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منتدى البحوث الاقتصادية

Egypt's Economy in the Age of Permacrisis[1]

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Abstract

This paper develops an analytical framework to explain why Egypt has been trapped in a prolonged state of "permacrisis" since the early 1950s, characterized by recurring economic challenges and an inability to achieve sustainable, inclusive growth. The framework integrates three interconnected factors that have perpetuated Egypt's economic stagnation: the persistence of flawed economic policies ("bad ideas"), reactive crisis management approaches, and entrenched political economy dynamics that concentrate power and resist meaningful reform. The analysis reveals that Egypt's economic trajectory has been marked by volatile boom-bust cycles, with growth averaging only 4% annually since the 2008 global financial crisis—not sufficient to meaningfully improve living standards. Key structural imbalances persist, including chronic savings-investment gaps, export-import deficits, and government revenue-expenditure shortfalls. These vulnerabilities have been exacerbated by the persistence of misguided policies such as excessive energy subsidies, price controls, fixed exchange rate regimes, and over-reliance on public sector employment. Unlike successful emerging economies that leveraged crises as catalysts for structural reform, Egypt has not been able to implement comprehensive changes, instead reverting to short-term stabilization measures. Building on this analytical framework, the paper concludes by outlining a comprehensive reform agenda emphasizing pragmatic governance, institutional strengthening, and strategic economic diversification to break Egypt's cycle of permacrisis and achieve sustainable development.

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JEL classification: O4; O5; P00.

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[1] A refinement of this paper, currently work in progress, empirically tests the permacrisis cycle introduced here by mapping each stage of Diagram 1 into observable indicators and estimating a parsimonious dynamic panel and panel structural model. Institutional quality is modeled as shaping elite capture and policy choices, which generate macroeconomic vulnerabilities; these vulnerabilities trigger reactive crisis management, and together these mechanisms account for medium-run growth performance. Stages are linked to data through standard proxies rather than perfect measures, including governance and regime-type indices for extractive institutions, measures of rent seeking and state-owned enterprise presence for elite interests, subsidy intensity, public employment, exchange-rate misalignment and price controls for policy choices, external and fiscal imbalance indicators for crisis vulnerability, sharp policy shifts, temporary controls and IMF-program-related reversals for crisis management, and trend real GDP per capita, total factor productivity, investment and unemployment outcomes for perpetuated stagnation.

1. Schools of Thought in Economic Development

While the term “permacrisis” is of relatively recent vintage, denoting the cascade of increasingly complex and daunting challenges confronting the global economy, it provides a useful framework to evaluate Egypt’s economic performance. Since the early 1950s, Egypt has been entrenched in a state of constant flux, facing recurring economic challenges that are often self-perpetuating. The government has sought to address these challenges, but with limited success in overcoming structural weaknesses and achieving lasting stability. The country’s history is characterized by cycles of reform attempts, only to be followed by setbacks and economic decline. These repeated crises, combined with an inability to fully address underlying issues, have led to a prolonged state of “permacrisis” that has shaped Egypt’s development trajectory and continues to dent its economic prospects.

To understand the roots of Egypt’s ongoing struggles and the inability to break free from this cycle, several influential schools of thought offer valuable insights into the underlying drivers of what differentiates economic success from economic failure. These frameworks address the fundamental question of why some nations are rich while others remain poor, exploring the political, economic, and institutional factors that determine prosperity or poverty. This paper integrates three complementary perspectives—institutional dynamics, pragmatic leadership, and empirical policy frameworks—to develop a comprehensive analytical model that explains how Egypt became trapped in perpetual crisis and how it might escape.

Acemoglu and Robinson (2012) in *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* argue that the prosperity of nations is determined by their institutions. They distinguish between inclusive institutions that promote broad participation and innovation, and extractive institutions that concentrate power and wealth, leading to stagnation and inequality. For example, they compare North Korea and South Korea, where the former’s extractive institutions led to poverty, while the latter’s inclusive institutions fostered rapid economic development. Similarly, they examine the historical examples of colonialism in Africa and Latin America, highlighting how colonial powers established extractive institutions that hindered long-term economic growth. Their argument is that institutional reform is necessary for sustainable prosperity, and leadership plays a secondary role in either maintaining or altering these institutional frameworks.

Building on this institutional framework, Acemoglu and Robinson’s subsequent work, *The Narrow Corridor: States, Societies, and the Fate of Liberty (2019),* argues that successful societies navigate a precarious middle path between state despotism and state weakness, emphasizing the dynamic balance between state capacity and societal accountability. This refined framework shifts from a binary conception of extractive versus inclusive institutions to a dynamic model centered on state-society tensions. James Fenske has engaged critically with this framework, suggesting in his review published in the Journal of Public Finance and Public Choice (2020) that while the narrow corridor’s theoretical power is evident, institutional outcomes also depend on path dependence, cultural factors, and knowledge constraints that extend beyond the state-society balance. Fenske’s work implies that understanding development trajectories requires attention to multiple layered mechanisms of institutional persistence and change, not solely the negotiation between state power and societal mobilization—a critical nuance for analyzing Egypt’s specific institutional challenges.

In *Turnaround: Third World Lessons to First World Growth*, Peter Blair Henry (2013) emphasizes the importance of leadership and policy reforms in transforming economies. Henry (2013) argues that effective leadership and pragmatic economic policies, such as market liberalization and infrastructure investment, have been central to the success of countries like South Korea and Chile. For instance, he discusses how South Korea's leadership, particularly under President Park Chung-hee, implemented key economic reforms that fostered industrialization and led to the country's transformation into one of the world's leading economies. Similarly, Henry (2013) examines Chile's economic turnaround under Augusto Pinochet in the 1970s and 1980s, when market-oriented reforms, despite their controversial nature, helped transition the country from stagnation to rapid growth. Unlike Acemoglu and Robinson (2012), Henry (2013) places more emphasis on the practical policies and leadership decisions that drive these transformations, even when institutional frameworks may be less than ideal.

The Growth Report: Strategies for Sustained Growth and Inclusive Development (Commission on Growth and Development, 2008) identifies key strategies for fostering long-term economic growth and inclusive development, based on the experiences of thirteen countries that achieved rapid economic growth over a 25-year period following World War II. Led by Nobel laureate Michael Spence, the Commission sought to determine the key characteristics of these successful economies to explore how other developing countries might emulate them. The countries that made this list are: Botswana, Brazil, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Malta, Oman, Singapore, Taiwan, and Thailand.

The report's approach is pragmatic, recognizing that there is no one-size-fits-all solution for economic reform. It stresses the importance of a comprehensive strategy that involves both incremental changes and structural reforms over time. It also highlights the role of leadership in driving reform. The report outlines several critical strategies for achieving sustained growth, including investment in human capital, infrastructure development, macroeconomic stability, inclusive governance, openness to trade and investment, the role of the state in supporting markets and addressing market failures, and a long-term commitment to reform, highlighting the need for sustained policy changes to achieve development (Commission on Growth and Development, 2008).

Drawing on the these three schools of thought, it becomes evident that Egypt's prolonged state of "permacrisis" since the early 1950s is the result of three interrelated factors corresponding to these different perspectives. The first factor is the persistence of "bad ideas" in economic policymaking. Assessing the Egyptian economy against the findings of the Commission on Growth and Development (2008), Egypt has largely adopted many policies that have significantly contributed to its persistent economic challenges. Examples of these policy options include, but are not limited to, energy mis-subsidization, relying on the civil service to address joblessness, imposing price controls, banning exports to control domestic prices, and allowing excessive exchange rate appreciation.

The second factor is Egypt's reactive crisis management and its general inability to move beyond this, which has undermined the development of long-term resilience. The country has faced numerous crises, from the fallout of the 1956 Suez Canal crisis and 1967 war to the balance of payments shocks in the 1990s and early 2000s, and then more recently the Triple-F crisis over 2008-2011, the COVID-19 pandemic, and geopolitical disruptions like the Russia-Ukraine war and the 2023 Israeli aggression on Gaza. Its responses to these crises have been ad hoc and fragmented, prioritizing short-term stabilization measures over addressing the root causes or implementing preventive measures. Unlike other countries, Egypt has not leveraged crisis episodes as opportunities to implement structural reforms. Instead, it repeatedly returns to the *status quo* once the acute case of crisis is over, without applying "lessons learned" or resolving underlying vulnerabilities (Mohieldin et al., 2024a).

The presence of "bad" policies in Egypt is certainly not unique—many countries have faced similar challenges throughout their histories. The fundamental problem lies in Egypt's inability to break free from entrenched patterns of governance and reform its economic system. While other nations, having confronted severe crises, managed to implement significant reforms and subsequently achieved improvements in key indicators such as per capita GDP and overall development, Egypt has struggled to make comparable progress. This disparity raises a critical question: why has Egypt been unable to enact these necessary changes?

There are several potential explanations, and it could be a combination of all or some of them. One explanation lies in Egypt's failure to adhere to the leadership discipline and sustained commitment to a pragmatic growth strategy highlighted by Henry (2013). Contrary to Henry's assertion that these are crucial for success in emerging countries, Egypt has struggled to maintain such discipline. Despite various reform attempts, the country has often lacked the long-term vision necessary for effective economic transformation. Egypt's frequently reactive policies are driven by immediate crises rather than a coherent, forward-looking strategy (the second factor). Contributing to this lack of vision may be Egypt's reliance on external financial support, which has diminished the urgency for domestic reform. Such bailouts can reduce the internal pressure to address underlying structural issues, further entrenching short-term thinking and delaying the necessary transformation.

Another possible explanation is the lack of institutional capabilities to support meaningful reform, a point frequently discussed in the literature on economic failure, such as Acemoglu and Robinso's work on inclusive institutions. This leads us to the third factor contributing to Egypt's state of "permacrisis": the country's entrenched political economy dynamics.

Egypt's political and economic structures have been shaped by a centralized governance model that prioritizes stability over broad-based development (Sullivan, 1990). This model has led to a system where policy decisions are often influenced by rent-seeking behaviors, patronage networks, and elite interests, which can influence economic outcomes and potentially perpetuate inequalities within the system. These structural dynamics align with the extractive institutions described by Acemoglu and Robinson, where concentrated power and resources limit access to opportunities for broader economic mobility, hindering the development of more inclusive and sustainable economic growth.

Other factors also contribute to the broader institutional argument. Notably, there appears to be insufficient societal demand for change. The absence of a strong, influential middle class, which could advocate for transformative policies, may further impede reform. This stands in contrast to the experiences of other nations, such as South Korea, where the emergence of a dynamic middle class played a key role in driving economic and political reforms. Moreover, Egypt's limited civil society participation may further exacerbate the lack of reform. Civil society organizations, which often serve as vital advocates for change in other contexts, have not played a sufficiently strong role in Egypt.

The three factors discussed above are deeply interconnected, reinforcing a cycle of fragility and stagnation. Ineffective policies ("bad ideas") perpetuate structural weaknesses that make crisis management more difficult, while political economy dynamics prevent these issues from being effectively addressed. Together, these factors have entrenched vulnerabilities and limited the country's ability to transition from its chronic "muddling through" operating mode to achieving sustainable, inclusive growth. Breaking this cycle requires more than just technical fixes; it demands a fundamental rethinking of governance, accountability, and the social contract.[2]

This paper examines Egypt's ongoing challenges and charts a potential path toward resilience and inclusive growth. Section 2 introduces an analytical framework to explain the roots of Egypt's Permacrisis. Section 3 provides an overview of the economy, analyzing key figures and addressing critical gaps in exports-imports, savings-investments, and government spending-revenues, while drawing comparisons to countries that have achieved better outcomes despite starting from a similar or worse position. Section 4 explores the impact of flawed policy choices, or "bad ideas," on Egypt's development trajectory, contrasting these approaches with more successful strategies adopted elsewhere. In Section 5, the focus shifts to Egypt's management of recurrent crises, assessing the effectiveness of its responses and identifying areas for improvement. Section 6 tackles the interplay between bad ideas, entrenched leadership, and poor governance, proposing avenues for reform. Section 7 concludes by offering recommendations to help Egypt move beyond its persistent challenges toward sustainable, inclusive growth.

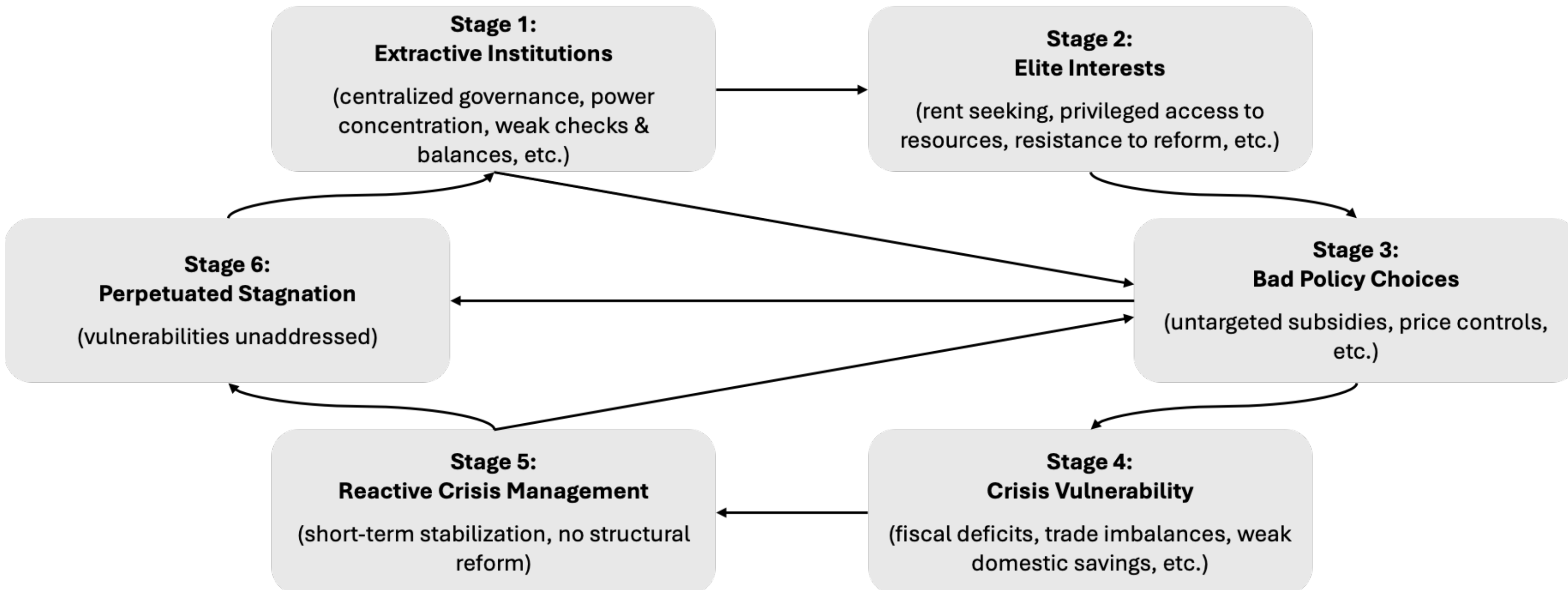
2. An Analytical Framework of Egypt's Permacrisis

The three schools of thought outlined in Section 1—institutional analysis (Acemoglu & Robinson), leadership-driven reform (Henry), and empirical growth strategies (Commission on Growth and Development)—should not be understood as competing explanations of Egypt's stagnation. Rather, they comprise an integrated causal sequence that elucidates how Egypt entered a state of permacrisis and why it has struggled to exit it.

