مجلة جامعة بني وليد للعلوم الإنسانية والتطبيقية
Bani Waleed University Journal of Humanities and Applied Sciences
تصدر عن– جامعة بني وليد – ليبيا
Website:https://jhas-bwu.com/index.php/bwjhas/index
المجلد العاشر ــ العدد الرابع ــ 2025 الصفحات (104- 117) ISSN3005-3900

The Underlying Causes of Egypt's Currency Crisis and its Effects on Economic Growth

Dr. Salem Gheit *

Department of Economics, Faculty of Economics and Political Science, University of Bani Waleed, Bani Walid, Libya.
salemghait@bwu.edu.ly

الأسباب الكامنة وراء أزمة العُملة في مصر وآثارها على النمو الاقتصادي

د. سالم عبدالسلام فرج غيث ماضي*
قسم الاقتصاد ، كلية الاقتصاد والعلوم السياسية ، جامعة بني وليد ، بني وليد ،ليبيا.

تاريخ الاستلام: 05-08-2025 تاريخ القبول: 19-09-2025 تاريخ النشر : 01-10-2025

الملخص:
تهدف هذه الورقة إلى دراسة الأزمات الاقتصادية التي شهدها الاقتصاد المصري، والتي تكررت في السنوات الأخيرة ورغم استمرارية هذه الأزمات وتكرارها، إلا أن حلولها كانت في غالبها مؤقتة وليست جذرية. في عام 2024 تفاقمت الأزمة القائمة منذ سنوات حول سعر صرف الجنيه المصري كنتيجة للإصرار و المبالغة في الحفاظ على استراتيجية تقييم العملة المحلية من خلال اعتماد نظام سعر الصرف الثابت ما قبل عام 2016، ومما زاد من تفاقم هذه الأزمة هو الركود الاقتصادي العالمي الناتج عن تفشي جائحة كورونا عام 2019 واستمرار انعكاساتها السلبية على الأداء الاقتصادي خلال الأعوام اللاحقة 2020 ، 2021 ، 2022 ، إضافة إلى أزمات سلاسل الإمداد العالمية والركود التضخمي الناتجة عنها، ناهيك عن التضخم الناتج عن الحرب الدائرة في أوكرانيا منذ فبراير 2022، والحرب المستمرة في قطاع غزة منذ أكتوبر 2023.
تحاول هذه الدراسة تحديد الفجوة في الأدبيات الموجودة حول أسباب أزمة تفاقم تدهور قيمة العملة في مصر من خلال تبني منهج تحليلي وصفي يناسب بشكل أفضل جهود هذه الدراسة التي تحاول بشكل أساسي فهم ما إذا كانت العوامل التي ساهمت في تفاقم هذه الأزمة في الاقتصاد المصري داخلية أو خارجية أو أنها كانت مزيجاً من الاثنين معاً.

الكلمات الدالة: النمو الاقتصادي ، السياسة النقدية ،سعر الصرف ، صندوق النقد الدولي ، المصرف المركزي المصري.

Abstract

The purpose of this essay is to examine the economic crises that have repeatedly recurred in the Egyptian economy in recent years. These crises continued and recurred, although the solutions were typically short-term rather than drastic. In 2024 the crisis that had existed for years about the exchange rate of the Egyptian pound worsened, which resulted from the insistence on maintaining the currency's overvaluation strategy by adopting a fixed exchange

rate system, and what further exacerbated this crisis is the global economic recession resulting from the outbreak of the Covid-19 pandemic and the resultant global supply chain crisis, not to mention the inflation that resulted from the war in Ukraine since February 2022, and the ongoing war in the Gaza Strip since October 2023.
Using a descriptive analytical approach that better fits the goals of objective scientific investigation, this study aims to fill the gap in the literature on the causes of Egypt's currency crisis by determining whether the factors that contributed to this worsening crisis in the Egyptian economy were endogenous, exogenous, or a combination of both.

Keywords: Economic growth, monetary policy, exchange rate, International Monetary Fund, Central Bank of Egypt.

Introduction

Egypt has been facing persistent economic challenges for the last decade, leading to a significant currency crisis that has been exacerbated by external pressures, structural vulnerabilities, and government limitations. Since 2016, Egypt has experienced multiple instances of currency devaluation, particularly in 2016, 2022, and 2023, due to changing geopolitical circumstances, high dependence on imports, and declining foreign reserves. This overview of contemporary academic and policy-related literature investigates the causes, impacts, and consequences of Egypt's currency crisis on macroeconomic stability and economic growth.

The existing economic turmoil in Egypt is marked by recurring issues that have affected the country's economy for many years, such as an artificially high exchange rate resulting from a non-floating exchange rate system, ongoing balance of payments deficits, and pressure from the IMF to devalue the currency in return for emergency support. These recurring crises have revealed the fundamental weaknesses within Egypt's economic structure and the difficulties in enacting effective reforms.

Egypt's strategy, aimed at stabilising prices and attracting more foreign investment, frequently results in considerable discrepancies between the official exchange rate and the rate in the parallel market. The differences between these rates illustrate fundamental economic distortions, such as budget deficits, low productivity, and insufficient foreign reserves. These distortions have led to external pressures on the currency, prompting occasional devaluations to adjust the exchange rate in line with market conditions.

An enduring characteristic of Egypt's economic troubles has been its continual balance of payments (BOP) deficits. These deficits arise from fundamental issues such as reliance on imports, inadequate export growth, and elevated government spending. These discrepancies have led to a reduction in foreign reserves, necessitating external financial support. The International Monetary Fund (IMF) has often played a crucial role in offering emergency assistance, but this support is contingent upon the adoption of economic reforms, which include the requirement for Egypt to lower its currency value and transition to a more adaptable exchange rate system. These actions aim to enhance external competitiveness and stabilise the economy.

