

A critical examination of egypt's current economic state essays example

[Sociology](#), [Social Issues](#)



The economic crisis in Egypt post January 2011

Abstract

The paper looks into the economic crisis in Egypt and how the background was formed for the January 2011 revolution. How the crisis happened, what were the consequences and how Egypt can get back on track are some of the important questions that need to be looked into. The stability of the Mubarak regime was well under pressure even before the major changes in the political system followed. Even before the present revolution and reforms in Egypt, there were significant changes taking place in the political system. The nation was experiencing relative freedom of expression for the first time, ever since 2005. The severe dilapidation of economic and social conditions made its citizens weaker. 2011 was a critical year for the Egyptian regime, and the regime found it difficult for to preserve the stability of the country. The essay looks at the Egypt's current economic state and how it has reached the current situation that it is in. Egypt's economic crisis relies on its political reforms, the private sector and how the government can control the energy subsidies.

Introduction

The economy of any civilization is inherently dependent on a well-founded political system. A well-founded political system, on the other hand, mainly impacts on the social well-being of the people. In this regard, all these factors, as Abdou & Zaazou (2013) afford, are deeply interrelated in the sense that they converge to provide a favorable environment for socio-economic development. Egypt has suffered from bad economics, corruption,

and the absence of sound political system. Egyptians were used to dealing with these economic stresses, but the Egyptian youth was not willing to tolerate these imbalances.

At the origin of the Egyptian revolution in 2011, the country was largely plagued by inconsistency as it concerned to the equitable distribution of wealth, and the lack of social justice (Mossallem, 2013). There were alarming economic indicators that would press any government to take urgent steps. However, whatever measure were taken, only led to the remittances reach 19 billion USD, and this was at a time when Foreign Direct Investment (FDI) and tourism was on a steady to decline. The local banks were given interest rates as high as 16% from the main government finances.

As a matter of fact, Wahba (2011) provides that it was the tyrannical rule of former President Hosni Mubarak that inadvertently led to the resentment expressed by the general public at Tahrir Square. Many commentators on the Egyptian revolution have always arrested to the increasing police brutality on civilians, uncontrolled high levels of corruption in government circles, the deprivation of freedom of speech, and the lack of elections, as some of the intrinsic factors that stimulated the occurrence of the 2011 revolution. While it is important to understand the role of the revolution in ousting authoritarianism in Egypt, it is also imperative that we recognize the resulting implications, many of which have negatively impacted on the economic state of Egypt, resulting in a raging economic crisis. Egyptian Revolution that began in 2011 was a void that was shaped by the failure of the older regime. What was characteristic about it was that it was a nonviolent social movement.

The International Bank for Reconstruction and Development (2013) provides that economic disruptions have adversely affected the tourism, trade, retail, and banking sectors. There was a need to improve transparency and include a basic regulatory structure. Egypt has maximum of small businesses, and these often have less than ten employees. The situation worsened in 2013 following the ousting of President Mohamed Morsi, who succeeded Mubarak, leading to another phase of increased political and economic uncertainty (The African Development Bank, 2014). Egypt continued to be ridden by political unrest, fiscal challenges, and the economic growth had slowed down to 2% after 2011 revolution. The current instability and risks will continue to place stress on its growth and fiscal balance, although the country has achieved a key milestone by approving of a new Constitution, after President Morsi was overthrown in July 2013.

As a consequence, the 2014 economic outlook of Egypt has remained largely weak, characterized by limited growth, an unsustainably higher fiscal deficit, and a public debt in excess of 100% of the nation's GDP (ADB, 2014). The economic outlook still looks weak with a fragile growth. The public debt remains in excess of 100% of GDP and fiscal deficit indefensibly high. The unemployment rate is high, especially among the youth, and there are a political unrest and insecurity prevailing in the nation. The disparities are high among the rural-urban incomes.

This paper examines in detail Egypt's economic crisis post the 2011 revolution, citing the underlying factors leading to its occurrence, and essentially addressing how the crisis can be resolved.

