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SPOTLIGHT

A Bottomless Pit? EU Increases Support for Egypt

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An agreement for €7.4 billion in EU support for Egypt announced on 17 March is intended to prevent the country from destabilisation because of an ongoing financial crisis. However, the deal does not address the corruption or role of the military in the state economy that are the main causes of the crisis, which will limit the impact of the funds on improving Egypt's situation. After similar deals with Tunisia and Libya, this is yet another dose of aid to EU neighbours conditioned on limiting migration, but which seems to just encourage authoritarian leaders to instrumentalise it in their policies towards the Union.

What does the new agreement contain?

The deal elevated the relationship between Egypt and the EU to a strategic partnership. Under it, the two sides agreed to political cooperation, with the EU pledging support in the development of the energy (including renewables), agriculture, and digital sectors, among others. The EU also pledged to support Egypt's Development Agenda 2030 and the 2024 International Investment Conference. The agreement calls for strengthening cooperation in reducing irregular migration by combating smuggling, as well as developing opportunities for legal emigration of Egyptians to the EU.

Of the €7.4 billion in support, €5 billion is as loans to be disbursed in tranches over the next four years, €1.8 billion as investments, and the remaining amount will be spread over various bilateral projects (including €200 million to combat human smuggling and strengthen Egyptian border security). The aid is subject to conditions imposed on loans by the International Monetary Fund.

In what political and economic context was the agreement signed?

Egypt's deepening debt crisis in recent years has brought it to the brink of economic collapse. The social and economic problems are further exacerbated by the ongoing wars in the region—in the Gaza Strip, where hostilities have been taking place since October 2023, Sudan, where a civil war broke out last April, and Libya, mired in internal conflict since 2011. In addition, one of the key elements of the Egyptian economy is revenue from transit through the Suez Canal, comprising about 10% of GDP, but which has been disrupted by the Yemen Houthi attacks on merchant ships passing through the Bab al-Mandab Strait. As a result, revenues from canal passage fees fell by half this January compared to the previous year.

These factors have increased the potential for a rise in migration to Egypt from conflict countries, as well as raised the risk of destabilisation of Egypt itself, home to around 107 million people. This prompted EU countries to step up talks on financial support linked to efforts to stem migration across the Mediterranean to Europe.

Have similar initiatives been successful in the past?

Since the 2013 coup, foreign financial institutions, Gulf states, and the EU have stepped up their support for Egypt in the form of investments and loans. As a result, Egypt has become the second-largest debtor (after Argentina) to the IMF, with foreign debt rising from $40 billion in 2015 to $165 billion (92.7% of GDP) in 2023. To meet the terms of further IMF loans, Egypt loosened (and then later tightened) the currency exchange rate several times. This pushed up inflation, which reached 40% last August, when food prices rose 70% year on year. The authorities once again freed the Egyptian pound exchange rate in early March this year; the value of the currency then fell by 38%. This allowed an increase in a loan package from the IMF, approved in December 2022, from $3 billion to $8 billion, although Egypt did not complete the first or second review under the programme, which the authorities explained away by the tensions in the region and presidential elections (conducted in December 2023).

Subsequent loans, however, have failed to curb the dominance of the military and related businesses in the state's economy or corruption, which are the main causes of the country's financial problems. The budget deficit remains around 7% of GDP, and foreign exchange reserves have fallen from $45 billion in 2019 to $32 billion in 2022.

What does the deal mean for Egypt's future?

The deal with the EU is part of Egypt's attempt to raise foreign financing, an effort it has stepped up since the start of the Gaza war. The authorities have also found $35 billion in investments and a loan from the United Arab Emirates, as well as the increased package from the IMF, which in the short term will help reduce the downward pressure on foreign currency reserves.

This support will, however, facilitate the continuation of inefficient development policies based on large-scale and capital-intensive projects. They require foreign financing and are implemented by military-linked companies (often excluded from taxes), but unable to reduce unemployment. Among young people, it is around 25%, while nearly 63% of working people are employed in the informal sector. The deal is also unlikely to improve the situation of the poorest or middle-class Egyptians and, according to official data, poverty in Egypt remains at around 30% —unofficial figures put it as high as 65%—of the population.

How will the deal affect the EU's relations with Egypt and the region?

Yet another agreement with an authoritarian state ruled by an economically ineffectual leader in North Africa confirms that the EU's priority in relations with its southern neighbourhood is merely to contain migration. This increases the vulnerability of the Union and its Member States to the instrumentalisation of migration especially by Arab dictators, and thus raises the risks that European funds for investment and loans to countries that consume them will just be ineffective because they do not address the structural economic problems and/or corruption.

At the same time, Egypt's size and potential for destabilisation of the southern neighbourhood does not allow the leaders of the Union or its Member States to ignore the country's financial problems. Therefore, the priority in providing support should be to establish detailed loan conditions, mechanisms for monitoring them, and sanctioning lack of progress in their implementation. The EU's resilience to pressure from its southern neighbours will be increased by new solidarity mechanisms for managing immigration within the Union.