

Egypt plunges into economic and social nightmare

Jean Shaoul**9 November 2016**

The Egyptian pound fell by 50 percent to £14 to the US dollar following the announcement by the country's Central Bank that it would allow the currency to float on the currency markets. The pound has previously been pegged to the dollar.

The oil ministry followed suit, announcing a 50 percent increase in the price of petrol and a 30 percent rise in fuel, both of which have been subsidised for decades. Food prices are likewise expected to soar. Egypt imports more than half its basic foodstuffs and is the world's largest importer of wheat. Alongside cuts in subsidies and the introduction of VAT (value-added tax), this will increase the cost of living, stoking fears of hyperinflation.

Inflation is already running at 16.4 percent a year, under conditions where wages have not kept up with inflation and 40 percent of the population are officially below or only marginally above the poverty line.

Earlier last week, Egypt's Supreme Investment Council approved a raft of pro-business measures in a bid to boost investment, extending a temporary suspension of capital gains tax on shares and introducing tax exemptions for producers in some sectors.

Another devaluation, hard on the heels of a 13 percent devaluation last March, was widely expected as part of the packet of measures demanded by the International Monetary Fund (IMF) in August. The measures, the full extent of which have not been made public, are in return for a \$12 billion loan—with a further \$9 billion to be raised elsewhere—to cover Egypt's 2015-16 budget deficit of 12 percent of GDP, and a shortage of foreign currency. The IMF insisted last month that Egypt had to implement reforms, including a flexible currency, slashing subsidies, VAT, and privatisation of state-owned enterprises and banks,

before receiving the loan, now worth considerably less than originally agreed.

Currency reserves have fallen from \$36 billion in 2010 to about \$19.6 billion in September, despite tens of billions of dollars in aid from Egypt's Gulf allies since 2013. After the authorities introduced controls in early 2015 to stem the flight of capital, importers turned to the black market where the rate soared to more than double the official rate. In June, the Central Bank raised the interest rate to 10 percent, a 10-year high.

Many small producers complained that they were being forced out of business. Last month, two of Egypt's largest listed companies said they would be forced to halt production if dollar shortages continued. Others have turned to China to source their imports where prices and quality are lower.

Both the timing of the devaluation—far sooner than expected—and the scale came as a shock. It reflects the depth of the economic, social and political crisis confronting General Abdul Fatah el-Sisi's brutal dictatorship.

Rising prices and periodic shortages of state-subsidised foods have forced the government to increase costly imports. Deteriorating relations with Saudi Arabia, the junta's sponsor, led to Riyadh suspending its agreement to supply Egypt with refined oil products, adding \$500 million a month to the import bill and government spending.

So great was public anger over a shortage of sugar, which some have accused the military's enterprises of seeking to monopolise as it has with other goods and services, that the Central Bank was forced to allocate \$1.8 billion to build a six-month food reserve. At the same time, the military has prepared 8 million "ration" packages of basic foodstuffs to be sold at half price,

predominantly in Cairo.

The IMF, which speaks for the Western banks that will profit from the deal, welcomed the decision. It said that the currency flotation would “make more foreign exchange available,” and “improve Egypt’s external competitiveness, support exports and tourism and attract foreign investment.” It will do nothing of the sort. Its only purpose is to put Egypt’s assets up for sale at knockdown prices and open up the Egyptian working class to super-exploitation by the transnational corporations and international banks.

The IMF’s brutal diktats, which will impoverish the Egyptian people, can only be implemented by brute force, which el-Sisi indicated he is more than ready to use on behalf of the Egyptian bourgeoisie and the imperialist powers.

Last August, when the deal was initialled, El-Sisi said he would not shy away from the reforms that previous rulers had shunned in a bid to avoid unrest, declaring, “The first attempt at real reform was in 1977.” Riots broke out in 1977, after then-President Anwar Sadat said he would end basic subsidies on wheat in return for a World Bank loan.

El-Sisi added, “The people’s reaction caused the state to backtrack, and it has continued to delay [the reforms] till now. All the hard decisions that many over the years were scared to take: I will not hesitate for a second to take them.”

Since overthrowing the Muslim Brotherhood-led government of Mohammed Mursi in a bloody coup in July 2013, el-Sisi has imposed a brutal dictatorship on behalf of the military, police and intelligence faction of the ruling class that has dominated Egyptian political and economic life since the 1952 Free Officers’ coup. He has ruthlessly targeted the military’s economic rivals, dominated by the Muslim Brotherhood, other bourgeois political opponents, liberal activists and, most importantly, the working class.

The junta has outlawed protests, imprisoned at least 60,000 of its political opponents, sentenced hundreds to death and introduced a sweeping counter-terrorism law vastly expanding the authorities’ powers. Mass trials, mostly of Brotherhood supporters, failed to establish individual guilt. Several thousand have been tried in military courts. Torture and enforced disappearances are commonplace, with many detainees dying in custody from mistreatment.

At the same time, el-Sisi has carried out extensive military operations against Islamic militants in the Sinai Peninsula who have capitalised on the seething unrest among impoverished Bedouin. The regime has imposed a state of emergency, killing hundreds of civilians, demolishing hundreds of homes and evacuating thousands of residents. The security forces’ brutality, which has included curfews, detention without trial or even charges, the shutting down of cell phone and internet networks and routine abuse, has only served to increase social tensions in Sinai and throughout the country.

The class tensions that exploded into the revolutionary events of January 2011, which led to the removal of long-time dictator Hosni Mubarak, are exploding once again in response to the economic disaster and the junta’s repression.

Last week, Egyptians took to the streets to protest the government’s failure to provide fast and adequate relief in the flood-stricken areas where 29 people were killed and at least 73 were injured at the end of October. In Ras Gharib in South Sinai, where hundreds of homes were under water and all of the main roads out of the town were closed, Prime Minister Sharif Ismail was forced to abandon his visit in the face of angry protests over power and water cuts in the town.

Two weeks ago, thousands took to the streets of the northeastern port city of Port Said to protest against the rising cost of housing, chanting, “House us or kill us” and calling for el-Sisi’s resignation.

In September, social media issued a call, known as Thawra el-Ghalabiya (revolution of the majority), for a mass anti-government rally on November 11 against the rising cost of living. The security forces responded by detaining eight people for 15 days on charges connected to calling the rally.

Last month, a video of a furious tuk-tuk (motorized rickshaw) driver filmed in a working class district in Cairo went viral. It showed the driver, surrounded by crowds, haranguing the government for its lavish spending at state ceremonies while the poor suffer.



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