Since the revolution of 2011, Egypt's credit risk rating has been downgraded five times, according to Mossallem (2013). In this regard, the prospects of Egypt acquiring credit from International Financial Institutions have been dealt a decisive blow, with lenders indefinitely deferring negotiations. The situation is further complicated by the fact that Egypt faces a daunting task of convincing the International Monetary Fund of its political authority as it pertains to the enforcement of austerity measures (Mossallem, 2013). The budget deficit has exceeded 176 billion EGP this fiscal year, and the government continues to overlook its key stakeholders. Instead, it is relying on dialog forums to work on economic measures in order to get the IMF loan. The measures being taken are not discussed properly so that they can become a part of intelligible economic strategy. The government has formulated revised measures that include imposing consumption taxes, lifting subsidies, etc. According to AFB (2014), the growth of the Egyptian economy in the 2011/12 and 2012/13 fiscal years has slowed to about 2%. The resulting economic consequences of a truncated economic growth, according to Kolster, Mokaddem, & Muthuthi (2014), is that a considerable number of Egypt's population has fallen beyond the USD 569 per person poverty threshold, thereby increasing the overall poverty rate to 26.3%. Foreign direct investments have continued to decline after the revolution. According to Kolster et al. (2014), in 2006 to 2009, the amount of foreign direct investments stood at USD 6.5 billion. However, in the fiscal years 2010/11-2012/13, this figure was scaled down by over half to USD 3.1 billion, as a result of the wait-and-see attitude of investors in regards to the political atmosphere of the country. As it pertains to employment, the

slowdown of economic growth has inherently led to severe labor implications. In 2012, the country's unemployment rate stood at 9.1 percent; however, as Kolster et al. (2014) assert, as of June 2013, Egypt's unemployment rate had surged to about 13.3%, with the total labor participation rate declining to 47.7%.

Because of the considerable aid from the Gulf countries, the risk related to the external sector will remain somewhat balanced in 2014 and an expected political stability in 2015 could promote further economic recovery. This would perhaps place the public finances on a secure and stable given the fiscal path, for the first time after the January 2011 revolution. Growth has suffered because of the political unrest that has lingered on.

Kolster et al. (2014), report that over 89,000 jobs were lost in the first quarter of 2013, thereby increasing the number of unemployed Egyptians to 3.7 million. Considering the fact that over 70% of the unemployed are aged between 15 to 29 years, the high unemployment adversely affected the youth more than any other population age bracket, with their unemployment rate peaking at 39.3%. In regards to inflation, Kolster et al. (2014) provide that the inflation rate of Egypt has continued to rise after the revolution peaking at 6.3% in 2013, and rising to 11.4% as of January of 2014. The high rate of inflation has been aided mostly by the rapid depreciation of the Egyptian Pound as a consequence of the Morsi ousting in 2013. The Egyptian currency fell by 16% in 2013 from 6.033 to 6.99 against the dollar in the 2012/13 fiscal year. Despite the fact that Egypt's Central Bank has auctioned a considerable amount of dollars to prevent the depletion of foreign reserves, Egypt's foreign exchange market still reflects a shortage gap of

USD estimated to be about 3% of the GDP, a scenario that is seen by many to be sustaining a lucrative currency black market (Kolster, et al., 2014). Egypt's budget deficit in the 2012/13 fiscal year, according to ADB (2014), stood at 13.7% of the GDP, the highest among all emerging economies. Additionally, as the ADB (2014) continues to provide, the fiscal deficit in 2014 is expected to well over 12% of the GDP, a far-cry from the government's target of 9.1%. As a result of this projected high fiscal deficit rate, the growth of Egypt's domestic debt has been rising steadily since the revolution, peaking at 87.1% of the GDP in June of 2013. A large portion of Egypt's domestic debt, according to Kolster et al. (2014), is comprised of bills and bonds from government treasury, which make up about 83.1% of the gross domestic debt, or about EGP 1.269 billion. The tourism sector of the country also continues to perform poorly in the wake of the revolution. According to Kolster et al. (2014), official statistics indicate that as of December 2013, tourist arrivals had essentially declined by 31% from 978,259 visitors in 2012, to 677,649 visitors in 2013. The decline of the tourism sector has essentially been aided by the absence of political stability, which has evidently impacted on the security of the country as seen by many would be visitors. As a result, Egypt is unable to compete effectively in the global tourism arena, something that has mainly harmed its ranking as a leading tourist destination. The consumer confidence has been at an all-time low in 2012/2013 and the Egyptians find themselves facing worse job markets. The trade deficit has narrowed, but the declining investment continues to hold back the growth. Exports did grow by 3.6% while imports

thinned by 2.9%. The foreign direct investments (FDI) that were 6.5 billion USD from 2006-2010 scaled back to USD 3.1 billion during 2012/13.

