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President Abdel Fattah Al-Sisi (2014-present) meets United States (US) counterpart president Donald Trump (2017-present) in Washington DC (US). While Trump praises Sisi, this may not be sufficient to protect Egypt from his planned cuts to the foreign aid budget. Ousted former president Hosni Mubarak (1981-2011) is released from prison to muted response. Cabinet approves budget targeting growth of 4.6%. Protests break out in Egyptian cities over government plans to revise the subsidy system for bread.

Sisi meets Trump in US

President **Abdel Fattah Al-Sisi** (2014-present) met **United States (US)** counterpart president **Donald Trump** (2017-present) in **Washington DC** (US) on 3 April.¹ Relations between **Egypt** and the US are expected to improve under the Trump administration. Bilateral relations between the US and Egypt deteriorated under former president **Barack Obama** (2008-2017), a vocal critic of Sisi's human rights record. However, Trump phoned Sisi on 23 January, only three days after his inauguration, in an apparent effort to demonstrate his support for the Sisi administration and its efforts to combat Islamist militancy.² Sisi and Trump met on the sidelines of the **United Nations (UN) General Assembly** in September 2016 during Trump's election campaign, when Sisi said Trump would "without a doubt"³ make a strong leader.

Following the meeting in Washington, Trump said that Egypt has "a great friend and ally in the US and in me"⁴ and praised Sisi's record in office. The purpose of the visit was both political and economic. Politically, foreign minister **Sameh Shoukry** said Trump and Sisi are in agreement over security concerns in the **Middle East and North Africa (MENA)** region.⁵ Trump reportedly committed to continued funding of Egypt's military as a bulwark against domestic and regional terrorism.⁶

*"[Trump and Sisi] are both ruthless, paranoid and known for making outlandish accusations about traitors and enemies. But let's remember this is about mutual interest coalescing – for the time being anyway. Sisi is using the counter terrorism theme, along with regional instability and the further threat of migrants to get weapons and some aid from Western allies. But it remains to be seen what power these countries actually possess to pressure the leadership in Egypt to take the necessary measures keep the country afloat. So far, the new manifestation of the old deep state of wasta [connections] and corrupt money only benefits itself and the security apparatus. But this is not a sustainable governing model in the long term, the 2011 [revolution] more than showed us that much."*⁷

Shoukry said Trump agreed with Sisi over the need to be "practical"⁸ in the face of political challenges. This may be a reference to the increasing authoritarianism of the Sisi administration. Observers consider it unlikely that Trump struck a more critical tone in private.

¹ CBC, 4 Apr 2017.

² Egyptian Independent, 19 Mar 2017.

³ AP, 19 Mar 2017.

⁴ Egyptian Independent, 4 Apr 2017.

⁵ CBC, 4 Apr 2017.

⁶ CBC, 4 Apr 2017.

⁷ Source, diplomat, Cairo

⁸ CBC, 4 Apr 2017.

*“While Trump may have mentioned some of the many issues concerning Egypt in private, it’s hard to imagine that happening. In public he gave unequivocal support to Sisi. Maybe this is in pursuit of a better relationship with a country that is of strategic importance. But all this heaped praise begets the facts. Under Sisi the economy is a wreck, austerity has come at the cost of the most marginalised, the price of food has skyrocketed, and there are no jobs. And torture, police violence and extrajudicial killings are more commonplace than under [ousted former president **Hosni**] **Mubarak** [1981-2011]. I was shaking my head watching the press conference. How can Egypt be a partner in peace if it’s a breeding ground for terrorism?”⁹*

The US government, however, did not accede to Egypt’s call to label the **Muslim Brotherhood** a terrorist group.¹⁰ Despite this, the Egyptian political elite has emphasised the success of the visit, even if observers note that it resolved no substantial issues.

*“Some have said Trump’s approach to Egypt is shrewd, and in giving him [Sisi] the grand White House treatment, he has satisfied the Egyptian elite by giving them what they have been denied: the stamp of legitimacy. Give them what they desperately want in public and maybe you will find a more amendable ear in private. Obama and **Europe** have worked with Sisi since 2013, and went along with the pretense it wasn’t a coup to appease Egypt. But Sisi is viewed with thinly veiled disdain, even more so since the death of [Italian student] **Giulio Regeni** which only confirmed in the minds of many that this is a regime of thugs. For Trump to slap this president on the back, and give him a free pass to continue as though ‘all is well’, could be a mistake.”¹¹*

With regard to regional issues, Sisi lobbied Trump on his plans for the political resolution of the **Israel** and **Palestine** conflict.¹² The Egyptian government is a strong advocate of the two-state solution, which the Trump administration appears willing to compromise on.¹³ Sisi is a trusted party to both Israel and Palestine, and the Trump government is likely to require him as key intermediary as its changed stance towards the two-state solution threatens to further stall the peace process.¹⁴