Even with numerous interventions and devaluations, Egypt has frequently reverted to its strategies of managing and stabilising the exchange rate. This recurring behavior illustrates a persistent hesitation to adopt a floating exchange rate system. The shift back to a fixed exchange

rate regime is motivated by sociopolitical factors, such as concerns over inflation—especially regarding food prices—which is expected to have significant negative impact on the low-income household in Egypt.

Research Question

The current crisis, exacerbated by recent global and regional shocks, mirrors these historical patterns. Egypt's significant devaluations in March 2023 and flotation in March 2024, supported by the IMF bailout, aimed to curb inflation, attract foreign investment, and address external imbalances. But the sustainability of these reforms remains uncertain, given Egypt's historical tendency to revert to fixed exchange rate policies and delay necessary structural adjustments.

Based on the historical context of the Egyptian economic crisis, the main question that arises would be:

- Are the causes of the economic crisis in Egypt endogenous, exogenous, or a combination of both?

Research Hypothesis

Drawing on the above question, the research hypothesis can be written as follows:

- The economic crisis in Egypt can be attributed to a combination of endogenous and exogenous factors that exacerbated the crisis over the years.

Methodology

There are a few key advantages of the descriptive analytical approach concept that may lead many researchers to choose it when studying a variety of phenomena. That is to say that it has more enabling mechanisms, which allow it to study more topics in scientific research than the traditional descriptive approach, which was restricted to the study of certain phenomena that take on a social and human nature. One of the functions characterised in the performance of the descriptive analytical approach is its ability to elucidate the relationships between variables and various phenomena, as well as to detail the various comparisons between those phenomena and identify the differences and similarities in detail.

Data analysis begins with descriptive analytics. Finding out what happened in the past is the aim of descriptive analytics, which is the first layer of information a researcher can extract from the data they have collected, either with or without the addition of data from other sources. The events that resulted in the dataset that needs to be analysed may not be fully understood by researchers and analysts. If this is the case, it is crucial to find out more about the population and sample that were chosen. In the descriptive analytical approach, data is parsed, broken down, and its key attributes are summarised. Basic descriptive statistics are used. The mean, mode, and median are examples of central tendency measures.

Literature Review: Historical Background of the Crisis

The Egyptian economy displayed some of the typical signs of financial disequilibrium in the second half of the 1980s, such as a budget deficit of roughly 15% of GDP on average, which prompted expansionary monetary policy with annual liquidity rates above 18%, inflation above

20%, which caused confidence in the economic system to wane, and a notable increase in dollarisation during that time. In this case, foreign currency deposits, specifically in U.S. dollars, accounted for roughly half of the available liquidity in the economy. (Handy and Subramanian, 1997).

In order to change the economy into a market economy where the private sector is encouraged to participate more in economic activities, Egypt started the extensive economic reform and structural adjustment program (ERSAP) in 1991. Reforming the banking, capital market, and insurance sectors received a lot of attention in the first stage of the implemented program. In the second stage, the focus was on reallocating resources through price and foreign trade liberalisation. In the third stage, efforts were focused on encouraging private sector involvement in economic activities through the privatisation of state-owned enterprises. (Nos'hy and Hussein, 2000).

In any event, the government focused its efforts on creating indirect monetary tools and increasing the value of the local currency during the period of financial reforms, which included a lengthy list of liberalisation measures. Furthermore, the Egyptian pound's interest rate ceilings were eliminated in 1992. As a result, nominal interest rates for short-term deposits increased from roughly 10% to 17% by the middle of 1993 before falling to 10% by 1996. Most importantly, the monetary authorities decided to issue treasury bills in order to absorb excess liquidity and establish a market mechanism that could set the interest rate. (El-Refaie, 1997).

All things considered, in 1993 the private and public sector credit ceiling was removed, public enterprises were permitted to deal with any bank without first obtaining permission from a lending public bank, and in October 1991 the various exchange rates were fully unified, allowing the Egyptian pound to be fixed to the US dollar. The principal goal of the monetary authority's market operations is to stabilise the exchange rate, and this was accomplished by making the Egyptian pound convertible on both the capital and current accounts.

Therefore, since 1991, the exchange rate has been stable, and positive real interest rates overall have drawn significant capital inflows that have contributed to the accumulation of foreign reserves, which in turn have supported stable exchange rates in the years that followed. But since 1997, there have been a number of concerning signs regarding the Egyptian economy. At this point, the economy started to see a significant decline in foreign investment and a precipitous drop in tourism-related income. Additionally, the decline in oil prices later in 1998 had negative impact on foreign exchange reserves. Having said that, the most significant indicator of all was the currency squeeze crisis and liquidity shortage, which were caused by excessive spending on major infrastructure projects at a time when the tourism industry's earnings were declining. The Egyptian pound was devalued as a result, losing roughly 32% of its 2001 value. (Al-Assaf, 2017).

That is to say, the financial turbulence echoed at various levels of the Egyptian economy, starting with the banking sector facing excess demand for US dollars, shortage of Egyptian pounds, and high rate of defaults. According to economists at the time, the economy experienced a number of internal and external shocks that led to an inadequate supply of both US dollars and Egyptian pounds, which in turn caused the liquidity shortage crisis. (Nos'hy and Hussein, 2000).

