



Syria in Crisis

Egypt's Economy: A Mixed Picture, at Best

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On March 13, the Egyptian city of Sharm el-Sheikh will play host to a major economic conference. It has been in the works ever since the late Saudi King Abdullah invited other nations to a donor conference following the June 2014 election of President Abdel Fattah al-Sisi.

Realizing that no international donors—not even Saudi Arabia or the United Arab Emirates—can be expected to continue directly financing Egypt at the level that Gulf donors have since the July 2013 removal of former president Mohammed Morsi, the Egyptian government later sought to shift the plan toward more of an investors' conference. Minister of Planning Ashraf al-Arabi has said that Egypt hopes to attract \$60 billion in foreign direct investment by the end of 2019, and Prime Minister Ibrahim Mahlab said that although these billions might not be raised at the conference itself, the goal of the gathering is to pave the way by “changing the perception of Egypt.”

Slow Growth and Social Inequality

There is a good reason why attitudes toward Egypt as an investment destination are ambivalent. Reports about Egypt's economic conditions and Sisi's economic policies are mixed, while political and security trends are decidedly negative.

The Egyptian government has been at pains to generate a narrative of economic recovery going into the conference. The economy tanked following the 2011 revolution and things turned even worse after the violent political struggles of 2013. Tourism, Egypt's principal source of foreign currency, is still far from pre-2011 levels. Real GDP (not per capita) improved in 2014–2015; the IMF estimates growth will be 3.8 percent versus 2.2 percent in 2013–2014. But it still remains well below the 5–7 percent annual growth of the decade before 2011.

Somewhere between one-quarter and one-half of the population lives in poverty (26 percent according to official estimates), and youth unemployment increased from 23.7 percent in 2013 to 29 percent in

2014, according to official figures. Unemployment also remains disproportionately high among university graduates, standing at 36.4 percent in comparison to 14.7 percent of their less educated counterparts—and these are figures that fail to reflect the rampant underemployment among educated youth.

Debt and the Need for Subsidy Reform

A major problem is the debilitating cost of Egypt's subsidy system. President Sisi acknowledged in a recent interview that three-quarters of the Egyptian budget goes to subsidies, debt service, and public sector wages, leaving only 135 billion EGP (\$17.7 billion) to cover all other expenditures, including health, education, utilities, and social services, for nearly 88 million people.

Government debt is high and rising, requiring ongoing significant cash assistance from outside—whether from the Gulf, the IMF, or elsewhere—in order to keep the wolf from the door.

Sisi has taken some important steps to limit spending, notably a cut in energy subsidies in July 2014 that brought prices about one-third of the way toward market rates. While the fall in global prices will help the budget further, the petroleum minister said recently that there would be no further subsidy cuts in 2015–2016. The government is also taking some steps to clean up waste and abuse in subsidy distribution, and it is moving cautiously in the direction of cash transfers to the poor. But so far, there is no wholesale reform of the social welfare system, leaving the government with little to spend in critical sectors.

What Is Sisi's Economic Vision?

These economic policies are better than those adopted by the several governments since 2011, but it remains unclear whether Sisi sees the private sector or the state as the primary engine of growth.

On one hand, Sisi has promised a new investment law (recently approved in draft form by his cabinet) to facilitate private sector foreign and domestic investment, and the IMF said during recent consultations that government officials' actions “appropriately prioritize improving the business climate.”

On the other hand, state-driven megaprojects—including the dredging of a second Suez Canal, the development of a nearby tourism city, and several others—seem to be the primary focus of Sisi's economic policies. Egypt's record of implementing such megaprojects in recent years is not encouraging, and the IMF gives the new projects only a tepid endorsement, saying they “have the potential to generate jobs and growth” if assessed realistically, while warning that they risk raising already high public debt.

Moreover, there is a critical element that is so far missing from any significant role in Sisi's economic plans: human development. Egypt has a large youth bulge, with more than half of the population under age twenty-five. Not only is it necessary to generate jobs for nearly 600,000 new entrants into the labor force annually, but it is equally important to prepare those young Egyptians for employability in the global economy. This is where Egyptian governments have failed for decades; the country placed 141 among 144 countries in overall quality of education in the World Economic Forum's 2014–2015 Global Competitiveness Report. And yet, while Sisi's government has promised some small initiatives related to youth and education, it seems that once again this enormous challenge will be largely ignored in favor of quick wins—which may yet prove illusory—such as generating more revenue from the Suez Canal.

Simmering Dissent Despite the Crackdown

Meanwhile, political and security conditions in the country are poor and deteriorating in ways that would undermine even the best policies.

Formal politics have been stymied, with Islamists largely excluded and parliamentary elections repeatedly postponed. Egypt has now been without a full legislature since June 2012, when the first post-Mubarak parliament was dissolved by court order shortly before Morsi became president.

The authorities tried to end street protests with a draconian antiprotest decree in late 2013, but dissent and unrest goes on. A recent report by the Arab Network for Human Rights Information reported that, as of the end of 2014, there were 42,000 political detainees and more than 1500 political or labor protests during the year, an increase over 2013.

Rising Violence: A Growing Problem

On the security front, Egypt has seen an uptick in two distinct kinds of violence: large-scale attacks by terrorist groups based in the Sinai, and small-scale bombings and shootings throughout the country. In the last nine months there have been three large-scale, military-style attacks against the army, two in the Sinai and one in the Western Desert, which have killed at least 78 soldiers. Despite periodic statements that the government has the terrorists under control, this does not seem to be the case, and now some of these homegrown groups have declared allegiance to the Islamic State.

Equally alarming is the recent increase in small-scale violence throughout the country, which seems to be motivated either by a desire for revenge against police or a systematic attempt to scare away investors. Over the past year, dozens of soldiers and police have been killed in roadside bombings or drive-by shootings across Egypt. Since early February, there have been near daily bombings in Cairo and other governorates. Apart from government institutions, personnel, and critical infrastructure, these bombings typically target commercial establishments, particularly those connected to Sisi's Gulf supporters such as the Emirati-owned Etisalat telecommunications company and Emirates NBD bank. This past weekend, a series of bombings—including six in Cairo alone—killed one and injured dozens. Recent high profile targets have included the home of the newly appointed minister of interior, the Egyptian High Court in downtown Cairo and the Cairo International Airport.

The upcoming investor conference will likely give Sisi a much-needed boost of international support and generate some capital for the economy. But the sort of sustained economic growth that would buttress stability will remain elusive while the country is in a state of political tension and its leaders lack a vision for mobilizing Egypt's greatest asset, its youthful population.

For additional information on the Egyptian economy, see Carnegie's *Egypt in Focus* Economy resource page.

- [The Islamic State is Losing, But No One Is Winning](#)
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