The Economist

What fuel, bread and water reveal about how Egypt is mismanaged

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WITH less than two months to go before Egypt's presidential election, no one is talking about the choice of candidates, because there is no choice. All serious rivals to President Abdel-Fattah al-Sisi, who seized power in a coup in 2013, have been scared off. A single challenger, Moussa Mustafa Moussa, who until recently was an ardent fan of the president, announced his candidacy on January 28th and registered it 15 minutes before the deadline the next day, having somehow gathered 47,000 signatures in record time. Many suspect that Mr Moussa is only running to create the illusion of a real contest.

Instead of talking about the joke election, Egyptians are talking about inflation, which they do not find funny. Since the government allowed the overvalued Egyptian pound to float in 2016, it has halved in value. Many imports are unaffordable. "Three years ago you could buy all the electric appliances you needed for 50,000 pounds. Now it costs 150,000," says a waiter in Qaha, a city north of Cairo.

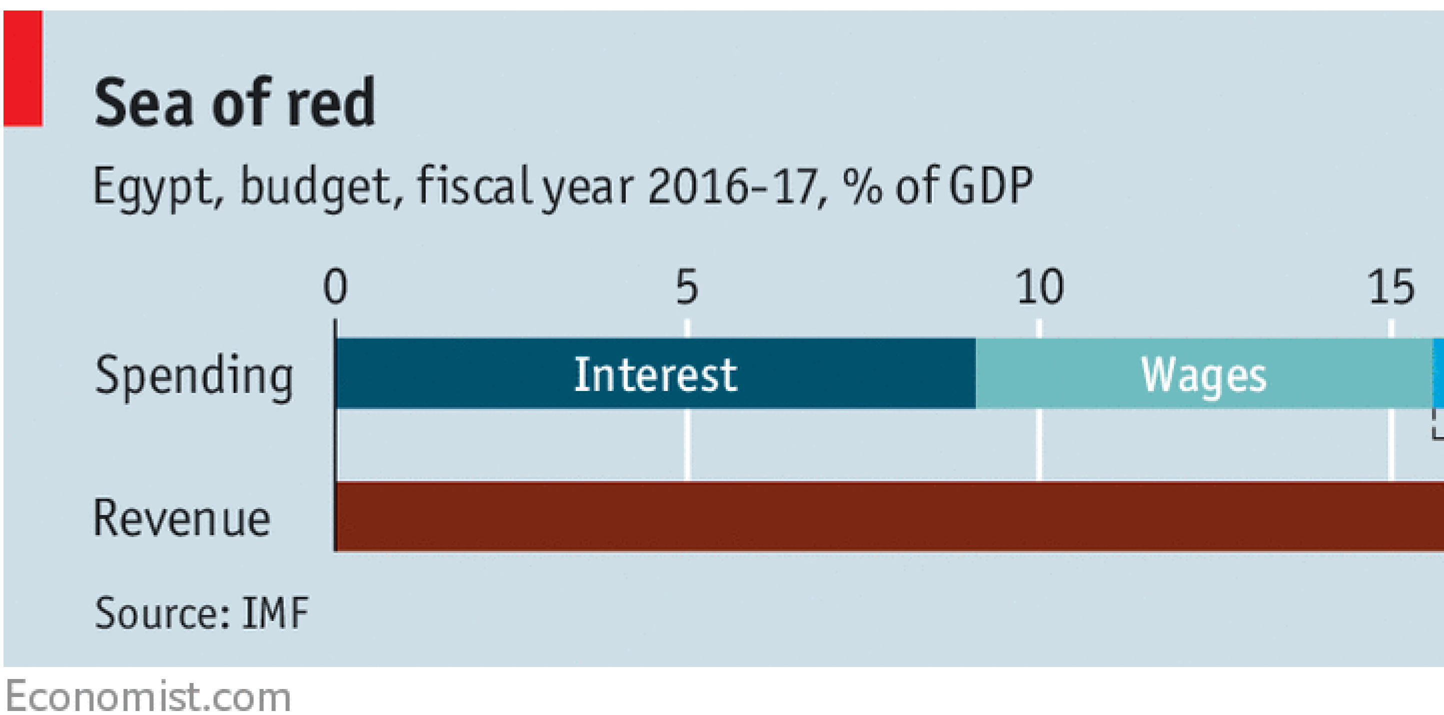
People who criticise the regime are loth to give their names, especially since it massacred protesters in 2013. But voters are plainly disgruntled. One says he gave up driving a tuk-tuk when the price of petrol jumped last year. "I was fed up of haggling over fares," he recalls. He now works in a bakery, making flat bread to sell at heavily subsidised prices. "People can't live without subsidised bread," he says.