The Banking Reform Plan (BRP), which was adopted in 2004 by the Central Bank of Egypt (CBE) in response to the underperforming loans that occurred between 1997 and 2003, includes

strict controls on banks to improve and consolidate the banking industry, strict capital adequacy compliance, reforming state-owned banks, settling the underperforming loans, and lowering the nominal anchors of inflation. The Central Bank of Egypt had not established clear goals or depended on a clear and explicit monetary instrument prior to enacting the BRP in 2004. (Abdel-Baki, 2011).

The CBE used interest rate and exchange rate targets at some points, and it appeared to have targeted inflation at other times. At the same time, implementing a managed-peg strategy had its own set of issues that caused the exchange rate to overshadow the inflation target as the nominal anchor. As a result of this confusion in monetary policy targets, foreign reserves rose significantly in an attempt to stabilize the exchange rate, but this proved to be an ineffective strategy because huge monetary aggregates accumulated, creating inflationary pressures. (Jonas and Mishkin, 2003). Before the 2008 financial crisis hit the Egyptian economy, the real GDP had increased by 7.2 percent between 2004 and 2008. It then fell to 4 points 7 percent in the final quarter of the 2008–2009 fiscal year before rising to 5 points 3 percent in the 2009–2010 fiscal year. (Badru, 2015).

When Kheir-El-Din and Moursi (2006) examined the primary drivers of Egypt's overall economic growth, they discovered that capital accumulation was the primary driver of economic growth from 1960 to 1998. This was primarily due to the country's large number of unqualified workers as well as the employment laws that were in place at the time, which encouraged the adoption of capital-intensive production techniques. (Herrera, Selim, Youssef, & Zaki. 2010).

In addition, the International Monetary Fund (IMF) made a similar diagnosis over a longer time frame, from 1960 to 2004, and discovered that while TFP growth and physical capital accumulation were both important factors in Egypt's output per worker growth during that time, their relative importance fluctuated. Additionally, it proposed that a negative cyclical deviation in the growth of total factor productivity and a slowdown in the trend growth of physical capital per worker were the combined causes of the slowdown in output per worker growth during the 2008–2009 financial crisis. (IMF, 2005).

Moreover, from 1960 to 2003, three of Egypt's primary growth constraints were studied: low rates of return on capital (private capital in particular), low appropriability of returns due to high tax rates, an inefficient tax structure, or high expected appropriation risk; and, finally, a high shadow price of finance due to inadequate financial intermediation or limited access to financing. The findings indicated that there was a strong relationship between the growth rate of domestic private sector credit and GDP per capita, and they came to the conclusion that ineffective financial intermediation severely hampered growth. (Dobronogov and Iqbal, 2007).

Futhermore, a distinct set of growth determinants had also been studied in Egypt. These include the availability of complementary factors of production, the appropriability of returns (formal taxation, fear of future taxes, the cost of bureaucratic regulation, corruption, and the cost of innovation), and access to finance (low national savings, limited access to foreign savings, or weak financial intermediation). The results showed that the primary factors stifling growth appeared to be ineffective financial intermediation and the appropriateness of returns. (Enders, 2007).

The fiscal and monetary reforms that had been implemented in Egypt from 2004 to 2010, had reduced fiscal, monetary, and external vulnerabilities, and improved the investment environment in the economy. However, in the second half of 2008 the economy outflowed a lot of capital, but in the second quarter of 2009 capital inflow resumed and international reserves increased, as growth fell only to 4.7% in the fiscal year 2008/09 due to the strong consumption spending, and production in the construction, communications, and trade sectors, but inflation steadily increased from 2.8% in 2000 to 11.7% in 2008. (IMF, 2010).

It is important to note that while growth was strong between 2004 and 2010, averaging 5.5 percent annually, it was insufficient to create enough jobs to accommodate the young and expanding population and guarantee inclusivity. Investment lagged behind consumption, which was the primary driver of growth. On the other hand, the external sector made a negative contribution. Since non-oil exports made up only 4 percent of GDP in the 2013–2014 fiscal year, the external sector's negative growth contribution was a reflection of the overall lack of competitiveness. Other barriers included the unfavorable business environment, limited external linkages, and real exchange rate appreciation. The poor quality of the labor force and lackluster productivity gains continued to restrain growth, with total factor productivity increasing by just 0.8 percent per year. (IMF, 2015).

However, it has been noted that Egypt's economic circumstances steadily worsened in 2011 and 2012, with the central bank's foreign exchange reserves and foreign capital inflows declining due to political unrest and economic uncertainty. (IMF, 2012). Since the adoption of the IMF program was a mandatory condition to grant the loans needed and the additional fund packages pledged once the structural reforms program is implemented, the agreement between the IMF and the then-government failed to secure the approximately $4.08 billion IMF loan to Egypt. This was due to the latter's concerns and reluctance to embrace the suggested reforms in an attempt to stave off the expected adverse social repercussions of these structural reforms required by the IMF. As an alternative, Egypt had looked to Qatar ($3 billion loan) and Libya ($2 billion in central bank deposits) for funding its economic initiatives. (Nelson and Sharp, 2013).

The then-new government started implementing new fuel subsidy reforms in 2014, which increased fuel prices by 40–80% and increased tax revenue to attract more foreign investment. Over the next five years, the government aimed to reduce the fiscal deficit to 8% of GDP, and decrease inflation to 7% annually, boost foreign exchange reserves to three and a half months' worth of imports, boost growth to 6% annually, and reduce debt to a level between 80 and 85% of GDP. (IMF, 2015).