How Did the Economy Reach This State?

According to Mossallem (2013), the current and previous regimes of Egypt, both post and pre the revolution, have incessantly failed to address the existing economic indicators. Instead, they have concentrated their attention on the maintenance of an impaired semi-rentier economy, at the cost of the welfare of the general public, which has been the influential supporter of the economy (Mossallem, 2013). As Mossallem (2013) continues to afford, the support of the citizens for the economy is established by the fact that domestic bank deposits, largely made up of savings from citizens, have been an exclusive largest source of funding for the Egypt's government. As such, the Egyptian government has largely neglected the welfare of the citizens by failing to institute structural changes to the economy in order to address well-known deficiencies. According to Mossallem (2013), the government has focused on excessive borrowing, regressive taxation, and political scoring, all of which have only served to accentuate the financial crisis, aside from creating further socio-political unrest. Therefore, as Mossallem (2013) asserts, these factors essentially catapulted Egypt to the current situation, whereby it imports 40% of its fuel, 60% of its food, and a huge population lives below the poverty line.

It sure is very difficult to see the economy in a deep recession to reform and reform from its structural problems. Regressive taxation is only going to make the business community angry and create further social unrest. The

strict measures are likely to deepen the financial crisis in the long run. This is a country that relies on imports for its food (60%) and fuel (40%). More than 50% of the population lives below the poverty line in the rural areas and city slums. Adding to the woes are 25% young Egyptians without jobs.

Furthermore, the government is planning to borrow 19.5 billion USD and the big question remains as to how the money would be assigned and what social and productive sectors will it be directed to. Instead of developing a long term industrial policy and economic plans, the government continues to work on same short-sightedness.

Recommendations on Resolving Egypt's Economic Crisis

- Political Reform

As stated previously, there exists an intrinsic connection between political stability and the realization of socio-economic well-being. According to Abdou & Zaazou (2013), Egypt has over the years experienced a sustained decline in good governance, which has negatively impacted on the social justice system of the country, hindering accountability, equality, transparency, responsiveness and efficiency. Therefore, as Abdou & Zaazou (2013) assert, it is imperative for the country to institute major public administration reforms as it transitions from an authoritarian regime to a democracy. Kolster et al. (2014), mention that the uncertainty of the political environment in Egypt is primarily the reason international credit rating agencies have remained largely skeptical. As one would expect, this hinders investor confidence because of low credit ratings. Therefore, the institution of political reforms, including free and fair elections will increase the influx of

foreign direct investment to Egypt. It will also improve the security situation in Egypt; thereby further improving prospects for tourism.

The political woes of Egypt are not a new issue. The positive side is that there is a big difference between the pre- and post- 2011 Egypt and making the reforms is now a real issue. Egypt has gone through four cabinets after Mubarak's fall, and there have been many more reshuffles. The Egyptians have started to feel the price of the 25 January Revolution (Korany, 2012), while many feel that the political reform was very much the need of the hour. Even if the governance is still in transition, there have been improvements in the state-society relations.

However, the problem with Egypt's political reform is the formal transfer of political power, as it is no secret that the military has clear intention to be the supreme. It is practically an economic empire and earns billions in Egyptian pounds from its sale in the military production. Plus, it also controls the real estate sector. In 2011, it also lent \$1 billion (Korany, 2012) to the government to bail it out an acute financial crisis.

The dilemma for the Egyptians is that for the first time in 60 years, the common man on the street feels that he has the power to make a difference to the political reforms (Korany, 2012). Many feel that the new parliament with two-thirds Islamist majority is a change, but in the wrong direction. The kind of political systems that develop in Egypt, its stability, the role of the civil society organizations and Supreme Council of Military Forces will all impact the current economy of Egypt.

Strengthen the Private Sector

According to the International Bank for Reconstruction and Development (2013), Egypt still faces structural challenges that hamper the growth of the private sector. The administration has not done much to improve the opportunities for entrepreneurship, which is a key driver of the economy. One of the key deterrents for entrepreneurs is the complex nature of doing businesses in Egypt as it pertains to obtainment of licenses and other relevant documentation. Considering that the private sector in Egypt employs about three quarters of the country's labor and contributes over 60% of the GDP, the government cannot afford not to institute policies that promote the growth of the private sector. Therefore, as IBRD (2013) states, the Egyptian government should limit the bureaucracy that characterizes doing business in the country, and promote the easy access of information pertinent to business operations to the public.