This is a common belief in Egypt, and one reason why the economy is so hard to fix. People have grown used to price controls and subsidies, which have existed since the 1920s. They are costly, inefficient and have unintended consequences.

Three commodities—fuel, bread and water—illustrate the problem. Start with fuel. Whereas greener countries slap hefty taxes on petrol and diesel, Egypt does the opposite. Motorists pay only 59% of what it costs to fill their cars. Since driving is cheap, more people do it, aggravating congestion and making urban air eye-wateringly foul. The World Bank estimates that traffic jams in Cairo alone cost Egypt 3.6% of GDP. Egyptian cities are the fifth dirtiest in the world, says the World Health Organisation. And since the truly poor cannot afford cars, most petrol subsidies are captured by the better-off. The top 20% of urbanites receive eight times as much as the bottom fifth.

Similarly, bread subsidies are a waste of dough. Egyptians buy up to five loaves a day for a tenth of their cost. The state also subsidises sugar, cooking oil and other calorific staples. This is one reason why Egypt has one of the world's highest rates of adult obesity. And despite the introduction of smart cards to limit how much subsidised food an individual can take, the subsidies are often stolen.

A simpler system would distort the economy less while helping the poor far more. A study in 2013 by the Cato Institute, a free-market think-tank in Washington, estimated that if all food and energy subsidies were stopped and half of the savings used to pay for cash transfers to the poorest 60% of households, each of those households would receive $622 a year, more than doubling incomes for the bottom 25%.



Spending on subsidies is so colossal that the state has little left for health care and education (see chart). The military budget, which is secret, is probably unaffected. The government is also splurging on a new capital city. The budget deficit is expected to exceed 9% of GDP this year.

Pressed by the IMF, the Sisi government is curbing some subsidies and shifting towards cash transfers. Fuel subsidies were 3.3% of GDP in the 2016/17 financial year, down from 5.9% when Mr Sisi took office—a big shift. But food subsidies are expected to rise from 1.4% of GDP in the past financial year to 1.9% in this one. On the plus side, the increase is mostly in cash for foodstuffs that are not price-controlled.

Previous governments have tried to cut subsidies but backed down at the first bread riot. Gradual reforms are easier to reverse, argues Dalibor Rohac, the author of the Cato study. He recommends abolishing all commodity subsidies quickly, along with the bureaucracies that administer them, and replacing them with cash transfers. Mr Sisi will surely not do anything so radical before the election. Afterwards, his commitment to reform may depend partly on how much he needs IMF cash.

Water is probably the most sensitive commodity of all. Ever larger numbers of Egyptians cluster around the Nile, tapping its waters for their crops, factories and homes. The country's population is expected to grow from 99m to 120m by 2030. Pricing water properly would encourage conservation. Instead, Egypt allows farmers to take water for nothing, paying only the cost of pumping it. Urbanites are supposed to pay small fees, but these often go uncollected. As a result, Egyptians waste torrents of water growing rice, hosing down pavements and failing to recycle. "We have to dig deeper and deeper to get water," says Abdel-Fattah, a farmer. "I'm worried, and anyone who says he's not worried about water is lying."

More dam problems

Climate change could make Egypt even drier. More immediately, Ethiopia is building a huge dam on the Blue Nile, upstream from Egypt. Ethiopia, Egypt and Sudan have yet to agree how much water each should take. Mr Sisi met the other two countries' leaders on January 29th and insisted that there was no crisis. Others are not so sure. "There's a real possibility Egypt may seriously escalate over the dam," says H.A. Hellyer of the Royal United Services Institute, a think-tank in London. He does not think military options are off the table. Others doubt that Egypt would be so rash as to bomb the dam. Still, a strongman like Mr Sisi cannot afford to appear weak, especially since it emerged this week that his regime has been relying on Israel to bomb jihadists on Egyptian soil.

Tough economic reforms might be easier if the government enjoyed the legitimacy of having been freely elected. That clearly will not happen this year. Although Mr Sisi deserves credit for floating the pound and starting to tackle subsidies, Egypt will struggle to prosper so long as it is run by soldiers. Their instinct is to give orders and expect market forces to salute. Some turn power into rents. For example: the army is building lots of new roads, often without open tenders. For 21 of them, it has claimed the land for 2km on either side. Anyone who wants to open a shop by a new highway will have to pay the men in khaki.