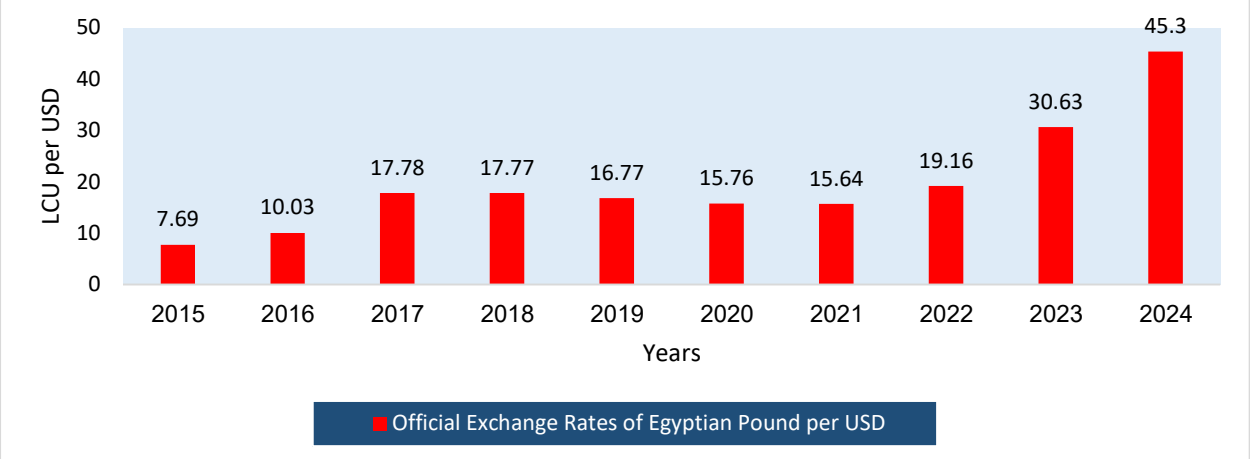
Given that the Egyptian economy has been going through periods of financial and economic instability in recent decades, a study was conducted that focused in part on the possibility of currency crises in Egypt and Jordan. Although the two economies differ, there may be some similarities in the symptoms of financial meltdowns in both countries. The multinomial logit estimation methodology was used to analyse data gathered from both economies between 1980 and 2015. Since Jordan and Egypt have seen multiple currency crises in recent decades, the research sought to identify a number of impactful indicators that can aid in understanding crises and comparing the outcomes for both economies. It also aimed at developing an Early Warning System (EWS) for the two nations. Utilising monthly data for Jordan and Egypt from January 1980 to December 2015, a binary market pressure index (MP-index) was created and used in a

multinomial logit model to achieve the study's goals. The empirical findings collectively offer important insights into the realities of these two economies and indicate that the growth rates of domestic credit, real exchange rates, the money supply-reserves ratio, the Central Bank's foreign assets to liabilities ratio, and export growth rates all contribute significantly to the explanation of currency crises in both situations. Although the real exchange rate is the variable that best predicts a currency crisis in the case of Egypt, the money supply-reserves ratio is the factor that best predicts a currency crisis in the case of Jordan. (Al-Assaf, 2017).

Economic Analysis of the Crisis

Egypt's currency crisis has been attributed by a number of studies to both external shocks and internal imbalances. In order to encourage exports and stabilise the highly inflated exchange rate, the Egyptian pound was to be devalued as part of the agreement with the IMF (IMF, 2017). Nevertheless, in the years that followed, foreign debt and inflation increased dramatically, foreign transfers decreased, and tourism-related earnings fell sharply, particularly in 2021 and 2022 during the Covid-19 pandemic and global stagnation, which further weakened the Egyptian currency (Amin and El-Ashram, 2023). Moreover, because Egypt depends on both wheat imports from Ukraine and Russian tourist spending to grow its tourism industry, the conflict between Russia and Ukraine had greater negative impact on the Egyptian economy in 2022 and 2023 (World Bank, 2023). As a result, the demand for foreign currencies increased dramatically and foreign investments left the nation. Egypt's economy is more susceptible to speculations in foreign stock markets and policy changes, according to some analysts, because of the country's weak industrial base and excessive reliance on foreign funding sources (Guenfoud and Selim, 2023).

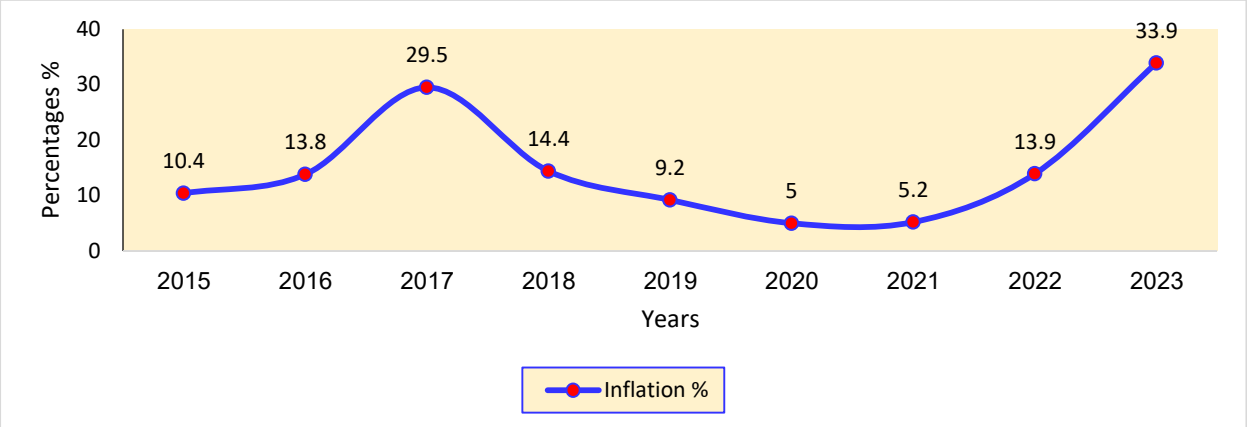
Figure (1) Official Exchange Rates of Egyptian Pound per USD between 2015 and 2024



Source: International Monetary Fund, International Financial Statistics and data files. Data accessed and extracted on 01/05/2025.

