Egyptian economy facing major crisis

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Egypt's economy is in a parlous state with an estimated $2 billion current account deficit. Since September 11 its difficulties have intensified as a result of the decline in tourism, oil revenues and international trade.

Early last month the Consultative Group Meeting for Egypt (CGME), jointly organised by the Egyptian government and the World Bank, held a two-day meeting. The CGME meets every three years and this was the first time the 40 donors present had ever met in Egypt. The two main objectives of the meeting were to address the restructuring of the Egyptian economy as demanded by the World Bank and to raise additional donors to ease the pressure on income since September 11. International donors pledged $2.1 billion immediately and pledged a further $10.3 billion over three years.

Whilst the US is the single largest bilateral donor to Egypt and a close ally, it did not pledge any new money on top of the $1.8 billion in civil aid over three years from the last meeting held in 1999.

The delivery of all these funds depends on the approval by the IMF and World Bank of Egyptian macro-economic reform proposals. The government pledged in a policy statement to pursue a flexible, market oriented exchange rate to boost "private sector confidence, growth and employment", while reviewing public spending and adopting pro-business laws. The government has said it is considering privatising the four main public sector banks and is committed to selling off Telecom Egypt, which analysts said has been delayed for more than a year.

The executive who led the US delegation stressed that the government "must have the discipline to implement these reforms rapidly if they are to have effect.... The reality is that the private sector must provide the new jobs and investment for the growth and stability needed to avert a social catastrophe."

Jean Louis Sarbib, vice president of the World Bank for the Middle East and Africa, urged Egypt to "liberalise trade, improve the business environment, attract private participation in infrastructure and strengthen the financial sector." Since 1991, 185 of 314 firms sold for auction have been fully or partially privatised.

Egypt has the fastest growing population, presently numbering 67 million, in the Middle East with between 600,000 and 800,000 young people entering the labour market every year. Despite a 10-year programme of economic reform, it remains heavily dependent on tourism. Many of the concerns expressed at the CGME were outlined in the *Egypt and Social Structural Review* published by the World Bank in July 2001, emphasising the need to adopt policies that facilitate its further integration into the global economy.

The World Bank is demanding "reform" to sharply reduce tariffs and other trade taxes, especially on manufactures and an end to government regulations that increase the cost of doing business in Egypt. It is concerned that growth is driven by domestic rather than foreign demand. Services and construction were the main areas of growth in the 1990s in addition to the manufacturing sector.

Income from the Suez Canal tolls, oil export earnings, worker remittances and tourism receipts accounted for 12 percent of Egypt's GDP in 2000. The World Bank emphasised in its report that whilst this income helped finance public services and private consumption, it had "two undesirable consequences". It "reduced the pressure to implement the wide array of reforms needed that would enhance the competitiveness of manufactures" and "undermined the competitiveness of Egyptian producers in international markets."

The report noted that as far back as 1998 the balance of payments was under pressure due to a decline in oil and tourism revenues; a situation made worse by

Islamic fundamentalist groups targeting tourists. This period also saw a huge 11 percent growth in credit in 1999.

In the chapter headed “Opportunities for Global Integration”, the report noted that Egypt’s merchandise exports accounted for less than three percent of GDP in 1999. Two thirds of merchandise exports are petroleum related or agricultural materials. The World Bank is concerned that Egypt does not export more manufactured goods.

The report points out that Egypt has the possibility of being attractive to foreign investors because it is the largest potential market in the Middle East region and it is also close to Arab and European markets. However at present tariffs are high by developing country standards: 28 percent compared to 18 percent for Lower-Middle Income Countries. Total expenditures are 27 percent of GDP, compared to 16 percent for other Lower Middle-Income Countries. It also complains of a disincentive for foreign direct investment due to a “cumbersome” business environment. As well as calls to speed up privatisation, there are demands for a cut in corporate taxation and for the budgetary process to be curtailed so that the policies demanded by the World Bank can be speedily implemented.

The overall result of these policies will be to intensify the ongoing massive decline in the living standards of the working class and to further exasperate social tensions under conditions where poverty is already widespread. Unemployment rates presently stand at 15 percent. The rate for urban young women is a full one-quarter out of work.

Egypt is being instructed to spend additional money on strengthening its military capacities and has just purchased 53 Harpoon anti-ship missiles and other weapons valued at $255 million from the US government. As political tensions mount in the region, thousands of Egyptian students have burned American and Israeli flags in protest at the sharp escalation of attacks on Palestinians. In Alexandria over 8,000 students demonstrated calling for Arab leaders to declare war on Israel.