This paper advances an integrated analytical framework—*the permacrisis cycle*—that synthesizes these perspectives into a coherent account of Egypt's economic trajectory. The framework clarifies why Egypt, and other economies with comparable institutional legacies, repeatedly experiences episodes of economic distress. Diagram 1 presents this self-reinforcing dynamic as a cyclical process composed of six sequential stages.

[2] For a comprehensive review of schools of thought, their policy implications, influence, and impact on policymaking in the Egyptian context, refer to Hendy and Mohieldin (2020).

Diagram 1: Analytical Framework of the Permacrisis Cycle



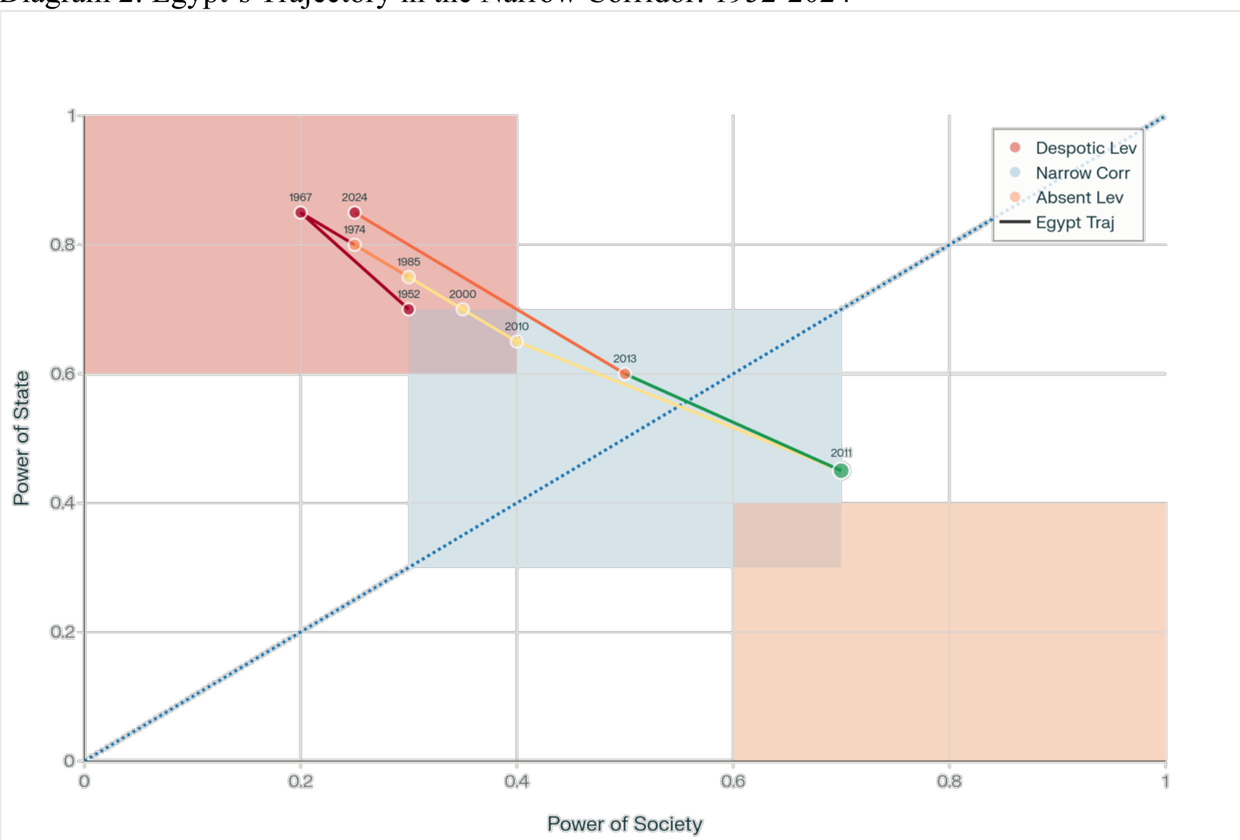
Source: Authors' own hypothesized analytical model of Egypt's permacrisis.

Stage 1: Extractive Institutions. Centralized governance, concentration of power, and weak checks and balances characterize Egypt's institutional landscape. These institutions do not foster competition, innovation, or inclusion; instead, they favor tightly knit elite networks that exercise disproportionate influence over economic and political outcomes. Within extractive institutional frameworks, decision-making is opaque, accountability mechanisms are weak, and the rules of the game systematically advantage those with privileged access to state power and resources.

Extractive institutions generate two distinct causal pathways that perpetuate economic stagnation. First, they enable and concentrate elite interests (Stage 1 → Stage 2), creating networks of beneficiaries with strong incentives to resist reform. But second, and equally important, extractive institutions directly embed distortionary policies into the structure of governance itself (Stage 1 → Stage 3). That is, centralized power structures are themselves designed to enable certain policy choices—state control of key sectors, administered pricing systems, protected monopolies, and state-directed credit allocation—that serve elite interests while constraining broad-based growth. This direct institutional-to-policy pathway explains why policy change proves so difficult: the policies are not merely choices made by policymakers; they are structural features of extractive governance systems.

Taken together, these features place Egypt in a persistent configuration where state power is highly centralized while societal constraints remain weak. This long-run state–society imbalance is illustrated in Diagram 2, which maps Egypt's trajectory in the Narrow Corridor framework.

Diagram 2: Egypt's Trajectory in the Narrow Corridor: 1952-2024



Source: Authors' adaptation of the Narrow Corridor discussion to the Egyptian context.

Diagram 2 illustrates Egypt's political-economic trajectory (1952–2024) mapped onto Acemoglu and Robinson's Narrow Corridor framework, which posits that liberty emerges only when state and societal powers achieve dynamic balance along the diagonal corridor. The diagram suggests that Egypt remains largely situated in the Despotic Leviathan zone (upper-left red area), where a powerful state apparatus operates with limited institutional constraints from organized society. From the post-1952 republican transition through subsequent political phases, the path shows gradual shifts but does not converge toward the corridor. The 2011 uprising appears as a brief departure, when societal mobilization intensified (rightward shift) and state authority temporarily weakened (downward movement), allowing a short-lived entry into the Narrow Corridor space where institutional balance becomes more feasible. This episode proved temporary, as the post-2013 reconfiguration of power marks a return toward the Despotic Leviathan pattern, with the trajectory ending in 2024 at a point resembling earlier periods of strong centralized authority and constrained civic space. The upward-right arrows within the corridor depict the Red Queen Effect, indicating that sustaining liberty requires continuous mutual strengthening of both state and society; Egypt's trajectory indicates that this dynamic has not been durably maintained.

Stage 2: Elite Interests. Economic and political elites benefit substantially from the institutional setup established in Stage 1, engaging in systematic rent-seeking, securing privileged access to valuable resources, and actively resisting any reform that would undermine their advantages. These groups have minimal incentive to support institutional or policy change because the current system distributes benefits in their favor. They leverage their preferential access to state decision-making to maintain subsidies on inputs they use, protect sectors in which they operate from competition, secure advantageous access to credit and public contracts, and shape regulatory frameworks to their advantage.

The resistance to reform is not passive; elites actively mobilize their institutional privileges to prevent or reverse reform attempts. This reinforces the system's institutional inertia, making it progressively more difficult for pragmatic leadership to implement sustained policy change even when the economic costs of the status quo become evident.

Stage 3: Bad Policy Choices. Protected by extractive institutions (Stage 1) and empowered by elite interests (Stage 2), state policy becomes systematically distortionary. The policy choices exemplify what the Commission on Growth and Development identified as "bad ideas"—policies that deviate from empirically validated growth strategies. Examples include untargeted energy and food subsidies that drain fiscal resources and encourage wasteful consumption; price controls on essential goods that suppress production incentives and create shortages; artificially maintained exchange rates that undervalue exports and encourage import dependency; and state-owned enterprise management focused on employment provision rather than efficiency.

These policies persist not because policymakers are ignorant of their costs. Technical analyses—from the IMF, World Bank, and domestic economic analyses—clearly document the fiscal, distributional, and efficiency costs of these policies. Rather, policies persist because they serve entrenched elite interests: subsidies benefit politically connected traders and large industrial users; price controls protect specific constituencies; exchange rate policy protects import-competing sectors; and state employment maintains patronage networks. The policy choices of Stage 3 represent the intersection of institutional constraints (Stage 1) and elite interests (Stage 2).

The causal structure includes a critical additional pathway: Stage 5 → Stage 3, showing that reactive crisis management directly reinforces bad policy patterns. When crises occur and states respond with short-term stabilization measures (Stage 5), those responses often reinstitutionalize the very policy distortions that created the vulnerability. Price controls are extended or reimposed to manage inflation following devaluation; subsidies are temporarily increased to manage social discontent during adjustment; and exchange rate management becomes more discretionary. Rather than leveraging the crisis window to implement structural policy reform, reactive management entrenches bad policy patterns further, making them progressively more difficult to reform. This feedback loop (Stage 5 → Stage 3) explains the cyclical pattern of policy failures: each crisis response contains the seeds of the next crisis because it reinforces rather than reforms the underlying policy distortions.

Stage 4: Crisis Vulnerability. Distortionary policies create growing economic fragilities that accumulate and compound. The three fundamental macro imbalances—the savings-investment gap, the exports-imports gap, and the government budget gap—all emerge from policy distortions in Stage 3. Untargeted subsidies and low energy prices suppress domestic savings by encouraging consumption and reducing real returns on financial assets. Overvalued exchange rates and protected import-competing sectors combine to create persistent trade deficits as exports remain uncompetitive. Fiscal deficits emerge from subsidies, inefficient state enterprises, and limited revenue mobilization.

These three imbalances interact to create systemic vulnerability: chronic fiscal deficits require external financing, creating debt vulnerabilities; persistent trade deficits create foreign exchange pressures; and weak domestic savings limit capital formation and productive investment. The system becomes increasingly susceptible to shocks from within or abroad. External shocks—global financial crises, commodity price spikes, geopolitical disruptions—or internal shocks—political transitions, harvest failures, security incidents—can trigger acute crises because the underlying vulnerabilities leave no buffers.

Stage 5: Reactive Crisis Management. When crises inevitably erupt, the state response is predominantly short-termist and reactive rather than structural. Emergency measures are deployed: subsidies are increased to manage price spikes; price controls are imposed or extended to suppress inflation; external borrowing finances deficits; and austerity cuts government investment spending. These measures address immediate symptoms—managing inflation, calming markets, providing temporary relief to vulnerable groups—but do not address root causes in the institutional and policy structures (Stages 1-3). Temporary fixes prioritize political survival and maintaining the status quo over implementing difficult reforms that would redistribute costs or challenge vested interests. The consequence is critical: reactive crisis management does not resolve vulnerabilities; it defers them.

Moreover, through the Stage 5 → Stage 3 feedback pathway, reactive responses actively reinforce bad policy patterns. Each crisis response entrenches policies further, making subsequent crises more likely and more severe. This explains why Egypt’s pattern shows recurring crises: in the 1980s, during the 2008-2011 period post the Global Financial Crisis, the 2016 currency crisis, and the 2020-2021 pandemic and more recent geopolitical shocks—each crisis was managed reactively, leaving underlying vulnerabilities unaddressed.

Stage 6: Perpetuated Stagnation. Because crises are resolved through ad hoc or superficial measures rather than structural reform, underlying vulnerabilities remain unresolved. The economy does not recover in a robust or sustainable manner. While there may be a year of rapid recovery reflecting base effects, growth overall remains sluggish; employment creation is insufficient; poverty reduction stalls; and inequality persists or worsens. The vulnerabilities that generated the crisis remain embedded in the economic structure, ensuring that the next shock will trigger another crisis.

Stage 6 connects back to Stage 1 through a feedback loop: perpetuated stagnation, the failure to achieve sustained growth, and the repeated crisis cycles themselves reinforce extractive institutions. Failure to reform reinforces the perception that reform is impossible, strengthening the fatalism of elites resistant to change. The repeated inability to manage growth convinces observers that centralized control is necessary, paradoxically strengthening political justification for the very institutional structures that perpetuate stagnation. Thus, the cycle completes: perpetuated stagnation regenerates the conditions for extractive institutions to persist.

The diagram also illustrates a direct pathway from bad policy choices (Stage 3) to perpetuated stagnation (Stage 6), indicating that distortionary policies accelerate the path to stagnation by themselves, independent of the crisis-vulnerability-crisis management cycle. This captures the reality that even without acute crises, sustained policy distortion produces economic stagnation. Economies with chronic price controls, pervasive subsidies, overvalued exchange rates, and inefficient state enterprises experience prolonged low growth, capital flight, productivity decline, and technological backwardness even during periods without acute crises. The policies themselves—through their direct effects on savings, investment, exports, and productivity—directly impede growth and generate stagnation. This Stage 3 → Stage 6 pathway is crucial because it explains why growth recovery remains elusive even when acute crises are managed; the underlying policy distortions continue to suppress growth throughout the cycle, not merely during crisis episodes.