There have been efforts to revive the business environment, especially for the local and small businesses, but because of the lack of sustained commitment, these efforts have diluted. There is a need to offer greater access to information and encourage higher transparency to win the entrepreneurs' confidence. The private sector will need clear guidelines and rules to strengthen their economic interactions. It was seen that in 2011, the micro, small and medium-sized private enterprises in Egypt employed the majority of the labor force, thus making for 63% of the country's GDP. When starting a company and trading across borders, it has been shown that Egypt outdoes the Middle East and North Africa. For example, it takes only a couple of procedures and days to set up a business in Cairo, and there are fewer

documents involved.

However, at the same time, there is a critical need to make for higher transparency and rules that impede private sector activities. Moreover, there are widespread disparities between the richer north and less developed south. There is a perceptible geographical disparity in the unemployment. Moreover, there are different local business practices faced by Egyptian entrepreneurs. The Private Sector should overcome these hurdles by making an uniform, stable and transparent business and regulatory environment within the country.

Another deficiency of the private sector is the lack of formal employment for the youth and women. According to the World Bank (2014), over the last fifteen years, jobs in Egypt have become unstable, insecure, and less likely to offer formal employment. As a result, a vast number of Egypt's educated population is without formal employment, which impacts negatively on innovation and capacity building. The key to discovering the potential of the youth and the educated, therefore, is a strengthened private sector, which will substantially bring down the unemployment rate and drive the economy forward.

According to World Bank Country Director for Egypt, Hartwig Schafer, the private sector has the prospective to provide jobs to its youth and the World Bank Group remains committed to supporting Egyptians and help them in their prosperity and growth. Overall, there is a lack of a regulatory framework that prevents new firms from entering the private sector. So, this is the first direction where the government should work in order to strengthen the private sector. The World Bank's portfolio in Egypt promises a

commitment of US\$5.5 billion in the key areas such as water and sanitation, energy, agriculture and irrigation, transport, etc.

Decrease Government Spending on Energy Subsidies

Much of Egypt's government spending is directed towards energy subsidies.

In fact, according to Aluwaisheg (2014), energy subsidies constitute nearly one-quarter of the government's budget. The prices of fuel are up by 78 percent, and hike in electricity prices expects this. These steps can help save around \$6 billion for the government. The new energy prices an implied economic "subsidy." When looking back, we find that the earlier Egyptian governments were unable to take any concrete decisions on subsidies and faced the dilemma. These indecisive steps have led to a deterioration in the finances. The subsidies sap government finances and are at the costs of much-needed investment in health care, infrastructure, education, etc. They lead to further wastages and weaken the infrastructure.

However, subsidy reforms can be complicated, but the bureaucrats find them appealing as they are easier to manage. However, they come at a high expense and other subsidies such as food are lighter in comparison. Many object to the discount in energy subsidies, as it is felt that any hike in the new fuel prices is likely to hit them the most. However, at the same time, the new savings could be used on the providing cash subsidies to help out the poor. Egypt should design effective subsidy reforms to reduce poverty, boost growth to improve the income equality. The removal of subsidies should be accompanied by productive programs and -designed social safety nets to support the poor.

Energy subsidies have led to Egypt spending beyond its means, according to Ghoneim (2014), who states that the economic cost of energy subsidies in the face of rising foreign currency scarcity, and an alarming budget deficit cannot be sustained. According to Aluwaisheg, energy subsidies substantially benefit only the middle and upper class of Egypt's society, and, therefore, promote inequality that is at the heart of the grievances fronted by the population. Therefore, the government should decrease spending on energy subsidies and channel funding to other stringent sectors such as the private sector where growth is anticipated.

It is true that subsidies have brought Egypt into a situation where it is living beyond its means and in an unsustainable conditions. It is a dicey situation for the Egyptian economy. There is not going to be an overnight solution to those age old problems. The country's economy has been suffering from 2011 revolution. Although it has been getting support of the Arab Gulf states, it is careful about not implementing too serious measures for its economy. The country is experiencing a huge loss of reserves and along with unemployment.

