDP rose by only around 1% over the same period[11].

Although investment in infrastructure is especially important for developing countries, Egypt's national megaprojects reflect a narrow vision of what infrastructure investment entails. Infrastructure is not limited to road networks serving the outskirts of Cairo—it also includes social infrastructure such as education and healthcare, as well as technological infrastructure to support high-value-added sectors like industry. The current model of infrastructure development in Egypt carries significant risks in terms of economic viability, financing, and its ability to foster a sustainable growth model—particularly in a country that lacks the large economic surpluses of Gulf states, which can afford lavish spending on megaprojects like high-speed electric trains, the new administrative capital, or monorails. These projects contribute to deepening Egypt's structural economic problems, especially regarding productivity and the quality of growth generated by such large-scale investments—most of which are financed through domestic and foreign debt. Therefore, it is essential to view these national projects not merely through the binary lens of success or failure, but by analysing the broader economic and political relationships they produce.



The above chart illustrates the core dilemma of growth concentrated in infrastructure-related sectors, which in Egypt's case have been closely tied to high levels of domestic and external borrowing. This has, in turn, produced a mounting debt-servicing crisis. The assets the government invested in have not generated foreign currency returns, and Egypt's sources of foreign exchange have actually deteriorated over time. Between 2010 and 2021, exports fell from 12% of GDP to 7.1%, foreign direct investment declined from 3.3% to 1.3%, tourism revenues dropped from 4.8% to 1.2%, and revenues from the Suez Canal fell from 2.2% to 1.5%. The only significant increase was in remittances, which rose from 4.8% to 7.8% of GDP over the same period. These trends are especially concerning given the rapid rise in foreign debt. Moreover, while tourism, remittances, and the Suez Canal are highly dependent on external factors (such as income levels in tourist-origin countries and the state of global trade), exports failed to grow even after the significant currency devaluation in 2016. At the same time, foreign direct investment also declined. These two developments primarily reflect the broader deterioration of the Egyptian economy[12].

4. Escaping the Bottleneck: Recommendations for Managing the Current Debt Crisis

The economic reform program that Egypt launched with the IMF aimed to address structural imbalances in the country's balance of payments, which continue to put pressure on Egypt's already limited foreign currency resources. However, more than eight years later, the reforms have failed to reduce the trade deficit—one of the core structural imbalances of the Egyptian economy. On the contrary, the current account and balance of payments deficits have worsened, particularly since 2020, due to rising debt repayments stemming from the government's aggressive borrowing between 2017 and 2020. Therefore, any meaningful structural reform agenda for Egypt must begin with a comprehensive debt management strategy, accompanied by a growth stimulation plan that avoids austerity—especially in terms of monetary policy, which has long-term implications for annual debt service costs and, consequently, impacts other components of public spending.

Any effective solution to Egypt's current debt crisis must not rely on the assumption that financial rescue can be achieved through the sale of national assets. Even if such asset sales provide short-term foreign currency liquidity, that liquidity will be quickly consumed by Egypt's high annual debt service payments. Therefore, effective debt solutions must begin by addressing the root causes of the problem—specifically, Egypt's strategy of generating growth through heavy public investment in infrastructure. Solutions should also acknowledge the shared responsibility between creditors and debtors, with a focus on sustainable human development and the full realization of human rights. In other words, a human rights–based approach to managing foreign debt requires that debt sustainability analyses account for the human rights implications of debt accumulation and servicing. Moreover, strengthening the principle of shared responsibility is essential—both debtors and creditors must work together to prevent and resolve unsustainable debt situations[13]. Debt restructuring should be guided by the core principles adopted by the United Nations General Assembly in 2015, which emphasize transparency, impartiality, equitable treatment, sovereign immunity, legitimacy, and sustainability—all aimed at creating a fair and lasting framework for managing sovereign debt crises[14].

Egypt needs a different strategy for managing its public debt. While the government has outlined general proposals on the matter—including a target to reduce total public debt to around 80% of GDP by June 2027, just three years from now—this target is practically unattainable if the country continues on its current path of borrowing at high interest rates, both domestically and internationally. Therefore, any viable strategy for managing Egypt's structural debt crisis must begin with fundamental changes in how the country approaches borrowing. This strategy could include several key elements:

Financial legislation to ensure government financial discipline: this legislation should include clear rules and standards to prevent the recurrence of a debt crisis—both in domestic and external borrowing. It should establish a defined ceiling on total borrowing, a separate cap on annual debt service, a transparent system for resource allocation, and strict prioritization of foreign financing for productive sectors and projects that support advanced technology transfer, as well as rigorous economic feasibility studies to assess their economic returns and potential to boost Egyptian goods and services exports during implementation and operation.