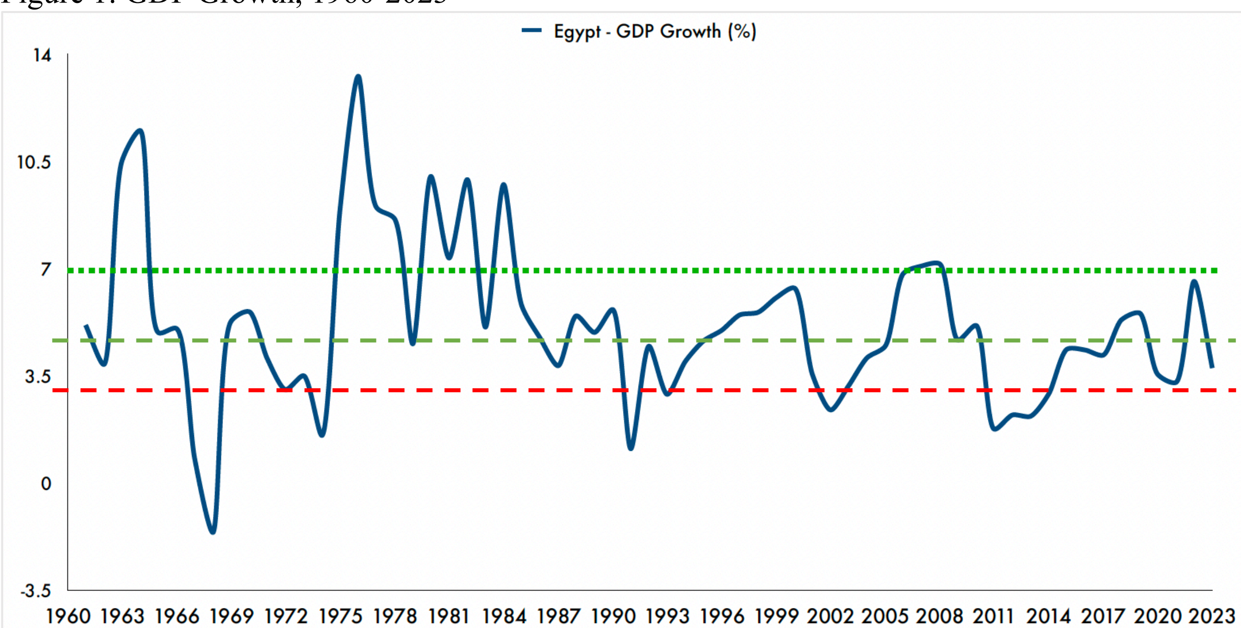
A Closed-Loop Structure. A critical implication emerges from the closed-loop structure: unless there is a deliberate break in the institutional or policy trajectory—a major institutional reform, a dramatic shift in leadership orientation toward pragmatic reform, or a fundamental reorientation of policies toward growth-promoting strategies—the system naturally returns to Stage 1 after completing the cycle. Each crisis represents a potential window of opportunity for reform (as emphasized by Henry 2013 and the Commission on Growth and Development 2008). Yet Egypt's pattern shows repeated failure to exploit these windows, as none generated sustained structural change. Instead, each crisis was managed reactively, the cycle completed, and the system returned to extractive institutions, elite interests, and bad policies.

The comparative evidence is instructive. South Korea, facing acute financial crisis in 1997-98, used the crisis as a window for comprehensive institutional and policy reform. The Philippines, after decades of similar stagnation patterns, gradually shifted toward more pragmatic governance and growth-oriented policies, achieving improved outcomes. In each case, sustained improvement required moving beyond reactive crisis management to address institutions, leadership orientation, and policy alignment simultaneously. Egypt has not yet achieved this comprehensive shift, and thus remains trapped in the permacrisis cycle.

3. An Overview of Egypt's Economy

The interplay of the three factors that we have noted above has had a profound impact on the evolution of Egypt's economy over the past several decades. As can be seen from the real GDP growth trajectory since 1961, the economy is prone to recurrent boom-bust cycles. Growth has been highly volatile, with episodes of high growth in particular being few and far between. The growth rate averaged above 7% per annum, which is the minimum considered necessary for Egypt to absorb new entrants to its work force and to begin to improve living standards, only during 4 brief periods: 1963-64; 1975-78; 1980-84; and 2006-08. Moreover, while growth over the entire period portrayed in the chart has averaged 5% per annum, since the 2008 Global Financial Crisis – with new and more challenging crises materializing more frequently – the economy has grown at an average rate of just below 4% per annum.

Figure 1: GDP Growth, 1960-2023



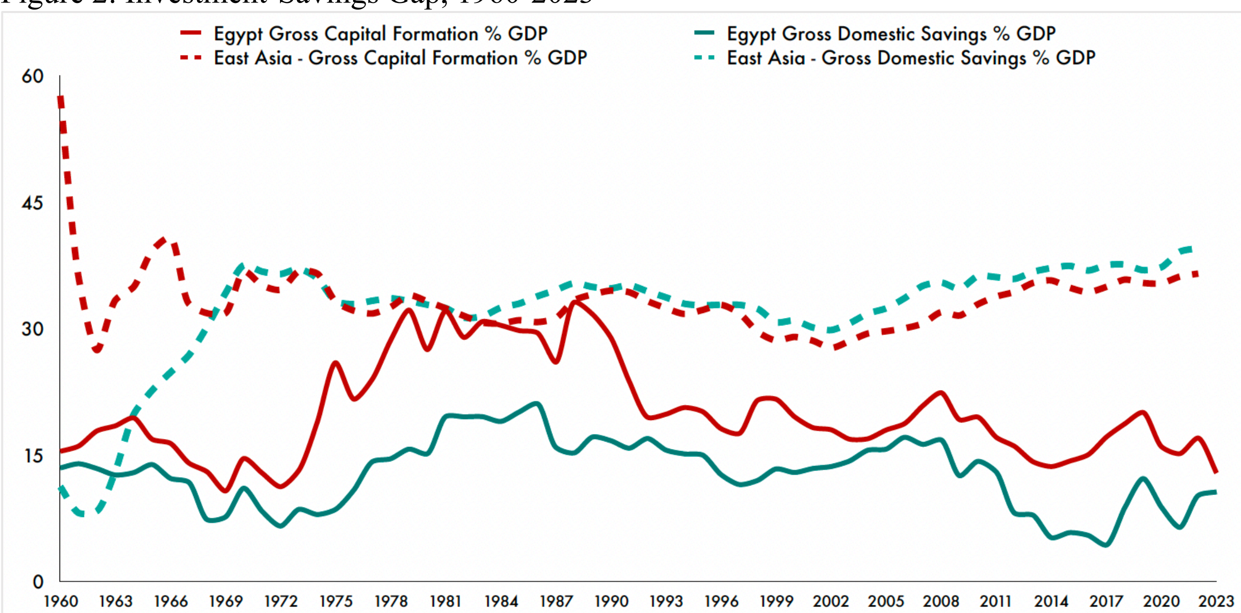
Source: WDI, 2024

The volatile growth pattern reflects both the fundamental vulnerability of the economy to exogenous shocks, given the nature of Egypt's production and export mix, as well as policies that have been chronically reactive to each new crisis but have not succeeded in bolstering economic resilience. As a consequence, Egypt's growth has neither been consistent nor robust enough to allow the country to accumulate wealth over time. To illustrate this in stark terms, Egypt's GDP per capita today is the lowest within the MENA region save for the conflict states such as Yemen and Sudan. The country's track record also contrasts markedly with the development paths of the Asian "tiger" and "tiger cub" economies, most of which were poorer than Egypt in the 1960s, but which were able to double wealth in a single generation – some even to achieve advanced country status – on the back of sustaining high average growth rates at or above 7% per annum over extended timeframes.

The root causes of Egypt's failure to sustain a high rate of high-quality growth are a number of key macroeconomic imbalances including the savings-investment gap, the exports-imports gap and the gap between government revenues and expenditures. The persistence of these imbalances are signals of policy choices embodying "bad ideas", in addition to the Egyptian government's lack of capacity to subsequently implement effective structural reforms to address them.

Capital formation is among the critical ingredients driving growth, and high rates of sustainable investment are linked to high rates of sustainable growth. As depicted in the chart below, Egypt had a high investment rate that averaged within the 30-35% to GDP range following the *Infitah* and during the late 1980s. This is the average investment rate to GDP that has been observed in consistently high-growth countries, such as the several Asian economies that have emerged as "development stars" as well as in many low and medium-income economies more generally. However, the Egypt's overall investment rate has fallen to about half that today.

Figure 2: Investment-Savings Gap, 1960-2023



Source: WDI, 2024

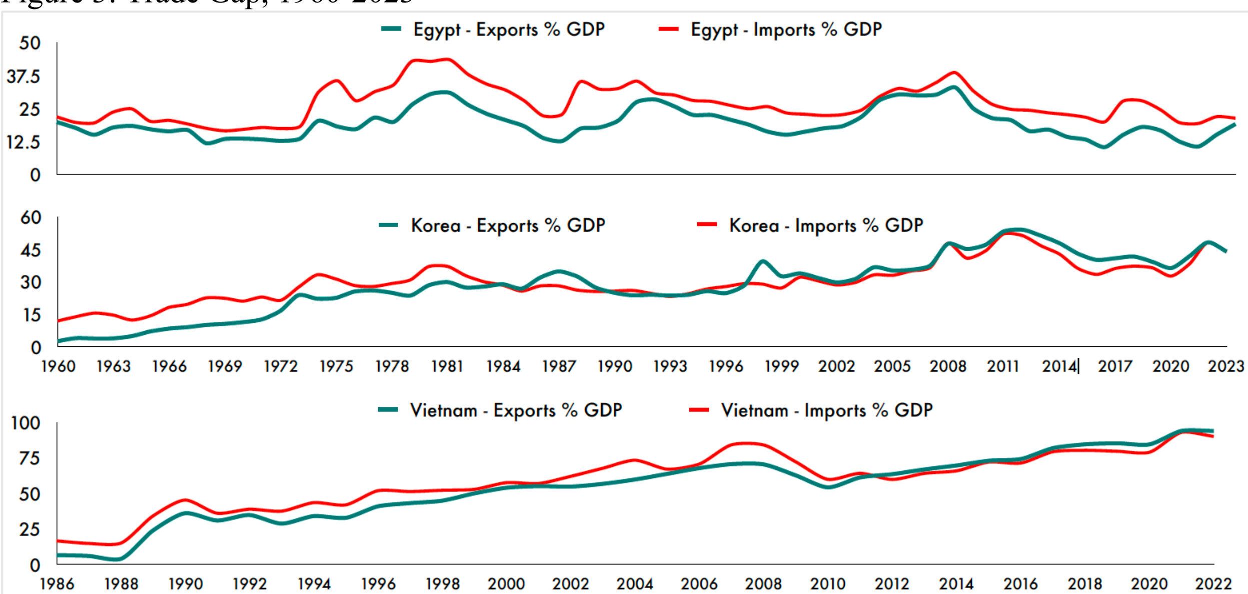
Furthermore, Egypt's domestic savings have consistently remained very low, indicating a potential underutilization of internal resources for capital formation. Egypt's gross domestic savings rate, which is hovering below 10% of GDP, contrasts markedly with the average savings rate among both Asian economies (above 30% of GDP) as well as the low and medium-income economies (above 20% of GDP). The much higher rate of savings has provided many of these other economies with a stable bedrock of domestic funding for investment and development, thereby containing their reliance on external funding and mitigating shocks due to currency depreciation.

Egypt therefore not only exhibits a low domestic investment rate which is not sufficient to sustain high growth, but also an even lower savings rate which does not provide a stable source of available local funding for that investment. Given the gap between investment and savings, Egypt has been compelled to seek external financing which has in turn led to a heavy external debt load relative to GDP (and exports) in addition to driving a debt affordability crisis (with external debt service alone consuming over one third of Egypt's total earnings from the export of goods and services).

Although external debt can be an important source of funds to supplement domestic savings in order to meet development needs, the dilemma that has arisen for Egypt – again reflecting the prevalence of "bad ideas" and weak crisis management responses – has been that a good part of the debt has been misallocated, in part due to the lack of market signals (given the prevalence of controlled prices and subsidies in the economy). Debt has been deployed for non-productive uses that do not generate sufficient returns to repay the debt obligations coming due.

The gap between Egypt's exports and imports is another major factor in driving its vulnerability to external shocks, such as the 2008 Global Finance Crisis, the 2020 COVID pandemic and the 2022 geopolitical crisis triggered by Russia's invasion of Ukraine. Although Egypt is not considered an open economy (exports and imports of goods together amount to only 40% of GDP), Egypt does import most of its food needs alongside other essential products. This makes Egypt highly exposed to global supply chain disruptions, commodity shortages and upward price shocks.

Figure 3: Trade Gap, 1960-2023



Source: WDI, 2024

What is particularly striking about the track record particularly since the 2008 Global Financial crisis (which triggered Egypt's Triple F crisis – of food, fuel and finance), is that not only have goods imports fallen sharply as a share of GDP but so have goods exports. Moreover, the gap between them has remained, and in some years has significantly widened.

Foreign currency shortages that have emerged in the wake of the multiple recent crises as well as the government's austerity measures have constrained imports, which dropped from 39% of GDP in 2008 to 21% of GDP in 2023. The current share of imports in Egypt's GDP is not a high percentage by global standards, but exports constitute a lower share. In some cases, imported goods are an input for certain categories of exports, and that is part of the explanation for why the import and export paths over time have been directionally aligned. But Egypt's policy settings, its lack of adequate investment in infrastructure that helps to facilitate export growth, and its relatively low FDI inflows which have kept the country from boosting technological know-how and hampered its ability to integrate the economy into global trading networks, have combined to discourage exports. Notably, Egypt's exports currently constitute the same low share to GDP as they did in 1960.

Periodic maxi devaluations of the local currency have not helped to boost Egypt's competitiveness, even for low value-added goods. In part, this reflects the country's slate of goods exports – heavily dominated by hydrocarbons – which do not respond to changes in the valuation of the Egyptian pound. Moreover, there has been a tendency to revert to pegging the exchange rate following these corrections, leading to overvaluation that dampens incentives to invest in exports. Over the past several decades, there has been limited dynamism in Egypt's exports while traditional non-hydrocarbon exports such as cotton have declined over time. In short, Egypt has not diversified its exports nor expanded the role played by exports in its economy over the years.