Low- and middle-income households were severely impacted by the currency devaluation, which reduced their purchasing power, particularly in the food and energy sectors (Abdelkhalek and Elgohari, 2023). The Central Bank of Egypt's one-year cumulative devaluation of more than 55 percent in 2023 caused cost-push inflation to reach 33.09 percent that same year (Reuters, 2023).

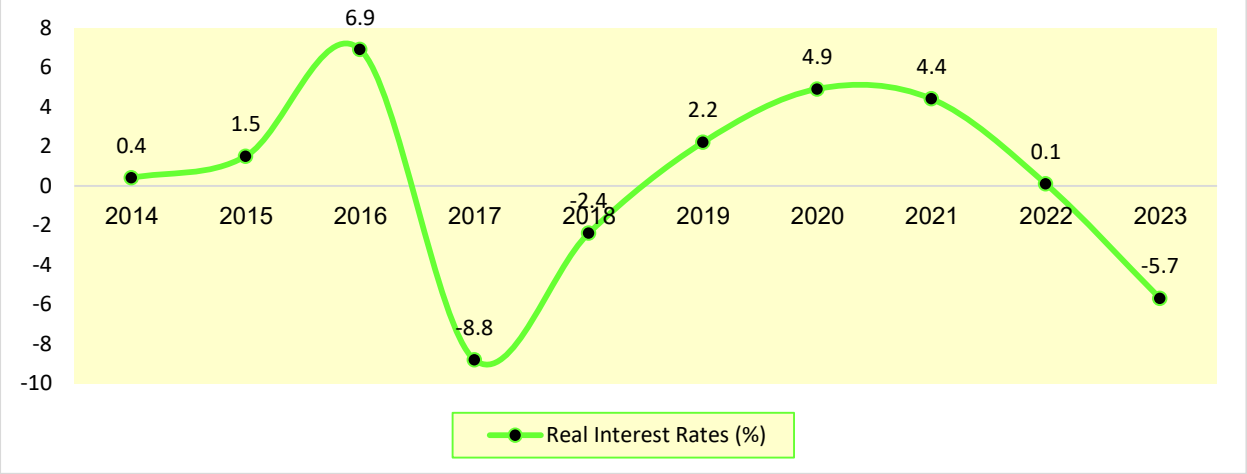
Figure (2) Changes in Inflation % in Egypt from 2015 to 2023



Source: International Monetary Fund, International Financial Statistics and data files. Data accessed and extracted on 01/05/2025.

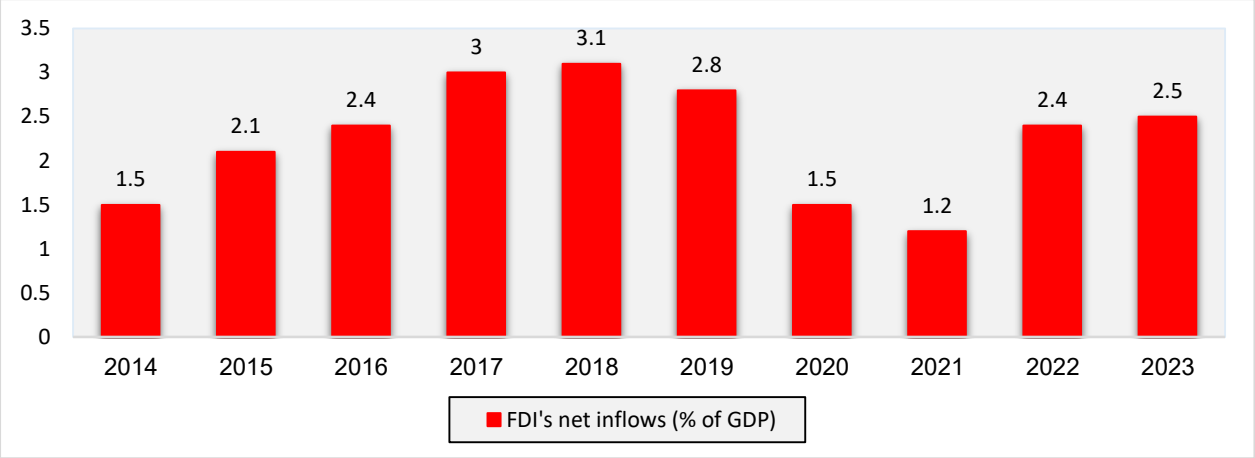
Due to uncertainty about policy directions, the exchange rate fluctuations weakened confidence and resulted in a significant decline in foreign direct investment inflows as a percentage of GDP in 2020 and 2021, respectively (OECD, 2023). Rising inflation caused interest rates to rise frequently, which in turn raised the cost of repaying debt and had adverse effects on the distribution of public investments meant to spur growth.

Figure (3) Changes in Real Exchange Rates % in Egypt from 2014 to 2023



Source: International Monetary Fund, International Financial Statistics and data files using World Bank data on the GDP deflator. Data accessed and extracted on 02/05/2025.

