



The Currency of Egyptian Democracy

Egypt's president has pulled off crucial economic reforms, but democracy is a dream again.

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The best time to raise the price of bread is when the population is fasting. And that's just what Egypt's President Abdel Fattah el-Sisi did: During Ramadan, he slashed bread and fuel subsidies — popular but economically ruinous — and became the only Egyptian leader in decades to attempt the reform.

“For Sisi, it was easy to do things because the opposition is in prison,” says Dalibor Rohac, an analyst with the Cato Institute, in Washington, D.C. Since taking office in June, the president has enacted a draconian law against protests, cleared the Egyptian revolution's No. 1 most wanted, former president Hosni Mubarak, of murder charges and quashed much of the democratic hope unleashed in Tahrir Square and beyond. All of which leaves experts and ordinary Egyptians with a conundrum: The economy is showing signs of a recovery, but whatever happened to the Arab Spring?

For now, it's unclear. Legislative elections, scheduled for March 2015, may give an indication, but for now economists and other experts agree that the fiscal progress has come at the price of democracy. To be sure, the reforms were a brave and difficult move: Those energy subsidies have long drained Egypt's coffers, costing the government around \$15 billion a year, a fifth of the state budget; it spends about \$3 billion a year to subsidize bread. The bread subsidies, in particular, have been the third rail of Egyptian politics. Anwar Sadat, the third president of Egypt, backtracked almost immediately when he tried to nix them in the '70s; Mubarak was too afraid of public backlash to even try.

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No doubt, Sisi's reforms have been bolstered by luck. A dramatic drop in oil prices should improve Egypt's finances by almost 1 percent of GDP, says the International Monetary Fund. And Arab Gulf states have poured \$10.6 billion into Egypt's leaden economy in the past fiscal year alone. But what looks good on paper may not be not paying off for the millions of Egyptians living on less than \$2 a day. “It is expensive for us,” says Tamer Sweidan, who runs a

car service with his father, and says the cost of filling the tank has risen from \$10 or \$11 pre-increase, to between \$17 and \$21.

Painful as Egypt's economic progress is for some, it remains fragile. Petroleum prices are still well below international levels (when's the last time you filled up your SUV for \$20?), and the jobless rate remains high at 13.1 percent. Earlier this year, a nationwide smart card system for subsidized bread debuted, with the goal of streamlining the mammoth wheat-purchasing program. But attempting to register 80 million Egyptians for the cards in a country infamous for red tape might give Sisyphus a laugh. The country can barely enforce basic traffic laws. When the ministry of the interior announced this month that drivers who drift out of their lane or ignore traffic signals would suffer heavy fines, Egyptian readers scoffed on social media: The law would be more effective, one person commented on Facebook, if Cairo had working signals — or lanes.

Then there's the issue of security; terrorism frightens investors, too. More than 30 soldiers were killed in Sinai in October when a suicide bomber drove his truck into a remote checkpoint, the deadliest attack in almost four years. Though the president has responded aggressively, "imagining that the security situation will magically resolve itself overnight is naïve," says Hisham El-Khazindar, co-founder and managing director of Qalaa Holdings, an Egyptian investment company. Yet El-Khazindar says he's hopeful despite the potential for "random terrorist attacks and bombs now and then." He expects his business to return to profitability by the end of 2015, after several months of losses, and Egypt's deficit, which stood at 12 percent in the 2013-14 fiscal year, to drop to the single digits by 2016-17.

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Other investors seem eager, too. Take Egyptian billionaire Nassef Sawiris and his company, Orascom Construction Industries. OCI plans to boost investment in Egypt by partnering with an Abu Dhabi energy firm to build a coal-fired power plant on the Red Sea. For Sawiris, things are looking up after years of being "targeted" by the ex-Muslim Brotherhood government, whose investigation of OCI for alleged tax evasion could have cost the company millions of dollars. The reforms are "transformational for Egypt," he says.

Emad Mostaque, a strategist at Ecstrat, an independent research consultancy in London, agrees that the economy "will do relatively well." But not because of clever government economists. Rather, with the army essentially in power, the possibility of national disruption via protest is almost nil. "Even if you have democratic reform in Egypt, you know who is going to win," says Mostaque. "It's trickle-down economics with no trickle-down."