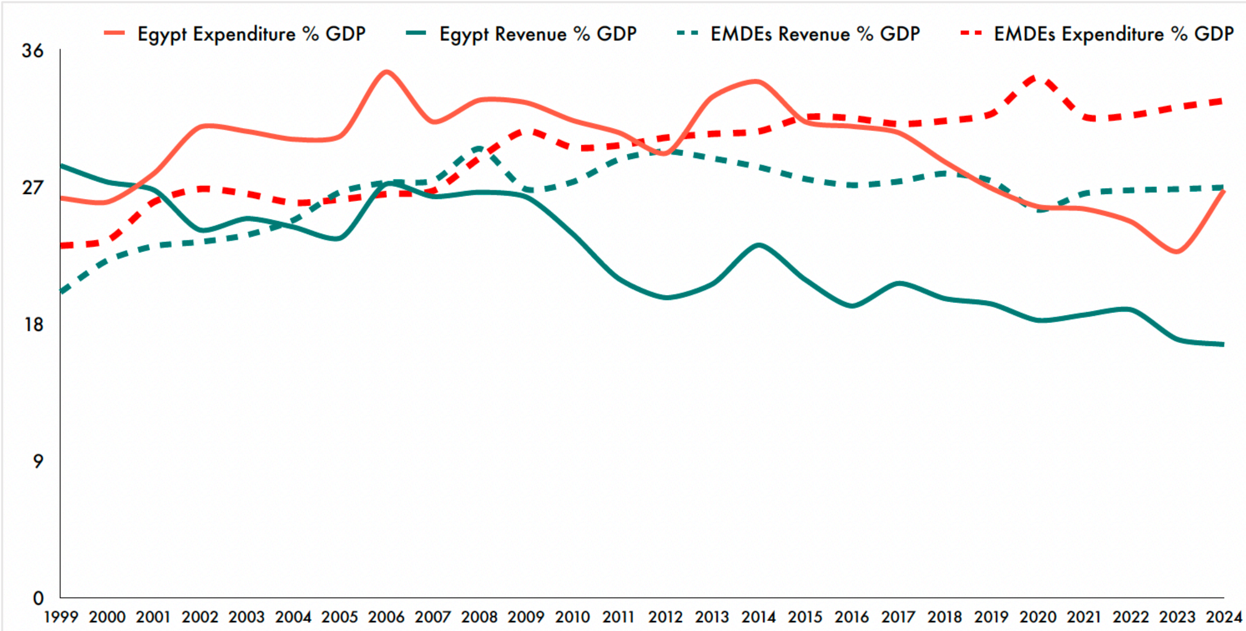
In contrast, the high performing emerging market economies have experienced greater dynamism and increased their export share over time both as a percentage of their own GDPs as well as a share in world trade. If one were to take a deeper look at the available trade data, it can also be observed that the successful exporters have also been moving up the higher value-added ladder, with their exports exhibiting greater product diversification and complexity.

The third major imbalance that hinders Egypt's growth is that between government revenues and expenditures, which reflects weak policies in tandem with political economy dynamics that make it difficult for the state to extract adequate resources from businesses and households.

Egypt's tax revenues are only in the mid-teens as a share of GDP, which is low even when compared to the tax take observed in other low to medium income developing countries. This is not an adequate level of resources to fund critical development needs, including to address the shortfalls in the provision of public services. The chronic budget deficit stemming from the gap between government revenues and expenditures has also contributed to the shortfall in domestic savings discussed above.

The data shows that Egypt has not been able to mobilize higher tax revenues as a share to GDP since the 2010-11 fiscal year. Since then, the government's effort to adjust fiscally in order to reduce its large budget deficit has been focused on containing expenditures; spending has consequently fallen from ~33% of GDP in the 2013-14 fiscal year to ~23% of GDP in the current fiscal year. Although the gap between tax revenues and expenditures has narrowed, the budget remains in deficit and continues to drive recourse to debt financing, further driving up the overall debt load. In addition, much of this fiscal adjustment has been at the expense of capital expenditures, leading to a vicious circle that contributes to the further suppression of real growth, leading to further complications in the effort to mobilize tax revenues from the economy.

Figure 4: Government Revenue-Expenditure Gap, 1999-2024



Source: IMF – Fiscal Monitor, 2024

At the current stage, the government's expenditure composition has become dominated by debt servicing obligations reflecting the accumulation of prior debt to fund the chronic budget deficit. Interest expense makes up a projected 53.4% of the 2024-2025 fiscal year budget[3], leaving limited room for other spending, particularly for health, education or development projects. Other large expenditure items include wages (~13% of the total) and energy and food subsidies (together, ~8% of the total).

Furthermore, the interest expense, mostly linked to domestic debt, also exceeds the government's total tax revenues. This severely constrained fiscal situation means that the Egyptian government has virtually no capacity to engage in counter-cyclical fiscal measures in response to a future economic shock. The evidence indicates that while the Egyptian government has a spending problem, the crisis lies in the deficiency of stable revenues.

The history of Egypt's sovereign credit ratings provides a useful lens by which to evaluate its economic performance, fiscal sustainability and capacity to repay debt, particularly in comparison to peer countries. In the mid-1990s, the credit ratings of Egypt, Vietnam and the Philippines started out at roughly the same level, i.e. in the category just below investment grade.[4] Since then, all three countries have grappled with governance challenges and have experienced multiple shocks – both Vietnam and the Philippines were affected to varying degrees by the fallout of the 1997 Asian Financial crisis, as well as by oil price shocks, the pandemic and geopolitical stresses and moreover the latter – like Egypt, has gone through regime change and bouts of intense political turmoil. But Vietnam's rating has remained largely stable and today is one notch below investment grade, while that of the Philippines is well into the investment grade part of the ratings scale and may be on the

[3] Source: IMF Staff Report, August 2024 and Ministry of Finance. Figures refer to Budget Sector Operations.
[4] This is based on publicly available information from Moody's Ratings, which was the first of the three global rating agencies to assign credit ratings to Egypt, Vietnam and the Philippines in the 1990s.

verge of moving into the single A rating category[5] (where it would find itself in the same rating category as Spain, Portugal, Poland, Chile, and Japan among others).

In contrast, Egypt's rating has fallen toward the bottom of the ratings range and is comparable, in terms of its creditworthiness, to countries such as Kenya, Cameroon, Gabon, Ecuador and El Salvador. The divergence in the ratings paths of the three countries, particularly that between Egypt and the Philippines, can be attributed to a large extent to their different policy choices. The Philippines has focused on human capital development, growing exports and linking itself to global supply chains, developing a dynamic services sector, maintaining prudent fiscal policy and a modest level of debt, and improving the effectiveness, accountability and capacity of its institutions. It also was able to sustain a commitment to carrying through with structural reforms through changes in leadership.

4. Bad Ideas

Through the lens of the permacrisis framework developed in Section 2, Egypt's "bad ideas" represent Stage 3 of the cycle: systematic policy distortions that emerge from extractive institutions (Stage 1) empowering elite interests (Stage 2). These policies persist not merely due to technical ignorance, but because institutional structures enable their perpetuation. Understanding bad ideas through this framework shows why they recur and why reforms prove difficult.

The concept of "bad ideas" refers to policies, strategies, or practices that, whether well-intentioned or not, lead to negative outcomes or unintended consequences. These ideas often stem from flawed assumptions, insufficient empirical evidence, or a failure to account for long-term effects, sometimes sustained by elite interests. A defining feature of bad ideas is their short-term focus, where immediate benefits take precedence over sustainable outcomes. In economic policy and governance, such ideas can hinder growth and entrench systemic inefficiencies.

As discussed by the World Bank's Commission on Growth and Development in its 2008 report, such bad ideas include the following: subsidizing energy except for very limited subsidies targeted at highly vulnerable sections of the population; dealing with joblessness by relying on the civil service as an "employer of last resort," distinct from public-works programs that can provide a valuable social safety net; reducing fiscal deficits through cuts to infrastructure investment; and providing open-ended protection of specific sectors, industries, firms, and jobs from competition.

Additional examples include imposing price controls to manage inflation, banning exports to keep domestic prices low for consumers at the expense of producers, , ignoring environmental issues as an "unaffordable luxury," measuring educational progress solely by school infrastructure rather than focusing on learning quality, underpaying civil servants and promoting by seniority without performance assessment, poor regulation of the banking system that limits efficient financial intermediation, and allowing the exchange rate to appreciate excessively before the economy is prepared for a transition to higher-productivity industry (Commission on Growth and Development, 2008).

[5] S&P's rating of the Philippines is BBB+ with a positive outlook at the time of this writing; if upgraded, the rating would move into the next category up which is single A.

In short, the evolution of Egypt's economic policy since the 1950s has been marked by a series of "bad ideas" that, while perhaps well-intentioned at their inception, were driven by distorted incentives and led to adverse outcomes. These "bad ideas" have shaped the country's economic landscape, contributing to if not perpetuating persistent challenges such as structural unemployment, fiscal imbalances, and stagnant productivity (Mohieldin et al., 2024b).

4.1 Central Planning

Central planning exemplifies how extractive institutions directly embed bad policies (Stage 1 → Stage 3 pathway), with centralized state control serving elite interests rather than fostering innovation.

The Egyptian government's attempt at nationalization and central planning began in the 1950s. Motivated by a desire to create a self-sufficient economy that would distribute wealth more equitably among the population and looking to examples elsewhere, the government nationalized several industries, including banking and manufacturing, as well as nationalized the Suez Canal. This huge shift was not initially guided by a clear ideological framework, but the leadership at the time was motivated by an ambition to establish a strong, centrally controlled economy that could resist foreign influence and foster national development. However, the outcomes were far from the intended objectives.

During the First Five-Year Plan (1960-1965), the aggressive nationalization of key sectors such as textiles, steel, and oil aimed to drive rapid industrialization but lacked sufficient planning and market consideration. Inefficient management, bureaucratic obstacles, and inadequate accountability led to a bloated public sector that struggled to meet market demands and stifled competition. Productivity declined, goods and services suffered in quality, and resources were misallocated toward inefficient enterprises. The absence of competition further suppressed innovation and technological advancement, while the centralized model hindered private sector development, limiting the economy's dynamism and resilience. A 1987 World Bank report reviewing Egypt's public sector finances highlights the public sector as a key contributor to the country's worsening economic situation. The report notes that the sector's finances were marked by a growing deficit, low savings rate, weakening return on investments, and a high budgetary burden. Additionally, a significant portion of Egypt's increasing external debt was attributed to the public sector (World Bank, 1987).

The current state intervention in Egypt continues to reflect these historical patterns. In recent years, the state has even expanded its role in the economy, particularly through large-scale public projects and state-owned enterprises. Extensive infrastructure investments illustrate this ongoing trend of state involvement (International Monetary Fund, 2021; Thiemann, 2024). While such projects aim to stimulate economic growth and modernize infrastructure, they often divert resources from more productive sectors and perpetuate inefficiencies (Szarzec et al., 2021).

Countries such as India and Vietnam provide contrasting examples of nationalization and state intervention. India, after gaining independence in 1947, initially adopted a model of state-led industrialization, including nationalization of key sectors. However, in the wake of a massive balance of payments crisis in the early 1990s, India shifted towards liberalization, privatization, and opening up its economy to foreign investment. This transition led to rapid economic growth, eventually a burgeoning middle class in key states, and enhanced resilience to economic shocks as the country built up substantial foreign exchange buffers and avoided external debt (unlike Egypt, India has not become dependent on foreign capital inflows).

Similarly, Vietnam transitioned from being a centrally planned economy to a socialist-oriented market economy in the 1980s, implementing reforms that encouraged private enterprise and foreign investment. The Doi Moi (Renovation) policy marked a significant shift towards a market-oriented and export-led economy, enabling Vietnam to achieve high growth rates, reduce poverty, and enhance its resilience to economic fluctuations.

In contrast to Egypt's enduring reliance on state control in the economy, these countries have embraced market-oriented reforms. While their political systems markedly differ, these two examples demonstrate that a balanced state intervention—where the government plays a supportive role rather than a controlling one—can foster sustainable economic development and growth.

4.2 Infitah Policy

Infitah's partial liberalization without institutional reform created dual-economy distortions where foreign and connected elites benefited while structural vulnerabilities (Stage 4) accumulated.

The Infitah Policy, introduced in the 1970s, aimed to liberalize the Egyptian economy by attracting foreign investment and reducing state control in response to stagnation caused by earlier nationalization efforts.

Initially, the policy yielded notable gains when assessed by key economic indicators. For a brief period after 1977, Egypt's real GDP growth exceeded 8%, a significant increase from 3% in 1973. The deficit in goods and services steadily reduced, declining from $2.5 billion in 1975 to $1.5 billion by 1979. By the close of the 1970s, Egypt recorded a small surplus of $700 million in its balance of payments. In 1980, substantial contributions from oil exports, Suez Canal revenues, remittances, and agricultural exports were observed, with oil exports generating nearly $3 billion. Domestic public investment increased by approximately 26% between 1973 and 1980, while private investment rose by 78%. Although foreign private (non-oil) investment remained below expectations, it nevertheless grew to over $400 million annually by 1980, up from just $100 million three years earlier. The rise in foreign exchange earnings, coupled with continued foreign economic assistance, helped make Egypt's debt servicing more manageable (Source from Section 2).

Despite its well-intentioned goals and initial gains in key economic indicators, the Infitah's longer-term impacts revealed significant vulnerabilities. While GDP initially grew, the benefits were unevenly distributed, leaving poverty, unemployment, and trade imbalances unaddressed. By the 1980s, inflation soared, trade deficits persisted, and job creation lagged, especially for the youth (Source from Section 2). The policy's focus on capital-intensive foreign investments linked to external networks undermined local industry development and human capital enhancement, reinforcing Egypt's structural dependency on foreign entities. This dependency became starkly evident in the 1980s. In 1961, only 7% of Egypt's food supply was imported, but this proportion grew to one-fifth by the early 1970s; however, by 1974, the country had maintained a net positive agricultural trade balance. But by 1981, Egypt faced severe food deficits, with imports exceeding exports by approximately $3 billion. At that point, the country relied on foreign suppliers for about half of its total food consumption. Additionally, foreign capital accounted for 90% of the financing for all public projects (Weinbaum, 1985).

Much of the investment flowed into the hydrocarbons sector, while private nonpetroleum investors showed less interest, leaving Egypt susceptible to global economic fluctuations and external shocks (Bruton, 1983). Fluctuating oil prices and geopolitical tensions exposed the fragility of Egypt's economy, with its over-reliance on specific foreign investments.

The policy's design further exacerbated inequalities. Foreign capital primarily benefited a small elite, and favored large multinational corporations (MNCs), which often repatriated profits rather than reinvesting in local communities. These MNCs leveraged their crony connections to dominate sectors, stifle competition, and secure protectionist measures such as tariffs and non-tariff barriers.

Mismanagement compounded these challenges, as inconsistent regulatory frameworks and a lack of strategic planning created an unstable investment climate (McLaughlin, 1978), limiting the Infitah's potential to deliver sustainable, inclusive growth.