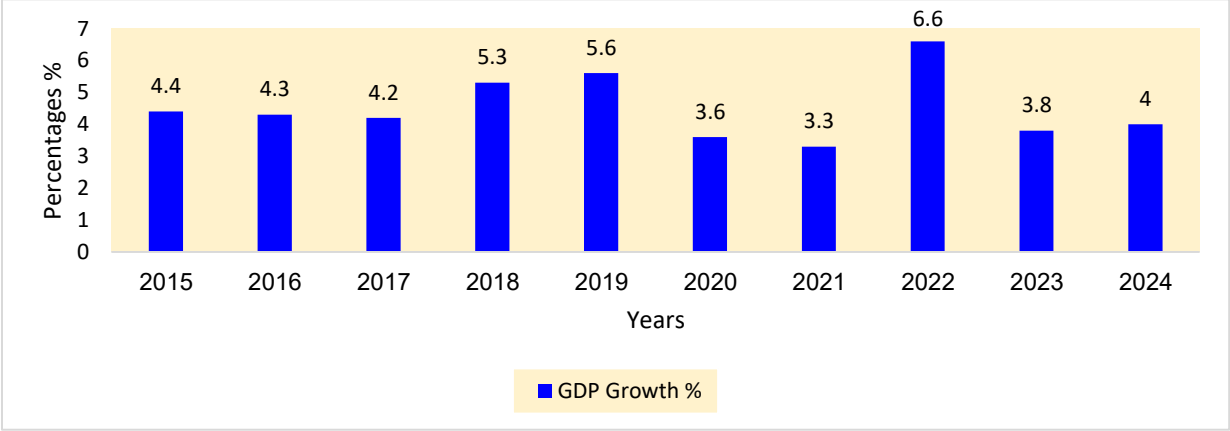
Figure (4) Changes in FDI's Net Inflows as % of GDP in Egypt from 2014 to 2023



Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates. Data accessed and extracted on 02/05/2025.

Real GDP growth fell from 6.6% in fiscal year 2021–2022 to 4% in fiscal year 2023–2024, primarily as a result of the negative effects of the currency crisis (IMF, 2023; World Bank, 2023). Exchange rate swings also disrupted supply chains, which made it more expensive for the local manufacturing sector to import intermediate goods.

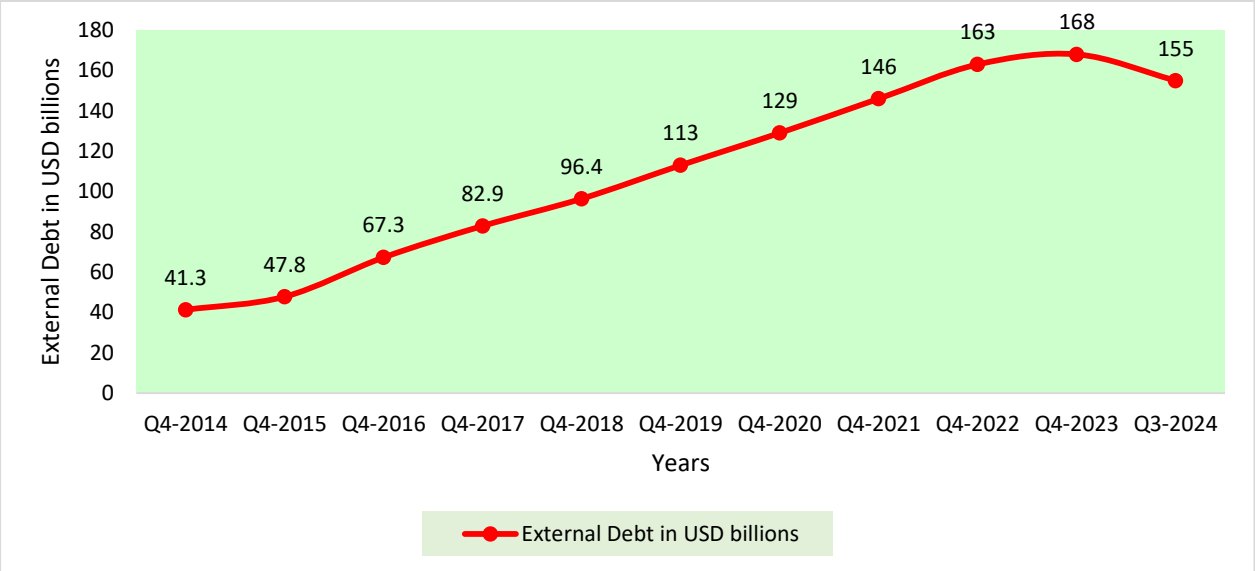
Figure (5) GDP Growth % in Egypt from 2015 to 2024



Source: World Bank national accounts data, and OECD National Accounts data files. Data accessed and extracted on 01/05/2025.

Egypt's external debt, which totaled 168 billion USD in 2023, sparked worries about the sovereign risk of the nation (Moody's, 2023). The debt commitment may significantly affect currency exchange rates, potentially leading to additional devaluations. Additionally, it might limit financial flexibility in the event that world conditions deteriorated (Fitch Rating, 2023).

Figure (6) The External Debt of Egypt in USD billions from Q4-2014 to Q3-2024



Source: Central Bank of Egypt. Data accessed and extracted on 01/05/2025.

There is an urgent need to stabilise monetary volatility and implement significant structural reform. This could involve diversifying exports, improving governance for state-owned enterprises, lowering reliance on transient portfolio swings, and moving toward a more flexible exchange rate system (IMF, 2022). (El Dahshan, 2022). In order to help Egypt stabilise its foreign reserves and draw in more foreign direct investment (FDI) by boosting confidence in the Egyptian economy, the UAE pledged to invest $35 billion USD in Egypt in 2024 (Bloomberg, 2024). However, some contend that all of these initiatives might only benefit the economy in the short term if the critically needed structural reforms are not carried out in the interim (Kandeel, 2024).

