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Economic Reform in Egypt : Success versus Challenges

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Egypt has witnessed since the July revolution in 1952 different economic regimes that reflected the various patterns governing the public –private sectors relation that changed from a socialist state owned regime in the first two decades to take afterwards a sharp U-turn towards a market oriented system promoted by President Sadat following the 1973 war

Since the early 1980s, Egypt has started adopting the IMF formula for economic reform based on structural adjustment programs and privatization schemes that led to the shrinking of the public sector which is the major employer of the labor force

Since that date, the subsequent Egyptian governments have promoted and implemented market oriented policies at different pace and most of the time following a selective approach thus trying to avoid the expected negative social impacts of the relevant policies on the life of people

After almost thirty years of this approach, many of the issues linked to economic reform are still controversial among the Egyptian public opinion showing that the major shortcoming of those programs is the lack of the substantial social perspective

This is mainly attributed to the fact that the associated privatization programs coupled with the impact of globalization have seriously damaged the access to job opportunities specially for women who represented the bulk of the public sector and bureaucratic system employees .Moreover, said programs did not provide adequate rehabilitation programs for those who were laid off during the process in order to allow them better chances of employment under a market economy that was not fully regulated or sometimes legalized.

Nevertheless, the governments have still succeeded to score a good record of economic reform procedures in some aspects where growth

rate in 2007/2008 was nearly 7.1% while foreign direct investments during the same period reached nearly LE 11.9 billion.

The track record of such successful programs is best manifested by the carried out financial and monetary reforms. In this respect, the reform of the banking sector which included mergers & acquisitions was driven by a new leadership at the Central Bank of Egypt together with new young and qualified bankers governing the major Egyptian banks including the four mega-public owned banks one of which was privatized while the other three have undergone massive restructuring and face-lifting processes.

As a result, total banks deposits, excluding the Central Bank of Egypt ,have reached LE 822.6 billion in July 2009 representing an increase of 7.8% as compared to the same period a year earlier , while total domestic liquidity has increased by almost the same percentage during said period

Other financial and monetary reforms have included the Taxes system which scored considerable success that was proved in the tax return shown in subsequent years where income taxes have increased to LE 76.3 billion in 2008, i.e. LE 10 billion above the previous year

Moreover, several legislations were passed to create a favorable environment for economic, financial and administrative reforms thus supporting productive activity in different economic sectors. This included deregulating investment procedures, setting regulatory and supervisory bylaws for the stock exchange and the reclassification of financial and state budget records according to international standard subject to transparency rules.

Yet said efforts did not yield the sought after results due to foreign and domestic reasons.

Firstly, and throughout the past year the collapse of financial, credit and real estate markets coupled with the pressures of prices increase of food commodities and energy have considerably increased risks of poverty and malnutrition while intensifying anxiety and fear as regards the future of the world economy

In this connection, the World Bank has indicated that this global economic crisis will trap up to 53 million more people in poverty in developing countries in 2009 thus bringing the total of those living on less than \$4 a day to over 1.5 billion

Moreover, according to the ILO, global unemployment is expected to increase drastically leading to the loss of between 18 and 30 million jobs by the end of 2009 and with the economic recession, the education and health sectors enjoying donor funds are expected to lose a substantial part of this assistance.

On the domestic front, Egypt was negatively affected by the aforementioned factors coupled with long embedded economic deficiencies such as the high rate of population increase, the increasing percentages of unemployment, the traditional educational system which does not respond efficiently to market needs not to mention the absence of social equality and justice due to the adoption of economic policies that ignore the importance of social safety nets

In this regard, women being disproportionately poorer than men and mainly responsible for managing the household and caring for the family members, are more vulnerable where gender-specific negative impacts are considered inevitable, especially within the context of the prevailing culture believing that when jobs are scarce women ought to be fired first as men are perceived to be the legitimate jobholders

In view of the aforementioned, the government's mission of raising the standards of living in terms of the quality of life becomes a real

challenge while having to handle food and water security together with incredible increases in the price of basic commodities such as oil, seeds and foodstuff commodities. This places the government in a situation of crisis trying to defuse the negative impacts on the lower income bracket population which in turn increases the subsidy bill on the state budget.