This situation was similar to experiences in Argentina during the 1990s, when the government opened its economy to foreign investment, particularly in the utilities sector. Initially, this led to increased foreign capital and infrastructure development; however, it also resulted in significant price increases for essential services, contributing to social unrest and economic instability. By failing to foster a balanced economic environment, both Egypt and Argentina created dual economies where wealth became concentrated among a small elite, leaving much of the population behind or even outside the formal economy.

4.3 Fiscal Policy

Fiscal myopia—cutting investment rather than reforming inefficient spending—reflects the Stage 5 → Stage 3 feedback loop: crisis management reinforces rather than reforms bad policies.

One of the most persistent issues in Egypt's fiscal policy since the 1950s has been fiscal myopia, marked by short-term focus. This is evident in two closely related practices: cutting long-term investment to reduce deficits and accumulating high levels of public debt to finance recurring expenditures (Mohieldin et al., 2024b).

When faced with fiscal deficits that become unsustainable, Egypt has often chosen to cut public investment in critical sectors such as infrastructure, education, and healthcare (Abdel-Khalek, 2001) rather than reform inefficient recurrent spending areas—like the bloated public sector wage bill or untargeted subsidies. While this strategy may provide temporary relief by lowering the budget deficit, it undermines the country's long-term growth potential. Investments in infrastructure, for example, are essential for improving productivity and attracting private investment. By reducing such investments, Egypt has neglected key drivers of sustainable development, further hampering its ability to build a resilient and diversified economy.

Simultaneously, Egypt has relied heavily on borrowing to finance its budget deficits, resulting in high public debt levels. Studies show that domestic public debt in Egypt negatively impacted economic growth (e.g., Mahdy and Torayeh (2009), covering the 1981-2006 period). Rather than being directed toward growth-oriented investments, this debt has been used to cover recurring expenses such as subsidies and public sector wages. By 2021, Egypt's public debt exceeded 90% of GDP (Source from Section 2), with a large portion of government revenue allocated to debt servicing debt instead of development projects. This creates a vicious cycle: as debt servicing costs rise, the government is forced to cut more investment spending to maintain fiscal balance, further constraining future growth potential.

The short-termism comes into focus in another way as well, when Egypt is forced to make fiscal adjustments as its debt level becomes unsustainable. Then the government becomes locked into prioritizing immediate fiscal targets, such as reducing budget deficits or producing a large primary surplus, which by necessity supersedes growth and development objectives. Resulting slow growth further exacerbates the country's fiscal constraints, thereby not allowing it to escape from excessive reliance on borrowing or to avoid deeper cuts in public investment.

4.4 Energy Subsidies

Energy subsidies persist despite clear fiscal costs because extractive institutions enable elite capture of policy decisions; repeated reform attempts are reversed when political pressure mounts, demonstrating the Stage 5 → Stage 3 feedback mechanism.

For decades, Egypt relied on large energy subsidies to keep fuel and electricity prices low, initially as part of a strategy to support industrialization and social welfare. Introduced in the 1950s, these subsidies aimed to ease the financial burden on low-income households and stimulate economic growth by ensuring affordable energy access. Over time, however, they became a significant drain on public finances, consuming substantial government resources without promoting energy efficiency or conservation. The reliance on subsidized fossil fuels fostered wasteful consumption patterns and discouraged investment in renewable energy sources.

The situation intensified during the 1970s and 1980s with the discovery of natural gas reserves, which the government heavily subsidized. This deepened the dependence on cheap energy, embedding subsidies into the economic system. Distorted market prices led to inefficient energy use and environmental harm, as fossil fuel consumption surged while investments in cleaner alternatives lagged behind (Mohieldin et al., 2024a). In contrast, Morocco's phased approach to subsidy reforms, paired with investments in renewable energy, demonstrated a more sustainable path by promoting energy efficiency and independence.

At their peak, energy subsidies consumed nearly 20% of Egypt's annual budget, limiting room for growth- or human capital-enhancing investment. In addition, external shocks, such as fluctuating global oil prices and regional conflicts, have exacerbated the fiscal pressures of maintaining energy subsidies. For instance, in the wake of the Arab Spring in 2011, the government faced increasing pressure to maintain subsidies amidst rising public discontent, causing the budget deficit to balloon into double digits.

In 2012, Egypt had one of the highest subsidy rates for diesel and gasoline in the MENA region, with petroleum subsidies rising by 26% to reach EGP 120 billion (6.2% of GDP) (Sdralevich et al., 2014). Recognizing the fiscal burden, the government initiated a plan in 2013 to progressively rationalize these subsidies. The proposed reforms had significant implications for prices, growth, fiscal savings, and poverty due to the extent of the changes and the direct consumption of energy products by households. While the reforms were necessary to generate fiscal savings, boost private investment, and promote economic growth, they risked exacerbating poverty through higher consumer prices. Redirecting part of the fiscal savings toward food subsidies and cash transfer programs helped partially mitigate these adverse effects (Breisinger et al., 2019).

4.5 Price Regulation

Price controls, repeatedly reimposed during crises despite documented harm, illustrate how reactive crisis management (Stage 5) reinforces distortionary policies (Stage 3) rather than enabling structural reform.

Price controls were implemented to combat inflation and ensure the affordability of basic goods. In Egypt, this strategy gained momentum in the 1960s, aiming to stabilize prices through state intervention in sectors like food, energy, and essential commodities. While intended to protect consumers, these controls led to market distortions by artificially suppressing prices, resulting in shortages and declining product quality. Producers, unable to cover costs due to mandated low prices, often reduced supply or exited the market altogether, leading to further scarcity (Richards, 1991). Price controls, especially on public sector output, created a vicious circle: government's efforts to curb inflation fueled inflationary financing, contributing to chronic budget deficits, growing price distortions, and persistent inflation (Handoussa, 1990).

Price controls have been notably implemented during episodes of economic crisis, such as the global oil crisis in the 1970s and the aftermath of the Arab Spring in 2011. To counter rising food prices, the Egyptian government reinstated and expanded price controls to shield consumers from inflation. However, these measures backfired by exacerbating shortages and fueling black market activity. For instance, in 2016, the Central Agency for Public Mobilization and Statistics (CAPMAS) reported nearly 19% food inflation despite strict price controls, highlighting the disconnect between official prices and market realities. By June 2024, annual food inflation had increased to 32%, following a maxi-devaluation in a country heavily reliant on food imports (CAPMAS, 2024).

The long-term implications of price controls on Egypt's economic and development indicators have been largely negative. The prolonged use of such measures distorted market signals, discouraged investment in productive sectors, and deepened resource misallocation, undermining competitiveness. As a result, the country has continued to struggle with inflation, supply chain inefficiencies, and a declining agricultural sector. The World Bank reported that Egypt's agricultural growth rate averaged just 2.2% between 2010 to 2019, significantly lower than the regional average of 4.2%. External shocks, such as global commodity price fluctuations and regional conflicts, have amplified the negative effects of the price controls. For example, the 2022 spike in global wheat prices, driven by the Russia-Ukraine war, put additional pressure on Egypt’s subsidized bread program, forcing continued reliance on price controls despite the growing fiscal strain.

4.6 Exchange Rate Regimes

Fixed exchange rate regimes, like other bad ideas, persist because institutions concentrate decision-making power and enable elites benefiting from controlled rates to block reform.

The adoption of a fixed exchange rate regime has been a controversial issue in Egypt’s economic history, often criticized for impeding sustainable growth. Introduced in the 1950s as part of broader reforms to promote stability and predictability in international trade, the fixed exchange rate system has undergone various iterations, frequently pegging the Egyptian pound to the U.S. dollar. This regime gained prominence during the 1970s and 1980s when the government sought to create a stable economic environment to attract foreign investment and facilitate trade. It was similarly emphasized in the early 1990s as part of broader economic reform efforts.

While intended to stabilize the currency, control inflation, and boost investor confidence, the fixed exchange rate often produced economic distortions. These included significant misalignments between the official and market exchange rates, again undermining economic competitiveness. Empirical estimates reveal substantial exchange rate misalignment from 1970 to 2001, suggesting that Egypt, based on its macroeconomic fundamentals and external position, would have benefitted from a flexible foreign exchange arrangement. Under such a system, the exchange rate would no longer serve as an anchor for monetary policy, paving the way for inflation targeting as a more effective framework for monetary stability (Mohieldin & Kouchouk, 2003).

The fixed exchange rate regime also proved increasingly unsustainable in the face of external shocks, whether oil price fluctuations and the 2008 global financial crisis, and internal shocks like the 2011 Arab Spring. These events exposed the regime's limitations, leading to significant capital flight and reduced foreign investment, which further strained the system. The overvalued Egyptian pound made imports cheaper but crippled local production, highlighting the need for more adaptive currency management (Mohieldin et al., 2024a).

A critical episode unfolded between 2013 and 2016, when the Egyptian pound was pegged to the U.S. dollar. While initially stabilizing the economy, the peg soon led to overvaluation of the pound, harming exports by making them less competitive internationally and encouraging imports, which widened the trade deficit. By 2016, the trade deficit had reached $41.5 billion, exacerbating foreign exchange shortages and pressuring the currency. The fixed exchange rate created an illusion of stability, but triggered inflationary pressures as the government depleted foreign reserves to maintain the peg. Between 2011 and 2016, reserves dropped from around $36 billion to less than $15 billion, revealing the system’s unsustainability and underlying economic imbalances.

In parallel, the overvalued currency created a thriving black market for foreign exchange. By 2016, the parallel market rate was estimated to be nearly 40% higher than the official rate, illustrating the large disconnect between the controlled and real values of the pound. In November 2016, when the pressure became unsustainable, the government was forced to devalue the pound as part of an IMF agreement to secure a $12 billion loan. The devaluation led to an immediate surge in inflation, peaking at 30% in 2017, which severely eroded household purchasing power (Alazzawi & Hlasny, 2025).

4.7 Public Employment

Public employment guarantees reflect how extractive institutions embed policies that serve political patronage networks (Stage 2) at the expense of productive private sector development.

The 1962 Charter for National Action marked a pivotal moment for social development, initiating widespread state-led social and welfare programs. During the 1960s, Egypt's government adopted a policy of guaranteed public sector employment for university and secondary school graduates. Initially designed as a response to the state-led development model, the public sector was intended to serve as an "employer of last resort." However, it quickly evolved into an "employer of first resort," particularly for university graduates, who were assured civil service positions (Mohieldin et al., 2024b).

Massive public sector hiring, driven by employment guarantees for graduates and compensation policies following the 1960s nationalizations, profoundly shaped Egypt's labor market. These guarantees led to unsustainable growth in the government workforce, resulting in overstaffing and a bloated bureaucracy. By establishing minimum wages and benefits for graduates, these policies encouraged long queues for government jobs, elevated graduate unemployment, and reduced private sector employment among graduates (Assaad, 1997). Despite Egypt's shift to a mixed economy in the 1970s, the public sector continued to absorb a substantial portion of the labor force for decades.

Public employment was often unaccompanied by productivity gains, resulting in inefficiencies and a heavy fiscal burden. The high public sector wage bill consumed a substantial share of government expenditure, limiting resources for investment. This imbalance both contributed to chronic budget deficits as well as slowed overall economic growth (Mohieldin et al., 2024b).

Since the early 1990s, the share of public employment has declined due to privatization of state-owned enterprises, early retirement schemes, and hiring freezes in public administration. Between 2007 and 2017, public employment dropped by 25 percentage points, from 29% to 22%, with the rate of contraction accelerating after 2015 (Fedi et al., 2019). However, the formal private sector has struggled to absorb the educated new entrants displaced by the shrinking public sector. Many educated Egyptians, particularly women, have either faced unemployment or withdrawn from the labor market rather than accept jobs in the informal private sector, which has become the employer of last resort for most men (Assaad et al., 2020).

Other low-income countries, such as Bangladesh, have similarly used public sector employment as a buffer against unemployment. However, Bangladesh has gradually shifted its focus toward promoting private sector growth and reducing reliance on public employment. The Bangladeshi government has recognized that creating a dynamic private sector is essential for sustainable job creation and economic growth. India also provides a constructive contrast. While India initially relied on public sector employment after independence, it undertook reforms in the 1990s that included downsizing the public sector and promoting private sector growth, which unleashed higher economic growth and greater employment opportunities outside the state. Similarly, South Korea moved from a state-led model to fostering private entrepreneurship and industrialization, leading to rapid economic growth over a sustained period.

4.8 Trade Policies

Trade protectionism and import substitution, maintained despite decades of evidence of their costs, exemplify how institutional structures and elite interests lock in bad policies despite changing circumstances.

Egypt's economy, with total trade accounting for approximately 40% of GDP (OECD, 2024, Chapter 1), is significantly less open to international trade compared to similarly sized emerging markets. Trade barriers, including some of the highest average trade-weighted tariffs among regional peers, hinder external competition. In 2019, Egypt's average trade-weighted tariff was 10.5%, more than double that of Morocco or Jordan, with even higher rates of 40-60% on goods like agricultural products, alcoholic beverages, and textiles (Thiemann, 2024). These tariffs protect local industries but limit exposure to global competition. Non-tariff barriers further compound this protection, with Egypt ranking among the highest globally in terms of products and imports subject to such measures (Youssef & Zaki, 2019).

Historically, Egypt's reliance on import substitution and export restrictions to maintain low domestic prices has further weakened its economic openness. In the 1950s and 1960s, Egypt adopted import substitution industrialization (ISI) to reduce dependence on foreign goods and promote domestic production. This strategy involved high import tariffs, state intervention in industry, and restrictions on exports of key goods to curb inflation. While ISI initially stimulated the growth of some domestic industries, its long-term effects were detrimental. By insulating industries from international competition, the policy stifled innovation, efficiency, and technological advancement, creating uncompetitive, state-dependent sectors unable to expand into global markets or achieve economies of scale (El-Naggar, 1992).

Export restrictions, such as periodic bans on cotton exports, discouraged production by limiting producers' access to higher returns in international markets, undermining one of Egypt's historically strong export sectors. These policies also weakened foreign exchange earnings, exacerbated economic vulnerabilities to external shocks, and fostered structural inefficiencies. For example, the 1977 bread riots, triggered by rising food prices and subsidy cuts, highlighted the social unrest stemming from attempts to artificially suppress domestic prices.

Although Egypt has made efforts to liberalize its economy and integrate into global trade networks, progress has been inconsistent. The economy remains burdened by structural inefficiencies, uncompetitive industries, and an underdeveloped export sector, especially when compared to peers like Morocco and Turkey. A persistent trade deficit and frequent foreign exchange shortages underscore Egypt's ongoing reliance on imports for essential goods such as food and energy.