Comprehensive foreign debt restructuring strategy: Egypt must begin negotiations concerning its debt payments, especially those owed to Arab countries and multilateral institutions, which together constitute about 58.9% of Egypt's total foreign debt. Negotiations could start by converting these debts—particularly the Gulf deposits held at the Central Bank—into new foreign direct investments. The government has already implemented part of this strategy through the recent Ras Al-Hikma deal, which resulted in a reduction of foreign debt in recent months. However, many questions remain regarding the nature of the deal, the impact of future profit repatriations, and the continued concentration of investments in the real estate sector. Despite the challenges, negotiations to reduce either the principal debt or interest payments remain necessary. Although such negotiations require engagement with multiple parties, the current debt structure—heavily weighted towards international institutions and Arab countries—could significantly support debt restructuring efforts in Egypt.

Amending the tax law: The Egyptian tax system requires significant reforms in terms of efficiency and fairness. Reforms should start with implementing an annual tax on idle real estate wealth, such as unused tourist chalets and vacant residential apartments. The Real Estate Tax Authority needs to be developed to enhance its capacity to enforce the law, identify, and tax these cases. Taxes should also be imposed on stock market transactions and capital gains, a tax that has been inactive in Egypt for more than 10 years. Additionally, the Income Tax Law should be amended to adjust the progressive tax brackets. The tax-to-GDP ratio in Egypt is very low, currently representing only 11.8%. This ratio needs to be raised to acceptable levels above 20% to provide a sustainable and fundamental solution to the overall budget deficit and to achieve financial sustainability. Reforms must also include halting the increase of value-added tax (VAT) and other indirect taxes, which contribute to ongoing inflation and consequently lead to persistently high interest rates, placing further pressure on the general budget.

Negotiation with local banks to reduce interest rates on treasury bills: This step is essential for lowering local debt payments. Such negotiations could aim to reduce the interest rates on treasury bills at a faster pace than the central bank's main policy rate cuts, thereby achieving a reduction in interest payments on treasury bills.

Focus on structural reforms that support economic growth by prioritizing productive sectors: The current program with the IMF presents an opportunity to reinforce structural reforms—not only through conditions related to the state's withdrawal from economic activities or strengthening governance foundations, but also by implementing a broad package of structural reforms that can support growth. For example, Egypt should continue providing financial incentives and concessional loans to manufacturing, agriculture, and other productive sectors, while ensuring that these loans and facilities reach the deserving beneficiaries through proper governance and oversight mechanisms by the Central Bank and relevant ministries.

Focus on reducing the budget deficit: Egypt's ongoing austerity program should start by cutting unnecessary spending on large national and investment projects, while focusing on targeted increases in tax revenue rather than reducing social spending on health, subsidies, and education. This is due to the long-term negative impacts of underfunding these sectors and their detrimental effects on human capital. A key problem with the current austerity program supported by the IMF is that it does not set quantitative targets for social spending, whether in consultation with the IMF or even in adherence to constitutional mandates on spending for education and health sectors.

Investing in strengthening food and energy security at the local level: Food and energy account for more than one-third of Egypt's annual imports. Therefore, building local capacities in this area and reinforcing the foundations of food security at the local level through designing agricultural policies aimed at achieving food security, as well as investing in clean energy in Egypt, could provide a way out of the chronic crisis in Egypt's trade balance.

Implementing the Core Principles of General Budget Unity: The lack of budget unity, and the ongoing strategy of expanding the separation of budgets for economic authorities and special funds, prevents the general state budget from benefiting from the surpluses of these entities—such as the surpluses of the New Urban Communities Authority and some sovereign institutions—under the pretext that these surpluses must be reinvested or spent outside the general budget. This practice contributes to increasing the overall budget deficit. Therefore, applying the principle of budget unity is crucial not only for transparency and governance standards but also for improving the financial indicators related to the budget, thereby enhancing credit ratings and borrowing conditions both domestically and internationally.

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