In this regard, Egypt has been depending on subsidies for many years as a tool to ease the burden of increasing prices and deteriorating income. However, subsidies—especially in kind—have been accompanied with some deficiencies like price distortions resulting from arbitrary price fixing. Such deficiencies adversely affect the efficient allocation of both resources and incomes. As a result, the economic and social welfare of consumers is negatively affected along with the government's budget deficit

Moreover, the ascending trend of growth rates was discontinued as a result of the financial crisis where it decreased to around 4.1% in the second quarter of 2009 while the unemployment rate has increased as compared to the same period a year earlier which represented a huge burden over the government in financing development plans and securing social equality and justice

The government has been also struggling to safeguard the sectors mostly affected by the financial crisis as much as possible (tourism, exports, foreign remittances and Suez Canal receipts) especially in view of the decline in exports whether services or commodities

On this front, the government's "salvage plan" depends upon a package of increasing public expenditure, maintaining the suffering sectors intact and adopting aggressive schemes to help solve the unemployment crisis .In this regard, the sum of LE 30 billion was allocated for establishing mega infrastructure projects

Nevertheless, the lack of the social perspective continued to shadow the results of the so called "economic achievements" where many argue

that those reforms are not reflected on the daily life of the majority. As an example , a report by the Cabinet's Information and Decision Support Center showed that the street "Charity Banquets" in the holy month of Ramadan were attended by nearly 1.8 to 1.9 million persons during said month in 2009 , taking into consideration that 87% of those banquets are sponsored by individuals

Moreover, lower economic growth rates are likely to lead the government to reduce public expenditure on social welfare and healthcare which is expected to be further aggravated by higher inflation rates, trade balance deficit and considerable public debts. This in addition to the fact that the rates of savings and investment are around 16-18 % which does not guarantee the continuity of desired growth rates

In its efforts towards economic reform and development, the government depends upon loans and FDIs, but the crucial factor here is the allocation of said funds

Among the government's top priority sectors are infrastructure projects which are mostly undertaken by the government as while they help to secure job opportunities and create demand for Egyptian services and commodities, the associated roads and utilities of such projects result in flourishing the surrounding urban communities

Undoubtedly , more attention should be as well given to investment in human resources through health, education and training as most of the current graduates of the public education system are looked upon as a stagnant product in the labor market thus adding new numbers to the queue of the unemployed

Landmarks for Pathfinders

Many believe that the international financial crisis could be a blessing in disguise giving us the chance to position the representatives of the developing world at the negotiating table revisiting the economic and political taboos of our world

In the global arena as well as in the local one, stakeholders should be given the access to the decision making process thus allowing them to be part of the solution rather than being classified as part of the problem

As mentioned before , U –turns are generally perceived as the result of bad management and while change is a healthy phenomenon it needs to be done appropriately, i.e. transparently, decisively and with the involvement of all stakeholders.

As experience proves, the major problem obstructing any kind of reform is assigning implementation to either those who do not understand it, or refuse to believe in it, or simply fears that it would work against their interests

As well known, setting the policies is the easiest part, but creating momentum and public support for it represents the real challenge, and in a system where wealth and power are deeply correlated you are simply widening the trust gap between the businessmen bias government, as perceived by the people, and the masses who are fighting daily to put food on the table

As a result, the efforts exerted by the government at the different fronts are considerably defused in the eyes of the public opinion due to the growing dissatisfaction towards this marriage of wealth and power as illustrated in the handful of powerful and connected businessmen who monopolize not only the production of basic commodities but as well the key political positions

In fact, the actual problem lies in the general feeling that the fruits and benefits of economic reform are disproportionately enjoyed by a small group of beneficiaries while denying the majority enough access to political and financial resources

Consequently , the only way out is through the implementation of a real and objective social contract between the individuals and the state based upon genuine citizenship values .This would accordingly allow real involvement by the people in shaping the future of their countries by means of active political participation and parliament representation where decision-makers are held accountable under a transparent political system that gives the power to the voters who should undoubtedly be at the driving seat monitoring policies and safeguarding the majority's interests.