In contrast, countries like South Korea and Taiwan initially embraced import substitution but quickly pivoted to export-led growth models. By integrating into global markets and promoting competitive industries, these nations achieved rapid industrialization and sustained economic development. Brazil's experience also illustrates the benefits of supporting a competitive agricultural sector while maintaining robust export markets, driving productivity and global competitiveness. These examples highlight the missed opportunities in Egypt's approach and underscore the importance of adopting outward-looking, productivity-driven policies.

Together, these persistent "bad" policies have entrenched inefficiencies and structural weaknesses, limiting Egypt's ability to achieve sustainable, inclusive development. Addressing these issues—through root and branch reform rather than bandaids that provide only interim relief—is critical for improving Egypt's resilience, enhancing its economic governance, and allowing the country to break free from its cycle of short-term crisis management.

5. Recurrent Crises

The persistence of entrenched bad ideas (Stage 3) has left Egypt unable to prevent crises or build resilience in their aftermath. However, understanding Egypt's repeated vulnerability requires examining responses through the permacrisis framework: crises represent Stage 4 (Crisis Vulnerability) where accumulated policy distortions create susceptibility to shocks. How Egypt responds determines whether it escapes the cycle or perpetuates it. According to the framework, when pragmatic leadership leverages crisis windows for institutional reform (Stage 1), overcomes elite resistance (Stage 2), and realigns policies (Stage 3)—as Vietnam, South Korea, and the Philippines did—countries break the cycle. When responses remain reactive (Stage 5), without addressing root causes, countries perpetuate stagnation (Stage 6). Egypt's pattern shows responses concentrating in Stage 5: short-term stabilization without structural reform, reinforcing policy distortions through the Stage 5 → Stage 3 feedback loop.

Egypt's economic trajectory has been marked by recurring crises as previously noted in this paper, including the Triple-F crisis, the 2011 unrest and its aftermath, the 2016 currency crisis, the COVID-19 pandemic, the Russia-Ukraine war with its global energy and food price shocks, and the Israeli aggression in Gaza. These episodes have revealed critical weaknesses in Egypt's preparedness and response mechanisms, emphasizing the urgent need for a fundamental shift in approach.

Crises can generally be categorized into those that repeat due to a lack of reform, those that, if managed effectively and viewed as lessons for the future, could be prevented from recurring, and those that visionary administration can prevent altogether. Effective governance plays a decisive role in navigating crises. Proactive strategies can avert crises before they occur, while adaptive approaches can ensure lessons are learned, avoiding repeated pitfalls.

In Egypt's case, the reliance on reactionary measures and ineffective frameworks has perpetuated vulnerabilities, leaving it ill-prepared for recurring challenges. To move out of this pattern, Egypt must prioritize strategic, long-term planning and adopt inclusive development policies that foster sustainable growth and resilience against future shocks. Such reforms are essential to achieving a stable and thriving economic trajectory.

5.1 Economic and Financial Crises

These crises represent manifestations of Stage 4 (Crisis Vulnerability) from accumulated policy distortions. Egypt's responses concentrated in Stage 5 (reactive management) without addressing institutional constraints (Stage 1) or implementing structural policy reform (Stage 3), consistent with the framework's perpetuation pathway.

As we have noted, Egypt has experienced since the 1950s repeated economic and financial crises, reflecting persistent structural weaknesses and cycles of instability. These crises, often triggered by external shocks or domestic policy missteps, have exposed the country's vulnerability and limited its ability to achieve sustainable growth. The roots of these problems lie in a combination of policy myopia, overreliance on external borrowing, and a chronic failure to diversify the economic base.

Egypt's push for industrialization in the 1950s and 1960s, largely financed through heavy external borrowing, precipitated an early debt crisis that revealed fundamental weaknesses in fiscal planning. The oil shocks of the 1970s compounded these vulnerabilities, triggering high inflation and acute balance of payments pressures (World Bank, 1976). By the 1980s, Egypt faced a renewed and severe debt crisis, marked by surging external debt, persistent inflation, widening fiscal deficits, and mounting macroeconomic instability (Richards, 1991).

In response, the 1990s saw the implementation of IMF-led structural adjustment programs aimed at restoring economic stability. These measures reduced fiscal deficits and inflation. The global financial crisis of 2008 imposed new strains—exports declined, tourism revenues and remittances fell, and oil and commodity prices surged. The prolonged economic slowdown among Egypt's main trading partners had deep and lasting repercussions on the domestic economy (El-Shal, 2012).

The political upheaval of 2011 exacerbated economic instability. Tourism revenues decreased by approximately 30%, falling from $12.5 billion in 2010 to $8.7 billion in 2011, while tourist arrivals dropped by over 33% to 9.8 million compared to 14.7 million the previous year (Ministry of Tourism, 2011). Currency depreciation, reduced foreign investment, and deteriorating fiscal conditions further destabilized the economy during this period.

In 2016, Egypt faced a severe currency crisis that culminated in the floating of the Egyptian pound under an IMF-supported reform program worth $12 billion (IMF, 2016). While intended to restore investor confidence and address foreign exchange shortages, the currency devaluation led to soaring inflation and widespread economic hardship, and without generating the expected competitiveness gains (Alazzawi & Hlasny, 2025). The COVID-19 pandemic in 2020 brought additional economic disruptions, including sharp declines in tourism, trade, and remittances. The Russia-Ukraine war in 2022 exacerbated these challenges, driving up inflation, increasing food insecurity, and raising fuel prices (Mohieldin et al., 2024a).

A recurring pattern emerges from Egypt's crisis responses: policy myopia that emphasizes short-term relief over sustainable, long-term structural reform. This approach has perpetuated vulnerabilities and left the economy exposed to recurring shocks. The response to rising global food and fuel prices during the Triple-F crisis exemplifies this short-termism, with Egypt relying heavily on imports and implementing price controls and subsidies to shield consumers. While these measures temporarily alleviated social pressures, they strained public finances and deferred essential structural reforms, such as reducing dependency on imported wheat and energy through investments in domestic agriculture and renewable energy.

The 2016 currency devaluation illustrates similar policy shortcomings. Despite being a key condition of the IMF loan, the devaluation failed to achieve its intended goals due to the absence of complementary policies to boost exports, attract foreign investment, or diversify the economy.

The 2022 Russia-Ukraine war exposed persistent vulnerabilities in Egypt's policy approach. Rather than adopting long-term measures to enhance food security or diversify energy sources, Egypt focused primarily on short-term procurement strategies to stabilize domestic supplies (Gadallah & Mamdouh, 2023). This response contrasted sharply with other similarly vulnerable countries that leveraged the crisis to accelerate investments in renewable energy and agricultural modernization. ASEAN countries including Vietnam, Indonesia, and Thailand have leveraged digital technologies and climate-smart practices to modernize farming, improve water management, and enhance resilience to climate shocks, supported by public-private partnerships and regional cooperation (ERIA, 2024).

Excessive borrowing represents another manifestation of policy myopia. Egypt has repeatedly relied on external borrowing throughout crises to address fiscal imbalances and stabilize the economy without addressing the root causes of these imbalances. In the 1980s, excessive borrowing for poorly planned projects led to a severe debt crisis, necessitating debt rescheduling and IMF intervention. After the 2011 unrest, the government sought substantial loans to maintain subsidies and fund daily operations, rather than investing in productivity-enhancing sectors.

The 2016 IMF loan agreement aimed to restore stability through devaluation and subsidy reductions, but without structural reforms to boost exports or diversify revenues, the economy remained vulnerable. By 2023, Egypt's gross public debt reached 96% of GDP, raising significant concerns about fiscal sustainability and economic resilience. The COVID-19 pandemic further aggravated debt levels as declining revenues from tourism and exports coincided with increased government spending on health and social programs (IMF, 2025). The Russia-Ukraine war compounded these pressures, prompting more external borrowing to offset higher import costs and declining foreign currency reserves.

A critical consequence of this policy myopia has been Egypt's persistent failure to diversify its economic base, representing the greatest missed opportunity in the country's modern economic history. Since the 1950s, Egypt has maintained an over-reliance on a narrow range of traditional activities including agriculture, tourism, remittances, and Suez Canal revenues. This lack of diversification has perpetuated structural weaknesses and exacerbated vulnerabilities to external shocks, reinforcing the country's state of permacrisis.

Agriculture's share of the economy has declined over time but remains substantial and relatively unproductive. Its contribution to GDP fell from 28% in 1960 to 17% in 1980, reaching just 12%

by 2023 (World Bank, 2025). Despite various policy initiatives, manufacturing has consistently underperformed. Liberalization policies in the 1970s prioritized private investment but disproportionately favored real estate and speculative activities over productive manufacturing. By the 1990s, Egypt's export basket remained dominated by oil and gas, and manufacturing's share of GDP stagnated—reaching only 15% in 2023 (World Bank, 2025). Comparative examples from other developing nations, such as Malaysia, Indonesia, and Vietnam, shifting from reliance on commodities to a robust manufacturing and services economy, illustrate Egypt's missed opportunities (Mohieldin et al., 2024a).

5.2 Political and Geopolitical Crises

Geopolitical crises expose vulnerabilities created by policy distortions (Stage 3 → Stage 4), yet responses remain reactive rather than structural, following the same Stage 5 pattern observed in economic crises.

Since the 1950s, Egypt has experienced numerous political and geopolitical crises that have profoundly shaped its trajectory. The 1952 Free Officers movement marked the overthrow of the monarchy and the establishment of a republic. Shortly afterward, Egypt's decision to nationalize the Suez Canal prompted an invasion by Britain, France, and Israel. In 1967, the Six-Day War with Israel resulted in a devastating military defeat and the loss of the Sinai Peninsula. Egypt's military campaign to reclaim Sinai in the 1973 October War restored some national pride but strained the economy significantly due to war-related expenditures. Domestically, the 1977 Bread Riots highlighted public discontent with economic liberalization policies and subsidy cuts.

The 1981 assassination of Anwar Sadat brought political instability, paving the way for Hosni Mubarak's prolonged presidency. Egypt's involvement in the 1990–1991 Gulf War aligned it with the U.S.-led coalition and secured substantial debt forgiveness, but also brought significant economic strains. The war led to the return of about half of the one million Egyptian workers in the Gulf, causing an estimated annual loss of $2.4 billion in remittances, alongside a sharp downturn in tourism and foreign exchange losses (MERIP, 1991). The 2003 Iraq War further exacerbated regional instability and internal criticisms over Egypt's perceived pro-Western stance.

The 2011 uprising, part of the broader Arab Spring, plunged Egypt into political and economic turmoil. In 2013, the military reasserted its dominance, which was immediately followed by widespread protests and violent crackdowns; then, over time, the State significantly expanded its role in Egypt's economy and governance.

More recently, the 2022 Russia-Ukraine War's impacted on Egypt's food and energy security brought to the fore the fragility of its economic model. The 2023 Israeli aggression on Gaza added further regional challenges, with spillover effects such as economic strain from displaced populations and heightened security concerns.

The political and geopolitical crises outlined above reveal consistent patterns of mismanagement that have sustained vulnerabilities and contributed to prolonged instability in Egypt. A more comprehensive understanding of these issues can be achieved by examining Egypt's crisis history in comparison to the successful strategies implemented by other relevant countries.

The first defining feature of Egypt's political mismanagement has been its reliance on *centralized governance,* where power is heavily concentrated at the top, often at the expense of inclusivity, transparency, and long-term stability. This approach has shaped the country's political trajectory for decades. This model was exemplified in the 1950s and 1960s, centralizing authority and marginalizing opposition and civil society, resulting in a highly controlled political environment. While this approach allowed the regime to implement sweeping changes, such as land reforms and industrialization, it also stifled pluralism and set a precedent for governance that prioritized control over adaptability.

Successive regimes perpetuated these dynamics by systematically allowing little room for political opposition, creating an environment of political fragility. The 2011 revolution exposed the unsustainability of this model, as decades of centralized decision-making had failed to address the underlying grievances of economic inequality, social exclusion, and lack of political freedoms. The post-2013 era further entrenched centralized governance, sidelining meaningful dialogue with opposition groups and concentrating decision-making within a narrow elite.

This situation not only limited the regime's ability to address socio-political challenges but also perpetuated a cycle of instability. The lack of diverse perspectives and inclusive governance has severely hindered Egypt's ability to effectively manage political and geopolitical crises. By consolidating power in a few hands, the government has failed to adapt to the evolving challenges of domestic dissent, regional conflicts, and international relations, leading to short-term, reactive responses rather than strategic, long-term solutions.

For example, Egypt's reaction to the 2011 Arab Spring was driven by a centralized and highly controlled decision-making process, which exacerbated the unrest rather than addressing its underlying causes. This resulted in prolonged instability and a lack of coherent, inclusive political responses. The people's movement, driven by widespread grievances over economic inequality, political oppression, and social stagnation, was met with a state response focused on restoring order through restrictive actions rather than initiating meaningful reforms. Instead of addressing structural issues, the regime relied on emergency laws and security crackdowns, deepening mistrust between citizens and the state.

Failure to build on cumulative knowledge from prior experiences has perpetuated a pattern of reactive and short-term decision-making. Lessons from earlier crises, such as the 1986 Central Security Forces uprising, where poor management of economic grievances among low-ranking officers sparked violent protests, were not effectively applied. Abrupt or heavy-handed responses to these issues resulted in prolonged instability. Instead, the post-2013 approach emphasized consolidating power at the expense of fostering a more adaptive and participatory governance model. This has not only hindered Egypt's ability to address systemic challenges but also created a vicious cycle, where each new crisis is met with a similar set of measures that prioritize immediate control over sustainable, long-term solutions.

In the context of regional geopolitics, Egypt's response to the 2022 Israeli aggression on Gaza was similarly constrained. While the government took steps to mediate and manage its diplomatic relations with Israel and other regional actors, the lack of internal political dialogue and openness meant that Egypt's response lacked the broad-based support needed for long-term regional stability. The government's failure to prioritize proactive diplomacy and to incorporate a wider range of perspectives on how to manage the crisis in Gaza resulted in an incomplete and largely reactive approach. This inability to harness internal political strength and strategic foresight reflects the same pattern of centralized governance that has hindered Egypt's ability to manage previous crises and geopolitical challenges effectively.