It is also not clear whether these public statements of support are sufficient to stop Trump cutting financial aid to Egypt. Trump’s foreign policy is currently unclear, with the majority of senior state department posts vacant. Someone likely to influence US policy towards Egypt is Egypt-born **Dina Habib Powell**, Trump’s deputy national security adviser for strategy.¹⁵ Powell has influence across government, as her role involves working closely with national security adviser **Herbert Raymond McMaster**, secretary of state **Rex Tillerson**, **Central Intelligence Agency** director **Mike Pompeo** and defence secretary **James Mattis**.¹⁶

The visit may provide a platform for Sisi to ensure that Egypt is exempt from Trump’s planned cuts to foreign aid and diplomatic initiatives in the 2018 budget. MENA governments are worried that proposed cuts to the US foreign aid budget will disproportionately affect them. Currently, 30% of US foreign aid is earmarked for the MENA region.¹⁷ Egypt is currently the second largest recipient of US aid after Israel.¹⁸ The Trump administration has reportedly ring-fenced its aid commitments to Israel, but is still considering its funding to other regional governments.¹⁹

⁹ Source, political analyst, Cairo

¹⁰ MBC, 3 Apr 2017.

¹¹ Source, diplomat, Cairo

¹² Al Mal, 4 Apr 2017.

¹³ Source, former senior UN official, Middle East

¹⁴ Source, former senior UN official, Middle East

¹⁵ Enterprise, 19 Mar 2017.

¹⁶ Enterprise, 19 Mar 2017.

¹⁷ Enterprise, 19 Mar 2017.

¹⁸ AP, 19 Mar 2017.

¹⁹ Reuters, 19 Mar 2017.

Investment minister **Sahar Nasr**, who accompanied Sisi on the visit, said Trump had committed to providing Egypt with economic support.²⁰ According to Nasr, this will involve providing support to Egypt in international financial institutions, and completing foreign direct investment (FDI) projects.²¹ Finance minister **Amr El Garhy** said the Egyptian delegation had pledged to make it easier for US-based companies to invest in Egypt, especially in the energy and petrochemical sectors.²² Nasr also encouraged US investment in the agriculture and telecoms sectors and in the **Suez Canal Economic Zone**.²³ Trade and industry minister **Tarek Kabil** discussed with US officials the expansion of the **Qualifying Industrial Zones** agreement to include parts of **Upper Egypt**.²⁴

Both Trump and Sisi stand to gain from closer relations. Trump will see the backing of an Arab leader as a boost to his damaged credibility in the Muslim world. For Sisi, closer ties with the US will act as a shield against international criticism of his increased authoritarianism. Sisi will look to align his foreign policy with that of the US, increasing the likelihood of a rapprochement with **Saudi Arabia**.

Mubarak leaves prison

Ousted former president **Hosni Mubarak** (1981-2011) was released on 24 March after six years' imprisonment.²⁵ The response to Mubarak's freedom was muted, and neither the 88-year-old nor his family are likely to have any significant political future. On 2 March, the **Court of Cassation** acquitted Mubarak and his interior minister **Habib El-Adly** of killing protesters during the January 2011 revolution.²⁶ Mubarak was initially arrested in April 2011, two months after his departure from office. In 2012, a court sentenced Mubarak for life imprisonment for conspiring to murder 239 demonstrators during the revolution. A retrial at the **Appeals Court** led to the charges being dropped against Mubarak and other former senior government officials.²⁷ However, the public prosecutor ordered a retrial at the Cassation Court. The final acquittal came after the prosecution acknowledged they had only provided the weapons and vehicles used against the protesters.²⁸ Both Mubarak and El-Adly denied instructing security forces to kill the protesters. Following the acquittal, Mubarak departed the **Maadi Military Hospital** in southern **Cairo** where he was previously detained.²⁹

Mubarak has since moved to his family's private residence in **Heliopolis** (Cairo). There were no public demonstrations to mark Mubarak's release. Pro-Sisi members of parliament and media increasingly portray the 2011 uprising against Mubarak as a mistake. They argue that it resulted in unnecessary political instability and the rise to power of the Muslim Brotherhood, which necessitated – and justified – Sisi's military intervention.

Mubarak's release will not impact the stability of the Sisi administration. The liberal and the Islamist opponents who oppose the Sisi government were central to the ousting of Mubarak, who remains deeply unpopular with them.

Cabinet approves budget

The cabinet approved the 2017/2018 budget on 29 March, and will imminently introduce it to the **House of Representatives** (parliament) for its approval.³⁰ An increase in economic activity on the back of recovering business and consumer confidence will help the government meet its revenue and growth targets. According to finance minister Garhy, the budget targets growth of 4.6% in the next

²⁰ CBC, 4 Apr 2017.

²¹ CBC, 4 Apr 2017.

²² CBC, 4 Apr 2017.

²³ Al Borsa, 4 Apr 2017.

²⁴ Al Shorouk, 4 Apr 2017.

²⁵ Al Shorouk, 24 Mar 2017.

²⁶ Daily News Egypt, 2 Mar 2017.

²⁷ Daily News Egypt, 2 Mar 2017.

²⁸ Daily News Egypt, 2 Mar 2017.

²⁹ Al Shorouk, 24 Mar 2017.