Due to the rise in inflation and the government's reliance on short-term, high-interest loans as a source of foreign monetary reserves, the floating exchange rate system was adopted in 2016, and energy prices and value-added taxes were raised. Before it started to decline again by enacting more austerity measures, the floatation system also made the budget deficit worse for two years, which led to an increase in the public debt on both sides. In an attempt to combat inflation, interest rates were raised, which worsened banking safety, increased budget deficits, and ultimately slowed growth.

In 2022, Egypt negotiated with the IMF to secure a better agreement than that in 2016, as the political and economic conditions both internally and externally changed significantly. The new deal between the two sides was meant to apply the floating exchange rate system gradually, and the increase of energy prices and VAT shouldn’t be implemented in a parallel manner, but rather in a sequential way, meaning that the increase in energy prices will be suspended, while a new package of taxes will be presented to secure more public revenues and public expenditures will be cut as a measure to mitigate budget deficit and reduce soaring inflation.

The above prescription appeared to be realistic, but something went wrong in 2023, which caused failure of the IMF predictions. Despite the government’s pledge to gradually devaluate the

Egyptian Pound, they devaluated the local currency by 59% in 2023 which was not suitable for the Egyptian economy, and it proved to be counter-productive, as it led to more inflation in food prices and it increased poverty and hunger in the country. But why did all that happened?

Table (1) External Balance on Goods and Services (% of GDP) in Egypt from 2014 to 2023

Years	External balance on goods and services (% of GDP)
2014	-8.4
2015	-8.5
2016	-9.6
2017	-12.8
2018	-9.9
2019	-7.8
2020	-7.2
2021	-8.7
2022	-6.8
2023	-2.2

Source: World Bank national accounts data, and OECD National Accounts data files.
Data accessed and extracted on 02/05/2025.

The IMF had always preferred and insisted on the big devaluation strategy as a treatment, but the practical experiences extracted and the lessons learned from a whole host of countries across the years tell completely different narratives. Empirical analysis (Michael Geiger et al, 2018) suggest that the effects of adopting the total floatation are much worse on macroeconomic variables – growth, unemployment, inflation, etc. – than the implementation of the gradual devaluation.

Table (2) GDP Growth Rate (%) in Egypt from 2014 to 2023

Years	GDP Growth Rate (%)
2014	2.92
2015	4.37
2016	4.35
2017	4.18
2018	5.33
2019	5.55
2020	3.55
2021	3.29
2022	6.59
2023	3.76

Source: Macrotrends LLC. Data accessed and extracted on 02/05/2025.

The so-called Big-Bang devaluation brings significant challenges and disruptions to trade, as exports become cheaper, and it makes imports more expensive. Moreover, the external debts valued in foreign currencies rise due to sudden devaluations. Furthermore, if the local banking system liabilities are dominated by dollar, then any sudden devaluation could result in banking crisis, which by extension could lead to a downturn in investments and production. Last but not

least, high prices of imports, specifically inflated food prices, could ultimately account for social unrests (Katseli, 1988).

On the plus side, the gradual devaluation will give the economy the chance to cope with incremental amendments in prices, particularly when the country has significant level of external debt in foreign currencies and depends on importation to meet the local aggregate demand needs, as in the case of Egypt.

On the minus side, managing expectations during the process of gradual depreciation is difficult to task and implies several risks, due to the following reasons;

- Individuals and businesses would tend to hoard their foreign currency reserves because they expect their values to increase due to local currency devaluation process, which in turn will result in a parallel market and create immense pressures on the central bank to protect the local currency value from collapsing.
- Sudden withdrawals of speculative investments might fuel a vicious cycle of self-reinforcing currency depreciation, which could ultimately spiral into a severe monetary crisis or even a complete currency collapse. Hence, maintaining a good control over economic expectations is vital for governments implementing a step-by-step strategy to manage currency value reductions (McKenzie, 1969). After all, the liberalisation of the exchange rate might not be the suitable treatment for stabilising exchange rates and the insufficient reserves of US dollars.

Speaking of economic expectations, according to S&P global banking outlook for the current year 2025, despite its vulnerability to external funding, Egypt is expected to benefit from the global ongoing monetary easing as lower rates and higher global liquidity will reduce funding cost. The higher investments in digitalisation in the banking sector will continues to put more pressures on costs, but the large banks will be able to cope with these pressures, whilst small banks are expected to struggle due to insufficient scale. As for refinancing risks Egyptian bank are particularly vulnerable to government refinancing risk owing to their twin deficits and the large amount of debt to be refinanced.

Regarding the real economy indicators, GDP is anticipated to recover as disinflation will enhance the quality of the Egyptian banks' assets in 2025. The pressure on the firms' cash flows will be eased due to the declining rates which will be in favour of the Egyptian borrowers. Small and medium enterprises will continue to account for a modest share of the total loans in the private sector which in turn will not have significant negative impact in the private sector as a whole, and the risks related to the high share of foreign currency lending of the total loans is not expected to be worrisome as the exporters and government have the lion share of the total loans.

Conclusion and Policy Implications

- By way of summary, Egypt had been encountering severe economic challenges for several decades, the currency repeated crises in the country are the outcome of a combination of endogenous factors such as structural economic issues with the real economy sectors, production system, the banking system, and the governmental monetary and fiscal policies,

as well as some exogenous factors represented by interventions from the IMF reintroducing the unsuitable recipes, which led to unpredicted macroeconomic and social ramifications on the long run growth and stability.