Countries like South Korea exemplify how transitioning from military rule to a vibrant democracy can contribute to long-term political stability and economic development. In the 1980s, after years of authoritarian rule, South Korea embarked on a process of decentralizing power, which allowed for a more inclusive political system. The government implemented significant democratic reforms, including greater political participation, freedom of expression, and the establishment of checks and balances within the political system. These reforms not only promoted transparency but also empowered civil society and opposition groups, fostering an environment where public opinion could influence policy decisions. The move to democracy was accompanied by economic reforms that shifted the country toward market-oriented policies, increased foreign investment, and enhanced industrialization.

The second defining feature of Egypt's political mismanagement is its tendency to rely on *short-term, reactive measures* in the face of political and geopolitical crises, rather than developing a cohesive long-term strategy. This approach has not only undermined its regional and international standing but also perpetuated vulnerabilities in its economic, diplomatic, and security policies.

The Grand Ethiopian Renaissance Dam (GERD) crisis highlights Egypt's failure to develop a proactive and sustainable geopolitical strategy. Instead of building early alliances with upstream Nile Basin countries or crafting a regional water-sharing framework, Egypt relied heavily on reactive diplomacy and legal appeals. As Ethiopia advanced its plans with strong regional backing, Egypt's inability to address shifting power dynamics left it struggling to protect its historical water rights. This reactive stance contrasts with South Africa's successful navigation of water-sharing agreements with neighboring countries, which involved long-term regional cooperation and infrastructure development.

More generally, Egypt's inconsistent approach to Sub-Saharan Africa reflects a lack of strategic vision. While Egypt occasionally revived its focus on the continent, such as during its 2019 chairmanship of the African Union, these efforts often lacked depth and sustainability. This absence of long-term engagement allowed other regional players like Ethiopia and external actors like China to expand their influence. Kenya, on the other hand, has established itself as a regional economic hub by fostering trade partnerships and promoting technological innovation in collaboration with its neighbors.

The Arab Spring presented Egypt with opportunities to lead the region through its transitions. Instead, domestic political turmoil and an inward focus prevented it from building strong alliances with transitional governments in Tunisia, Yemen, and Libya. As a result, countries like Saudi Arabia, the UAE, and Turkey filled the regional vacuum, further diminishing Egypt's influence. Egypt's heavy reliance on Gulf financial aid, particularly from Saudi Arabia and the UAE, has been a double-edged sword. While these funds stabilized Egypt's economy during critical moments, the absence of a long-term partnership strategy led to over-dependence. Instead of promoting sustainable trade or technological collaboration, Egypt relied on periodic cash infusions, perpetuating its economic vulnerabilities. In contrast, Vietnam diversified its economic partnerships post-crisis by focusing on trade agreements and FDI, achieving sustained growth.

These examples reveal Egypt's recurring inability to prioritize long-term geopolitical strategies, relying instead on short-term fixes that exacerbate vulnerabilities. The country's inability to learn from past crises and develop cumulative knowledge perpetuates a cycle of mismanagement, limiting its potential to achieve lasting regional and global influence.

5.3 Health Crises

Health crisis responses exemplify the reactive pattern: emergency treatment (Stage 5) without preventive infrastructure reform or addressing institutional weaknesses (Stage 1) that limited preparedness.

Since the 1950s, Egypt has faced a series of health crises that have exposed deep-seated weaknesses in its healthcare infrastructure and crisis response strategies. The schistosomiasis epidemic from the 1950s to the 1970s, largely a result of irrigation practices, devastated rural communities, reducing labor productivity and worsening public health. The 1967 cholera outbreak occurred during a time of national conflict, further stretching the country's limited resources. In the 1990s, Egypt suffered a hepatitis C epidemic, largely due to unsafe medical practices during earlier mass anti-schistosomiasis campaigns, resulting in one of the world's highest rates of hepatitis C. The 2006 Avian influenza outbreak not only disrupted the poultry industry but also threatened rural livelihoods, exposing significant vulnerabilities in Egypt's ability to control infectious diseases.

More recent crises have continued to challenge Egypt's healthcare system. The 2009 H1N1 pandemic saw a controversial and ultimately unnecessary mass culling of pigs, which led to economic and social distress. In 2014, the hepatitis C crisis was overshadowed by scandals involving fraudulent treatment claims, eroding public trust in government health initiatives. The COVID-19 pandemic in 2020 further revealed the system's lack of preparedness: healthcare facilities were overburdened, and social safety nets proved inadequate, leaving many Egyptians vulnerable. These repeated crises highlight the urgent need for systemic reform to build resilience and restore public trust in healthcare.

A consistent pattern in Egypt's handling of health crises has been *delayed responses,* which have often worsened the severity and long-term impact of these emergencies. During the 2006 avian influenza outbreak, for example, the government's slow and inconsistent implementation of containment measures—such as culling, vaccination, and public education—allowed the virus to spread widely among both poultry and humans, resulting in significant economic losses and heightened public health risks. Similarly, at the onset of the COVID-19 pandemic, Egypt initially downplayed the crisis and delayed the imposition of strict lockdowns and large-scale testing. These delays contributed to higher transmission rates and overwhelmed healthcare facilities during peak infection periods.

In contrast, countries like Vietnam have demonstrated the benefits of rapid, decisive action in managing health crises. During the COVID-19 pandemic, Vietnam implemented immediate border closures, contact tracing, and quarantine measures before significant case numbers emerged. Early public health campaigns and swift government action helped Vietnam maintain one of the lowest mortality rates globally in the early stages of the pandemic. Thailand's response to the 2003 SARS epidemic offers another example: authorities quickly established a centralized command center, implemented rigorous airport screenings, and mobilized resources to prevent community spread, successfully containing the outbreak and strengthening the country's crisis management reputation.

Egypt's recurring delays in crisis response point to deeper issues of institutional inertia and a lack of readiness to prioritize urgent action. Addressing these challenges will require investments in early detection systems, contingency planning, and rapid response mechanisms to improve Egypt's ability to manage future health emergencies.

A second recurring issue in Egypt's approach to health crises is a *reactive, rather than proactive,* public health strategy. This tendency has often intensified the severity and recurrence of health problems. While Egypt has made progress in areas such as vaccination, preventive healthcare has not consistently been prioritized, leaving the country vulnerable to recurrent emergencies. The hepatitis C response is a notable example: although Egypt launched large-scale treatment programs with life-saving antiviral medications, the focus remained on curing existing infections rather than preventing new ones. Public education and preventive strategies—such as promoting safe medical practices, reducing exposure to contaminated blood, and improving sanitation—were less robust, limiting the impact of treatment efforts.

The limited emphasis on prevention is also evident in the rising burden of non-communicable diseases (NCDs) like diabetes, cardiovascular disease, and hypertension. These conditions have become major health challenges in Egypt, fueled by lifestyle factors such as poor diet, physical inactivity, and high smoking rates. Government campaigns to raise awareness have not been matched by systemic changes, such as policies promoting healthier foods or increased physical activity. Routine health screenings for early detection of NCDs are not widely accessible, resulting in late diagnoses that complicate treatment and increase costs. A more comprehensive, preventive approach—focused on improving lifestyle choices and encouraging early intervention—could reduce the burden of NCDs and improve population health.

Other countries provide examples of successful preventive strategies. Brazil's response to the Zika virus outbreak was characterized by aggressive prevention efforts, including extensive public education about avoiding mosquito bites and eliminating breeding sites, mass spraying of insecticides, and community mobilization. This proactive focus helped curb the spread of Zika and minimize cases. India's fight against tuberculosis also demonstrates the value of prevention: investments in early detection, mass screening, and public awareness have led to a decline in new TB cases, underscoring the importance of early intervention and long-term strategies.
A shift towards prevention could strengthen Egypt's health system, reducing the long-term disease burden and relieving pressure on healthcare resources.

A third key challenge in Egypt's crisis management is *chronic underinvestment in public health infrastructure,* which has severely limited the country's ability to respond effectively. During the 2015 hepatitis C crisis, Egypt faced one of the world's largest hepatitis C epidemics. While the government eventually launched a national program to provide free treatment to millions, the initial response was hindered by inadequate healthcare facilities and a lack of trained professionals, especially in rural areas where many remained undiagnosed for years. The COVID-19 pandemic further exposed these weaknesses: despite having a relatively high number of hospital beds compared to other low-income countries, Egypt's hospitals were quickly overwhelmed during surges. Shortages of essential equipment like ventilators and personal protective gear, as well as a lack of skilled healthcare workers, hampered the response. Poor coordination between public and private health sectors and a weak surveillance system led to an underestimation of the crisis's scale, resulting in delayed interventions and missed opportunities for containment.

Countries such as Vietnam have shown that strategic investment in public health infrastructure can yield significant benefits, even with limited resources. Vietnam's robust network of public health workers and strong surveillance system were instrumental in preventing a large-scale COVID-19 outbreak. Community-based health workers and effective quarantine measures, supported by long-term investments in local health systems and workforce training, allowed Vietnam to manage the crisis efficiently. South Korea provides another relevant example: after the 2015 MERS outbreak, the country invested heavily in testing and contact tracing infrastructure. This preparedness, combined with efficient government coordination, enabled South Korea to respond to COVID-19 more effectively than many countries at similar development levels, demonstrating the value of sustained investment in public health.

Universal health coverage (UHC) is another critical gap in Egypt's healthcare system, undermining the country's ability to manage health crises efficiently. The absence of comprehensive, affordable health coverage for all citizens has limited access to quality medical services, especially during emergencies. Although Egypt introduced a new UHC program in 2018, significant barriers remain. During the COVID-19 pandemic, many Egyptians struggled to access testing and treatment due to gaps in coverage, particularly in rural areas. Overcrowded and under-resourced public health services were unable to meet the needs of a population already suffering from unreliable healthcare access, exacerbating inequalities and straining the system further.

The lack of UHC also means that many Egyptians, especially the poor, cannot afford necessary treatments. During the hepatitis C epidemic, government efforts to provide free treatment reached only a portion of those in need, with many unable to access services due to logistical or geographical barriers. The absence of a fully functional, inclusive health insurance system left vulnerable groups—low-income families, informal workers, and those in remote areas—underserved and exposed.

Mexico's experience with the Seguro Popular program illustrates the importance of UHC in crisis response. Introduced in the early 2000s, Seguro Popular extended healthcare coverage to millions of previously uninsured Mexicans, particularly in rural and underserved regions. During the 2009 H1N1 influenza outbreak, Mexico was able to quickly provide vaccinations and treatment, thanks in part to the expanded access enabled by Seguro Popular. This program allowed the government to deliver equitable care even during an international health emergency, highlighting the critical role UHC plays in effective crisis management.

Finally, *ineffective public communication* has been a persistent challenge in Egypt's crisis management, particularly during health emergencies. Misinformation, unclear messaging, and inconsistent communication strategies have contributed to public confusion and undermined effective responses. During the COVID-19 pandemic, the government's initial downplaying of the virus's severity led to widespread skepticism. The lack of transparent, consistent guidance on preventive measures—such as mask-wearing, social distancing, and vaccination—delayed public compliance. Mixed messages from different government bodies and health officials further amplified uncertainty, leaving the population unsure of appropriate actions and undermining efforts to control the virus's spread. This communication failure fueled the spread of misinformation as people turned to unreliable sources, complicating the national response.

In contrast, Senegal's handling of public communication during the West African Ebola outbreak was notably effective. The government launched a well-coordinated, transparent public health campaign, relying on clear messaging and trusted local leaders to disseminate information. By involving community leaders, religious figures, and civil society organizations, Senegal built public trust and encouraged compliance with health guidelines. This grassroots approach empowered communities, fostered collective action, and significantly mitigated the spread of Ebola. Senegal's success underscores the importance of unified, transparent communication strategies in managing health crises and building public confidence.

Our permacrisis framework's predictive power is evident in comparing Egypt with peers facing comparable crises. Vietnam, during the 1986-88 crisis, implemented Doi Moi reforms addressing institutions, leadership, and policies simultaneously. South Korea used the 1997-98 Asian Financial Crisis for comprehensive labor, financial, and corporate governance reform. The Philippines gradually strengthened institutions while realigning policies, eventually achieving investment-grade status. In contrast, Egypt's responses to multiple crises (2008, 2011, 2016, 2020-23) followed the perpetuation pathway: reactive stabilization reinforcing policy distortions through Stage 5 → Stage 3 feedback, leaving vulnerabilities unaddressed. This divergence demonstrates that crisis response patterns—not just crisis occurrence—determine development trajectories.

6. Leadership and Governance

Section 4 demonstrates how Egypt's bad ideas (Stage 3) emerge from extractive institutions (Stage 1) and elite interests (Stage 2), perpetuated by leadership failures. Section 5 shows how crises become opportunities for reactive management (Stage 5) rather than structural reform, reinforcing policy distortions (Stage 5 → Stage 3 feedback) and perpetuating stagnation (Stage 6). This section examines the political economy mechanisms explaining why this pattern persists: how do institutions, elite interests, and leadership failures interact to block reforms that could break the cycle? Understanding these interactions reveals both barriers to change and strategic entry points for pragmatic reform.

Bad ideas, whether during periods of stability or crises, are harmful to the growth trajectory of a country like Egypt, as they contribute to interrupted growth episodes and hinder the accumulation of knowledge and development. In parallel, the lack of coherent and consistent policy continuity creates an unstable environment for investment and innovation, while broadly undermining public trust in government institutions. This instability fosters skepticism and resistance to reform efforts. Consequently, the economy becomes trapped in a cycle of persistent inefficiencies.

The intersection of bad ideas, leadership, and governance challenges presents a persistent dilemma in Egypt. The issue with these bad ideas is not that they are unknowingly implemented; rather, they are recognized as poor choices. Policymakers, especially in countries with weaker institutions, frequently overlook necessary checks and balances, allowing bad ideas to persist. The same governance that chooses these bad policies also has the power to weaken institutions, limiting their ability to perform oversight and correction. A study on Egypt's failure to implement policy reforms in the 1980s, despite significant challenges like international indebtedness, macroeconomic imbalances, unemployment, and poverty, attributed the lack of reform to domestic blockages. The influence of interest groups, particularly those benefiting from "strategic rents," was the primary cause (Richards, 1991). This dynamic prevents meaningful reform, trapping the country in poor governance.

Heavy Egyptian state intervention in sectors like manufacturing has crowded out private investments, significantly obstructing industrialization efforts. The government's control over key industries has deterred private sector engagement, as potential investors perceive a lack of opportunities and unfavorable conditions for competition (IMF, 2021). Additionally, influential stakeholders have vested interests in import-dependent industries, real estate, and other sectors where they benefit from maintaining the status quo. These entrenched interests resist reforms that could foster a more competitive environment, ultimately causing the country to miss opportunities for technological advancement and skill development that typically accompany private sector participation.