³⁰ www.cabinet.gov.eg

financial year.³¹ Government revenue is expected to reach 830 billion Egyptian pounds (EGP) (\$45.7 billion).³² Of total revenue, taxes will account for EGP 604 billion (\$33.3 billion).³³ This will be on the back of further tax reforms, including a new tax code for small and medium enterprises (SMEs), reform of the **Income Tax Act**, the implementation of tax incentives contained in the **Investment Act**, and the coming into force on 1 May of the 0.125% stamp duty on stock market transactions.³⁴

Government expenditure will reach EGP 1.2 trillion (\$66.2 billion).³⁵ Of total expenditure, spending on subsidies and social benefits will reach EGP 331 billion (\$18.3 billion).³⁶ This is a 19% year-on-year increase on the current financial year, as the government looks to mitigate the impact of the high inflation rate and November currency devaluation.³⁷ The **International Monetary Fund (IMF)** is unlikely to be concerned by the increase in subsidy and social benefit spending. One of the four pillars of the IMF economic reform programme calls for "*strengthening social safety nets by increasing spending on food subsidies and cash transfers*".³⁸

The expenditure allocation for capital investments increased 38% year-on-year to reach EGP 125.4 billion (\$6.9 billion).³⁹ The budget targets a deficit of 9.1% of gross domestic product (GDP).⁴⁰ The government expects the deficit in the current financial year to be between 10.5% and 10.7%, compared to 12.2% in the last financial year.⁴¹

Garhy confirmed that the government plans to return to the international markets by the end of 2017 or early 2018.⁴² The budget states that interest on debt will reach EGP 380 billion (\$20.9 billion) in 2017/2018, a 25% increase from EGP 304 billion (\$16.8 billion) in the current financial year.⁴³ The budget assumes an oil price of \$55 per barrel and an exchange rate of EGP 16 to the dollar.⁴⁴

Once the initial price shock from the November currency devaluation eases, improved economic and consumer confidence will increase the feasibility of the budget targets.

Bread subsidies trigger violent protests

Protests broke out in Egyptian cities on 7 March in opposition to government plans to revise the subsidy system for bread.⁴⁵ The protests are indicative of the political sensitivities of subsidy reform as the government looks to reduce its fiscal deficit. The protests took place in **Alexandria, Kafr El Sheikh, Minya, Assiut, Giza and Fayoum Governorates**.⁴⁶ In Alexandria, demonstrators blockaded major roads and disrupted the tramway system forcing security forces to intercede.⁴⁷ The protests were in response to supply minister **Ali El Moselhy's** announcement the previous week of plans to decrease the number of subsidised loaves of bread that bakeries can distribute through the so-called gold card system.⁴⁸ Eligible Egyptians who work in a different governorate to where they live can apply for a temporary subsidy card to obtain bread in both governorates, without requiring their

³¹ Reuters, 30 Mar 2017.

³² Reuters, 30 Mar 2017.

³³ Reuters, 30 Mar 2017.

³⁴ Al Ahram, 26 Mar 2017.

³⁵ Reuters, 30 Mar 2017.

³⁶ Reuters, 30 Mar 2017.

³⁷ Reuters, 30 Mar 2017.

³⁸ Al Borsa, 12 Nov 2016.

³⁹ Reuters, 30 Mar 2017.

⁴⁰ Reuters, 30 Mar 2017.

⁴¹ Reuters, 30 Mar 2017.

⁴² Reuters, 30 Mar 2017.

⁴³ Reuters, 30 Mar 2017.

⁴⁴ Reuters, 30 Mar 2017.

⁴⁵ Al Mal, 8 Mar 2017.

⁴⁶ Al Mal, 8 Mar 2017.

⁴⁷ Al Mal, 8 Mar 2017.

⁴⁸ Al Mal, 8 Mar 2017.

ration book.⁴⁹ The government then issues these bakeries golden cards to track the distribution of bread to temporary cardholders.⁵⁰ The government has argued that the current system is vulnerable to fraud and wastage. Moselhy had decreased the number of subsidised loaves of bread that bakeries can sell under the gold card system from 3,000 to 500.⁵¹ This raised concerns amongst temporary cardholders that the restricted allocation would jeopardise their daily allotted five loaves per family member at EGP 0.05 (\$0.3). The government is considering whether to reduce the daily allocation of subsidised bread from five to three loaves.⁵² Moselhy appeared to back down in the face of the protests, abandoning the proposed cap in both Alexandria and Giza, the two governorates that the restriction would have most affected.⁵³

Food and fuel subsidies comprise the majority of the government's total subsidy bill. Reforms to both are politically sensitive, and the IMF appears sensitive to this (see above). Subsidy reforms, especially at a time of increased living costs, are likely to result in increased protests and labour action. Security forces will likely use teargas and rubber bullets to disperse protesters. The protests will not be sufficient to threaten the stability of the Sisi administration.

⁴⁹ Al Mal, 8 Mar 2017.

⁵⁰ Al Mal, 8 Mar 2017.

⁵¹ Al Mal, 8 Mar 2017.

⁵² Al Mal, 8 Mar 2017.

⁵³ Al Mal, 8 Mar 2017.

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