Currently, the major economic problems facing Egypt are how to balance the economic cost of subsidies and prevent the massive loss of reserves. The budget deficit is already at an alarming rate and a massive deficit of foreign currency. The exploding public debt is already making things difficult. Energy subsidies make for 72 % of the total subsidy in 2011-2012 government budget. Further, it is obvious that the subsidy system is not helping the poor. It is the energy-intensive industries like the steel and cement that benefit from the gas subsidies.

Conclusion

The infrastructure in Egypt has experienced an incredible growth and improvement in the last couple of decades. However, the relatively strong economic growth has been slowed due to several economic and political factors. The 2011 revolution was a major reason for the setback and it has resulted in a domino effect in regards to the economy. It created political unrest that decreased investor confidence not to mention adversely affected the banking and tourism sectors. However, to apportion criticism to the post-revolution administrations in Egypt is highly unfair, considering the fact that it was the tyrannical legacy of Hosni Mubarak that essentially played a central role to the current political, social and economic predicament of Egypt (Butter, 2013).

Therefore, as Butter (2013) continues to assert, post-Mubarak governments have continually struggled to overcome the economic legacy of Mubarak, characterized by high unemployment rates, fiscal and budget deficits, and high inflation rates. In this regard, as Butter (2013) continues to assert, the central challenge facing the current regime is how to address the structural weaknesses of the economy, so as to attract both foreign and domestic investments. This paper, therefore, establishes that the government can achieve this goal based on three premises: political reform, strengthening of the private sector, and decreasing spending on energy subsidies. Political reform will serve to increase the attractiveness of Egypt to foreign investors, and will promote the tourism industry because security and order will be restored. On the other hand, strengthening the private sector will promote the growth of entrepreneurship, which will actually reduce the rate of

unemployment. Finally, a reduction of government spending on energy subsidies will effectively curb socio-economic inequality.

Egypt has undergone a significant amount of political and economic turbulence over the last few years. The coup against Morsi meant a new regimen and a new economic scene that has caused important changes in the political and economic future of the country. The fiscal deficit is currently at an unsustainable high, and the Beblawi government (Butter, 2013) has made reducing it a priority. However, reducing the deficit and preventing the economy from sliding into a deep recession has been a challenge for this emerging economy. Egypt needs to invest in its small and medium sized enterprises to move forward but in a recession-like economic scene that is easier said than done. Confidence in the country's economic prospects will be greatly influenced by the stability of the new political regime, and that will only develop over time. Given the history of the recent political turmoil, it is not surprising that investors will have their reservations before pouring money into Egypt's empty pockets. Thankfully for Egypt, it received a big vote of confidence from the Gulf with Saudi Arabia, Kuwait and the UAE contributing large sums of money and investing heavily in Egypt. It is up to Egypt to use this investment wisely, whether they use it to garner confidence from other major investors or to provide the economy a much-needed stimulus. Either way, Egypt will have to be cautious not to become too economically dependent on its neighbors in the Gulf. Poverty and unemployment are at a high, and the fiscal deficit is such that the confidence of the people in their economy and government will not be easy to earn. Egypt will need to figure out a way to change the economic climate to

generate some revenue of its own. Otherwise it risks becoming more and more fiscally dependent on its neighbors. In that situation, political relations and dependence on oil prices will make Egypt a little more dependent than ideal. Egypt has so far resisted seeking help from Western economies and has kept its distance from the International Monetary Fund (Butter, 2013). If it needs to become self-sufficient, it will have to be careful about how it spends its future investments. Wasteful energy expenditures and taxation have been one of the roots of the country's economic problems. Despite the influx of capital from the Gulf, investment and economic growth remains stagnant and has not shown the changes Egypt would have initially hoped to see. Manufacturing, trade, tourism, and exports have suffered in this political climate, and only agriculture and mining have gone through the turmoil relatively untouched. Egypt is very strategically located with its proximity to Asia and Europe and has several factors in its favor (African Development Bank Group, 2014). It just needs to convince the world that it is ready to make a change and use its investments wisely. Deep in public debt makes the situation for Egypt complicated, but it does need to start thinking about social justice and investing in its people. Tackling poverty and unemployment will be major steps forward since they will directly change the social climate and bring hope and energy into a tired economy.

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