- Monetary policy and fiscal policy should work hand in hand to tackle inflation through non-conventional instruments, and shouldn't rely only on interest rates which proved to be inadequate to cure inflated prices. Government spending on education and health should increase to allow for better social equality and to improve income distribution especially in the poor and remote areas in the country.
- Future research should investigate the economic and social consequences of a Big-Bang devaluation and the impact of structural economic reforms in the long term.

References

1. Abdel-Baki, M. (2011). Monetary policy responses to the global financial crisis: A case study of Egypt. Corporate Board: Role, duties and composition, 7(3), 65.
2. Abdelkhalek, T., & Elgohari, A. (2023). Food inflation and income inequality in Egypt: The cost of a weak currency. Cairo Economic Review, 58(2), 112–129.
3. Al-Assaf, G. (2017). An early warning system for currency crisis: a comparative study for the case of Jordan and Egypt. International journal of economics and financial issues, 7(3), 43-50.
4. Amin, G., & El-Ashram, A. (2023). Currency misalignments and macroeconomic volatility in Egypt: Policy constraints and reform options. Middle East Economics Journal, 49(1), 34–51.
5. Arvind Subramanian, Howard Handy (1997), "The Egyptian Stabilisation Experience: An Analytical Retrospective", Working Paper, International Monetary Fund WP/97/105.
6. Badru, R. (2015) Egypt and the 2007-2012 Global Financial Crisis: Macroeconomic Impact and Policy Responses. Journal of International Perspectives.
7. Bloomberg. (2024, February 20). UAE inks $35 billion deal with Egypt for Ras El Hekma project. https://www.bloomberg.com
8. Dobronogov, A., & Iqbal, F. (2007). Economic growth in Egypt: Constraints and determinants. Journal of African Development, 9(1), 31-66.
9. El Dahshan, M. (2022). The long road to reform: Egypt's political economy and the state's grip on markets. Carnegie Middle East Center. https://carnegie-mec.org
10. El-Refaie, F. (1997). The Egyptian Banking System. In a Conference organized by the Egyptian Center for Economic Studies, Cairo.
11. Enders, K. (2007) "Egypt Searching for Binding Constraints on Growth", IMF Working Paper. WP/07/57
12. Fitch Ratings. (2023). Egypt: Sovereign Credit Overview 2023. https://www.fitchratings.com
13. Guenfoud, F., & Selim, H. (2023). Egypt's currency crisis: Structural roots and policy missteps. Brookings Institution. https://www.brookings.edu
14. Herrera, S., Selim, H., Youssef, H., & Zaki, C. (2010). Egypt beyond the crisis: medium-term challenges for sustained growth. World Bank Policy Research Working Paper, (5451).
15. Hussein, K. A., & Nos'hy, A. (2000). What caused the liquidity crisis in Egypt. International Center for Economic Growth (ICEG), http://www. iceg. org/NE/projects/financial/liquidity. pdf.
16. IMF. (2017). Arab Republic of Egypt: First Review under the Extended Fund Facility. https://www.imf.org
17. IMF. (2022). IMF Executive Board Approves US$3 Billion 46-Month Extended Fund Facility for Egypt. https://www.imf.org
18. IMF. (2023). Egypt: Country Report No. 23/58. https://www.imf.org
19. International Monetary Fund (2005), "Arab Republic of Egypt: Selected Issues" IMF Country Report No. 05/179, June
20. International Monetary Fund (2010) "Arab Republic of Egypt" IMF Country Report No. 10/94, April 2010.
21. International Monetary Fund (2012), "Working Together to Support Global Recover", July 2012.
22. International Monetary Fund (2015) "Arab Republic of Egypt" IMF Country Report No. 15/33, February 2015.

23. Jonas, J. and Mishkin, F. (2003), Inflation targeting in transition countries: experience and prospects‖, National Bureau of Economic Research Working Paper Series, No. 9667, National Bureau of Economic Research, Cambridge, M.A.
24. Kandeel, A. (2024). Is Egypt selling assets or buying time? A look at the Ras El Hekma deal. Mada Masr. https://www.madamasr.com
25. Katseli, Louka (1988). On the Effectiveness of Discrete Devaluation in Balance of Payments Adjustment. In Misalignment of Exchange Rates: Effects on Trade and Industry (pp. 195-214). University of Chicago Press.
26. Kheir-El-Din, H., & Moursi, T. A. (2006). Sources of economic growth and technical progress in Egypt: An aggregate perspective. Contributions to Economic Analysis, 278, 197-236.
27. McKenzie, George (1969). International Monetary Reform and the "Crawling Peg" Reply. *Federal Reserve Bank of St. Louis Review* (July): 26-31.
28. Michael Geiger et al. "Gradual Versus Big-Bang Devaluations: An Empirical Analysis", Macro, Trade and Investment Discussion Paper, no. 8, (2018), World Bank, available at: https://documents1.worldbank.org/curated/en/844181541168364950/pdf/131800-MTI-Discussion-Paper-8.pdf(Michael Geiger et al., Gradual Versus Big-Bang Devaluations).
29. Moody's. (2023). Credit opinion: Arab Republic of Egypt. https://www.moodys.com
30. OECD. (2023). FDI in Figures – Egypt. https://www.oecd.org
31. Rebecca M. Nelson and Jeremy M. Sharp (2013), "Egypt and the IMF: Overview and Issues for Congress", Congressional Research Service, CRS Report for Congress Prepared for Members and Committees of Congress, 7-5700. www.crs.gov R43053.
32. Reuters. (2023, March 8). Egypt allows pound to float as pressure mounts. https://www.reuters.com
33. World Bank. (2023). Egypt Economic Monitor: Navigating Through the Storm. https://www.worldbank.org