Egypt

The Egyptian economy grew at an estimated 5.1% in the fiscal year to June 2010 as the country started to recover from the impact of the global financial crisis. Political unrest, which led to the ouster of President Hosni Mubarak in early 2011, will likely dampen growth but the prospect of substantial economic and political reform offers hope for the future.

Egypt suffers from severe social handicaps – poor educational attainment, high unemployment and wide income disparities. Economic growth has not delivered the benefits it should have due to corruption and lack of political reform.

Egypt continues to rely mainly on its traditional partners – the United States of America and the European Union – but emerging country partners are taking on a larger role. Arab countries constitute an important source of foreign direct investment (FDI) and are also a primary destination for young Egyptian migrants.

Egypt has been on the brink of social and political turmoil for the past few years, with evident signs of mounting frustration among citizens, mainly due to the severe socio-economic conditions, constraints on liberties and an uncertain political outlook. Inspired by the Tunisian revolution, Egyptians started a large-scale uprising on 25 January 2011 and after 18 days of protests, Mr. Hosni Mubarak stepped down, bringing to an end his 30-year rule as Egypt's President. Power was handed to the Supreme Council of the Armed Forces which became responsible for conducting the affairs of the State and leading the transitional period according to a constitutional declaration issued on 30 March, until the parliamentary and presidential elections are held towards the end of 2011.

While the Egyptian popular uprising has come with the promise of major political reform, it has led to the temporary disruption of economic activity, below-capacity production and a 55-day shutdown of the stock market. The adverse economic implications thereof will most likely be sustained throughout 2010/11, as the high uncertainty in Egypt will weaken foreign direct investment (FDI) inflows as well as tourism and Suez Canal receipts. Thus, real gross domestic product (GDP) growth rate is expected to be only 1.6% in 2010/11, down from 5.1% in 2009/10.

The interim government has tried to absorb the anger of protesters by stepping up food subsidies, freezing the plan to phase out energy subsidies and upgrading the status of temporary government workers who have been in their posts for more than three years to permanent workers. While the interim government should indeed be addressing such crucial social priorities, it should also take into account their medium- and long-term implications on fiscal balances.

The budget deficit is expected to rise from 8.1% in 2009/10 to close to 10% in 2010/11, as the interim government boosts spending to offset the impact of the political unrest. The temporary supply shortages that followed the upheaval coupled with rising international prices of food and fuel have been adding to the pressure on the domestic price level since early 2011. Thus the inflation rate is expected to increase from 11.7% in 2009/10 to 13.4% in 2010/11. Similarly, the current account deficit is expected to widen from 2.0% of GDP in 2009/10 to 3.2% in 2010/11 and then fall marginally to 2.9% in 2011/12 as FDI inflows, remittances and the services balance remain vulnerable.

Egypt's partnerships with emerging economies, mainly in non-Arab Asia and the Arab world, are still marginal compared to those with the European Union (EU) and the United States of America. Although economic relations with emerging partners have been on an upward trend, the political unrest in Egypt and the wider region will hinder trade, particularly with Arab countries as well as FDI inflows and remittances originating from Arab countries. The Egyptian government already allocated 100 million Egyptian pounds (EGP), targeted at addressing employment issues of returning labour from Arab countries, especially Libya.

The restoration of political stability and effective reform are essential if the Egyptian economy is to return to solid growth that benefits the population as a whole. In order to alleviate poverty and improve living standards, the priority has to be a high and sustainable growth rate while addressing social concerns such as unemployment, income distribution and the poor level and quality of education and health services. Fiscal consolidation is key to the realisation of Egypt's economic and social objectives as reform efforts have historically been diluted by poorly targeted government expenditure and a large public debt.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	4.7	5.1	1.6	4
CPI inflation	16.2	11.7	13.4	12.2
Budget balance % GDP	-6.6	-8.1	-9.8	-9.4
Current account % GDP	-2.3	-2	-3.2	-2.9

Source: National authorities' data; estimates and projections based on authors' calculations.

Fiscal year July (n-1)/ June (n).

Figures for 2010 are estimates; for 2011 and later are projections.

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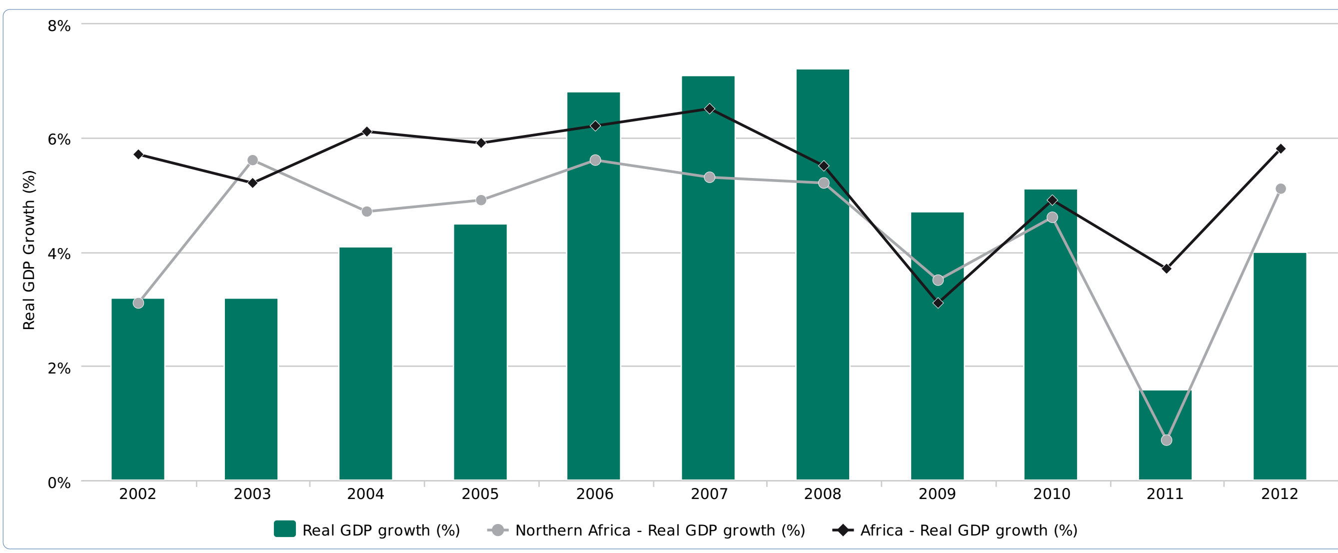
Figure 1: Real GDP growth (N)



Source: IMF and local authorities’ data; estimates and projections based on authors’ calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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