The experience of Turkey offers insights into the importance of institutional strength. Initially, in 2014, Turkey started implementing several reforms aimed at enhancing economic growth and reducing inflation. However, over time, the government has gradually weakened institutional checks, leading to a concentration of power and the undermining of democratic processes. While Turkey experienced substantial growth in the early 2000s, the erosion of institutional integrity has resulted in a more volatile political climate and economic instability in recent years, highlighting how essential strong institutions are to sustaining progress. In contrast, the institutional frameworks in South Korea during its rapid industrialization in the late 20th century showcase the potential benefits of accountability. The government, while authoritarian during the early phases of development, laid the groundwork for robust institutions that promoted transparency and efficiency, which ultimately led to economic growth and democratization.

When those in charge resist the strengthening of institutions and slows the promotion of inclusive governance, peaceful change becomes more challenging but not impossible. In such cases, efforts must focus on non-confrontational, long-term strategies that build public demand for change and gradually reduce the concentration of power. This approach seeks to empower civil society, foster grassroots initiatives, and encourage open dialogue among various stakeholders. By creating a broad coalition for change, these efforts can pave the way for more sustainable governance that aligns with the public's needs and aspirations.

Addressing complex challenges requires a pragmatic approach to governance, particularly in addressing economic bad ideas that hinder progress. In contexts where leadership is entrenched, institutions are weak, or radical change seems impossible, pragmatism focuses on what can be achieved within the existing political and economic constraints. It is about prioritizing policies and decisions that work, even if they do not fit perfectly within an ideological framework. Pragmatic governance can provide a way out of the cycle of bad ideas by focusing on incremental reforms and flexible problem-solving.

Pragmatic leaders prioritize policies that produce tangible results rather than adhering to strict ideological lines. This approach often leads to flexible economic reforms that can adjust over time based on what works. For example, China under Deng Xiaoping embraced pragmatic economic reforms, famously saying, "It doesn't matter whether the cat is black or white, as long as it catches mice." By prioritizing economic growth and modernization over strict adherence to socialist principles, China transformed its economy. Moreover, instead of pursuing radical changes that risk destabilizing a country, pragmatism promotes gradual reforms.

In countries like Egypt, radical overhaul may provoke resistance. Pragmatism could offer a temporary middle path between radical reforms and stagnation. Incremental reforms—such as slowly phasing out subsidies while building social safety nets or gradually liberalizing certain economic sectors—allow for adaptation and minimize political backlash. India's economic reforms in the 1990s followed this path, gradually shifting away from a highly regulated economy toward liberalization, leading to sustained growth over time.

While pragmatism is often viewed as a more politically feasible approach for Egypt compared to radical reform, it is not without its challenges. A primary concern is the risk of incomplete reforms; the incremental nature of pragmatism may lead to initiatives being diluted or partially implemented, undermining their effectiveness. For instance, Egypt's gradual subsidy reforms have been criticized for lacking depth, as many subsidies remain entrenched despite their inefficiency. The government has attempted to cut energy subsidies, but without fully addressing broader social safety nets for vulnerable populations, and public discontent has remained high.

Additionally, initiatives aimed at improving healthcare services have faced similar issues; while the government has made efforts to expand access through the Universal Health Insurance Law, implementation has been slow and full of challenges, leaving many citizens without adequate coverage. Egypt's experience with public sector reform also highlights the pitfalls of incrementalism; efforts to modernize public services have often been stymied by bureaucratic inertia and resistance from entrenched interests. Comparatively, countries like India have seen more success with healthcare reforms, particularly in expanding access through technology and innovative financing, demonstrating the potential benefits of a more comprehensive approach. Similarly, the push for educational reform in Egypt has encountered significant barriers; while the government aims to enhance the quality of education, persistent issues with funding and infrastructure have hindered progress.

A second concern with the pragmatic approach is the potential for political opposition, as powerful elites benefiting from the status quo may resist changes that threaten their interests, further complicating the reform process. In Egypt, powerful interest groups may resist even small reforms such as changes to procurement practices or reduced government contracts in favored sectors, as these alterations threaten their financial interests and influence. This mirrors situations in countries like Venezuela, where entrenched interests in the oil sector have consistently opposed economic adjustments that threaten their power.

In contrast, Chile successfully navigated similar challenges during its transition to democracy in the 1990s. The Chilean government implemented significant economic reforms while fostering transparency and accountability, which helped manage opposition from vested interests effectively. The country balanced the demands of various stakeholders and successfully promoted economic growth. India also provides an example of navigating elite opposition, particularly in its economic liberalization in the early 1990s. While there was initial resistance from protected industries, the government managed to engage various stakeholders and demonstrate the benefits of liberalization, ultimately transforming its economy and reducing poverty.

Convincing leadership to adopt pragmatic adjustments when such changes may conflict with their established interests is a complex challenge. However, several strategies can encourage leaders to reconsider their positions and embrace reforms that serve the long-term interests of their countries. One effective approach is presenting data and evidence-based arguments to demonstrate the potential benefits of pragmatic adjustments. By providing empirical evidence that outlines the economic and social advantages of specific reforms—such as enhancing regulatory frameworks, improving institutional capacity, or fostering private sector growth—advocates can make a compelling case that aligns reform with national interests. For example, studies from the World Bank have shown that strengthening regulatory environments can lead to increased FDI and economic growth. By framing reforms as beneficial not only for the populace but also for maintaining political stability, advocates can appeal to leaders' self-interests.

Highlighting success stories from other countries can provide powerful motivation for leadership. Countries like Vietnam and Rwanda have undergone significant transformations by implementing pragmatic economic policies that prioritize growth and stability while maintaining social cohesion. Vietnam's Doi Moi reforms and Rwanda's post-genocide recovery strategies emphasize pragmatic governance, resulting in impressive economic results. By illustrating how similar approaches have led to improved governance and economic stability elsewhere, advocates can help leaders visualize a successful path forward.

Building coalitions and engaging stakeholders is also essential to facilitate change, particularly when other approaches prove ineffective. Engaging domestic investors and business leaders, civil society organizations, and influential community members can create a groundswell of support for pragmatic adjustments. When leadership sees broad societal advocacy for change, they may be more inclined to consider reforms. This approach mirrors efforts in South Africa during its transition from apartheid to democracy. The Truth and Reconciliation Commission (TRC) brought together various stakeholders, including political leaders, civil society organizations, and communities, to address past injustices and foster national healing. This inclusive approach helped build a broad coalition that supported the democratic transition and paved the way for more sustainable governance, demonstrating the power of stakeholder engagement in effecting meaningful change.

Creating and strengthening parallel think tanks can further bolster these efforts by providing a structured platform for policy research, advocacy, and long-term lobbying. Think tanks can serve as knowledge hubs, producing evidence-based recommendations that highlight the benefits of reform while addressing potential concerns. Over time, their ability to consistently shape public discourse and influence decision-makers makes them a powerful tool for fostering gradual yet significant policy shifts.

Fundação Getúlio Vargas (FGV) in Brazil exemplifies how think tanks can effectively influence policy and governance in complex political and economic environments. According to the University of Pennsylvania's *2020 Global Go To Think Tank Index Report*, FGV is number 2 out of 150 in the "Top Think Tanks Worldwide (Non-U.S.)". FGV has been instrumental in shaping Brazil's economic reforms, including advocating for fiscal responsibility laws during financial crises and promoting public-private partnerships to address infrastructure and social service gaps. It has also made significant contributions to education policy, transparency, and anti-corruption efforts, particularly during the Operation Car Wash scandal. Additionally, FGV's work on environmental policy has guided Brazil's alignment with global climate goals, showcasing its ability to drive long-term systemic reforms. FGV's success stems from its integration of academic research with actionable policy recommendations, strong collaborative networks, and a reputation for independence and objectivity. These qualities allowed it to influence both public and private sectors effectively. For countries like Egypt, emulating FGV's approach could strengthen think tanks' roles in policymaking, enabling more robust responses to governance and economic challenges.

If leadership is resistant to sweeping reforms, proposing pilot programs can be an effective strategy to test pragmatic adjustments on a smaller scale. This allows leaders to observe tangible results without committing to full-scale changes immediately. For instance, Bangladesh has successfully piloted social safety net programs that gradually expanded based on positive outcomes, showcasing the effectiveness of targeted reforms.

7. The Way Forward

Egypt's persistent "permacrisis" is the result of interconnected challenges: outdated economic policies, ineffective crisis management, and entrenched political economy dynamics. These elements, compounded by leadership that often prioritizes short-term stability over long-term reform, have created structural vulnerabilities that hinder the country's ability to transition from short-term survival strategies to long-term sustainable and inclusive growth. The persistence of "bad ideas" in policymaking, combined with a reactive approach to crisis management, has kept Egypt mired in a cycle of instability. Additionally, the country's centralized governance model has entrenched elite interests and limited meaningful reform, undermining the potential for inclusive development.

To break free from this cycle, Egypt must move beyond reactive short-term measures and embrace comprehensive, long-term reforms. This section draws from Mohieldin et al. (2024c), specifically Chapter 5 "The Way Forward," which outlines a comprehensive roadmap for Egypt's economic development, emphasizing the balance between leadership effectiveness and institutional strength.

Success requires leadership that is willing to rethink economic policies, improve crisis management capabilities, and address the deep-rooted governance challenges that have perpetuated stagnation.

7.1 Growth and Capital Formation

Egypt faces fundamental constraints preventing sustained high growth rates necessary for improving living standards. Two primary factors limit the country's ability to achieve the targeted 7% annual growth: persistently low productivity levels and inadequate domestic savings rates. These conditions force greater reliance on external investments, necessitating significant increases in capital formation through enhanced private sector participation, given government fiscal constraints.

The financing strategy must prioritize foreign direct investment and portfolio investments over debt accumulation. This approach requires a comprehensive framework emphasizing dependable economic data, effective policy implementation, and custom-designed plans to bridge development gaps. The strategy should align with Egypt's 2030 vision through strategic financial planning that promotes inclusive growth and sustainable development.

Investment priorities must focus on three critical areas: human capital development through education and healthcare advancement, infrastructure investment with emphasis on digital transformation, and building resilience against external shocks including climate change impacts. Without proper institutional competence evaluation, growth may occur but create significant disparities across sectors, regions, genders, and generations.

7.2 Financing Growth

Egypt's low domestic savings create chronic challenges in mobilizing private savings for growth financing, leading to increased dependence on external resources. This pattern has contributed to an excessive debt burden with substantial foreign currency-denominated obligations. Historical budget deficits have incentivized commercial banks to prioritize government lending over private sector credit, viewing it as safer and potentially more profitable.

The government's fiscal overleverage has severely constrained fiscal space, with interest expenses consuming over 50% of total revenues. This high debt servicing burden limits the government's ability to finance growth and public investments. Beyond aggregate debt levels, the critical challenge lies in managing the sustainability of interest payments relative to revenues, which are increasingly stretched. Between 2015 and 2023, external debt stock surged by 244% while export growth lagged at 68%, further intensifying debt servicing pressures and narrowing fiscal space for development priorities.

Egypt's relatively narrow and non-diverse export base, correlated to volatile global risk factors beyond the country's control, requires careful management to avoid over-leveraging. The government can directly manage investment project pacing and allocate debt more efficiently, particularly favoring tradables over non-tradables sectors.

7.3 Debt

Addressing debt challenges requires holistic reconsideration of the growth and development financing model, incorporating comprehensive governance approaches that integrate growth-oriented policies with prudent debt management strategies. The chronic issue of low domestic savings demands substantive reforms targeting savings behavior, social security systems, and financial inclusion levels.

The implementation of an Integrated National Financing Framework provides a strategic approach for aligning financing strategies with national sustainable development priorities. This framework offers comprehensive planning, coordination, and mobilization of financial resources supporting SDG implementation. The process involves developing roadmaps outlining how national strategies will be financed and implemented.

Inflation

High inflation presents additional challenges for Egypt’s external debt-dependent economy. Containing inflation requires full adoption of coordinated monetary and fiscal policies based on an inflation-targeting framework. Implementing inflation targeting as monetary policy demands substantial measures creating effective strategies aligned with flexible exchange rate principles.

Egypt’s historical record of maintaining relatively moderate inflation rates suggested high success likelihood for effective inflation-targeting implementation. However, the Central Bank of Egypt deviated from framework requirements, instead focusing on nominal exchange rate targeting, resulting in exchange rate misalignment, capital flow vulnerability, and compromised price stability.

7.4 Exports Promotion and Imports Management

Egypt confronts distinct challenges related to export dynamics requiring nuanced examination of broader economic landscapes. Contrary to perceptions of excessive imports, Egypt maintains one of the world’s lowest import ratios to GDP at 21.9%, compared to South Korea’s 38.5%, Vietnam’s 93.2%, and Cambodia’s 67.1%. The fundamental issue lies in insufficient export growth rather than import excess.

Egypt's per capita exports remain drastically below peer nations, with the crux lying in insufficient export growth rather than excessive imports. Resolving these issues requires structural reforms focused on expanding exports and boosting productivity through investments and competitiveness-enhancing measures. This necessitates collaborative public-private partnerships and commitment to local sustainability.

7.5 Leveling the Playing Field

State dominance in the Egyptian economy has hindered private sector growth and innovation potential. Leveling the playing field requires implementing reforms promoting fair competition, reducing entry barriers, and ensuring equitable opportunities for all economic actors. This involves eliminating regulatory hurdles and monopolistic practices while ensuring equitable market and resource access.

Recent legislation addressing military involvement in civil enterprises, including Law No. 159 of 2023, represents steps toward improving economic governance and promoting fairness. Enforcement of measures requiring uniform compliance with taxation and customs could improve private sector inclusion by abolishing exemptions for state entities.

7.6 Advancing and Localizing the SDGs

Egypt must focus on advancing structural reforms establishing strong foundations for growth and development. While not necessarily adhering strictly to Asian export-oriented models, the country must address critical factors including private sector growth promotion, capital formation encouragement, technical innovation and competition fostering, and optimal resource utilization including human capital.

The development roadmap necessitates corresponding localization of sustainable development and financing. This approach diverts from conventional setups by directing expenditures toward local initiatives rather than centralized channels, particularly in education and healthcare sectors. Digital transformation offers potential for boosting localization through balanced centralized and decentralized governance approaches, aligning national policies with local priorities.

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