

## POST- JANUARY REVOLUTION EGYPT: IS IT A POTENTIAL LICUS STATE?

### A POLITICAL- ECONOMIC PERSPECTIVE

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#### ABSTRACT

According to the World Development Report 2011, 1.5 billion people worldwide, roughly half of whom earn less than a dollar a day, live in the so-called “fragile states” until recently known in the World Bank as Low-Income Countries Under Stress (LICUS). These Low-Income Countries have attracted increasing attention. Some economists argue that Egypt, a home to almost 90 million people 25% of whom earn less than a dollar per day, is on the way to become a potential LICUS state. This paper addresses one major question: is Egypt a potential LICUS state? The first part of this paper gives a concise background about the major characteristics of LICUS or fragile states.

The second part sheds some light on the level of poverty in Egypt. The third part clarifies with statistics the performance of the Egyptian economy in the post-January revolution era concerning some criteria of the Country policy and Institutional Assessment (CPIA). The fourth part analyses the political reasons behind the deteriorating economic conditions. The fifth part is the conclusion.

**KEYWORDS:** World Bank Initiatives, LICUS, Fragile States, Good Governance, Economic Effectiveness, Economic Legitimacy, Economic Transition, Political Stability, Extemporary Foreign Policy

#### INTRODUCTION

##### Background: The major Characteristics of LICUS (Fragile States)

There is neither a clear-cut nor a comprehensive definition of fragile states. Some people use the concept failed and fragile as synonyms. A range of concepts have emerged to describe states that do not live up to common understandings of how states should work, ranging from collapsed, failed and failing states, to fragile, crisis, rogue and poorly performing states, difficult partnerships, and low-income countries under stress.<sup>1</sup> Although these concepts are similar to some extent, they differ in core. The suitability of policies and institutions for development is a matter of judgment; even where judgments agree, performance is a multifaceted continuum. Hence, any classification of a group of countries as poor performers is inexact at the margin, and there is not a natural cut-off.<sup>2</sup> Furthermore, since persistently poorly performing countries often differ greatly one from another, and LICUS status is fluid over time, an appropriate strategy has to be tailored to the specific characteristics of each country.<sup>3</sup> At the time when the World Bank’s taskforce was assembled, the notion of fragile states was not yet fully fledged; it would be another three years before the term entered the development lexicon. The taskforce instead focused on so-called “Low-Income Countries under Stress”, or LICUS, which became the institution’s official term for fragile states.

The World Bank classified countries as LICUS based on their meeting two criteria: a per capita income level be-

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<sup>1</sup>DIIS REPORT 2008:11, pp1-2.

<sup>2</sup>World Bank Groupwork in low income countries under stress: A task force report, September 2002, p3.

<sup>3</sup> Ibid. , p3.

low the low-income/middle-income threshold; and poor scores on the bank's Country Policy and Institutional Assessment (CPIA) to connote stress.<sup>4</sup> LICUS share a common fragility in two particular respects first, weak state policies and institutions: undermining the countries' capacity to deliver services to their citizens, control corruption, or provide for sufficient voice and accountability, second risk of conflict and political instability.<sup>5</sup> LICUS have twice the income poverty and child mortality rates of other low-income countries; they also pose a risk of negative spillovers for their neighbors and the wider global community, through the spread of conflict and organized crime, refugee flows, epidemic diseases, and barriers to trade and investment.<sup>6</sup> LICUS are also described as poor performers; however, poor performance is viewed through different perspectives.

The first type includes states that lack the capacity to shape and articulate the political or public framework. That is, the state is no longer able to reasonably meet its responsibilities.

This is usually because of the enormous pressure generated by the political problems typically encountered in post-conflict societies, insufficient material conditions, etc.<sup>7</sup> The second type includes countries that, even though they are in possession of the means and the capacity needed to shape a governance framework, are unwilling to deploy them constructively; that is, in these cases a lack of political will is responsible for the situation.<sup>8</sup>

In reality, mixed forms of the two phenomena occur side by side and at the same time. Poor performers are, in other words, both countries that lack a certain minimum of effective governmental authority and countries that have sufficient effective governmental authority but fail to use it for purposes of development.<sup>9</sup>

Not only concepts of fragility differ, but measurements tools or indicators of fragility differ and vary as well. The World Bank's Country Policy and Institutional Assessment (CPIA) and the Country Analytical Support (CAS) project developed a standard methodology for providing a clear evaluation of economic growth performance in the LICUS (fragile) states.<sup>10</sup>

In this paper, the author will focus on the World Bank's CPIA. Under the World Bank process, the CPIA is split into 2 groups: the CPIA (A-C), with 11 items, grouped into three clusters, (see box 1 below) and the CPIA –D. Under the CPIA (A-C), there are three clusters for the rating, each weighted at 33.33%.

It derives that the components in Economic Management and Structural Policies have an individual weight of 11.11% whereas the components in the cluster for Policies for Social Inclusion/Equity and Public Sector Management and Institutions carry a weight of 6.67%.

This implies that each criterion in clusters A & B is relatively more important than that in cluster C. The CPIA Cluster D which becomes the Governance Rating (Public Sector Management and Institutions) within the simplified allocation formula is made up of five items, each weighted 20.00%.<sup>11</sup>

<sup>4</sup>Chandy, Laurence, *Ten Years of Fragile States: What Have We Learned?*, The Brookings Institution, 2011, p1.

<sup>5</sup>Low-Income Countries Under Stress: Update, Operations Policy and Country Service December 19, 2005, p1.

<sup>6</sup> Ibid., p1.

<sup>7</sup> Stephan Klingebiel & Huriya Ogamichael, Poor Performers in Sub-Saharan Africa: Exclusion or Integration? African Security Review 13(1) • 2004, p15.

<sup>8</sup> Ibid., p15.

<sup>9</sup> Ibid., p15.

<sup>10</sup> A program Sponsored by the Economic Growth office of USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT), 2004-2006.

<sup>11</sup> The 2011 Country Policy AND Institutional Assessments (CPIA), 2011 CPIA Questionnaire).

**BOX 1: CPIA (A-C) CRITERIA**

<p><b>A. Economic Management</b></p> <ol style="list-style-type: none"> <li>1. Macroeconomic Management</li> <li>2. Fiscal Policy</li> <li>3. Debt Policy</li> </ol> <p><b>B. Structural Policies</b></p> <ol style="list-style-type: none"> <li>4. Policies and Institutions for Economic Cooperation, Regional Integration &amp; Trade</li> <li>5. Financial Sector</li> <li>6. Business Regulatory Environment</li> </ol> <p><b>C. Policies for Social Inclusion/Equity</b></p> <ol style="list-style-type: none"> <li>7. Gender Equality</li> <li>8. Equity of Public Resource Use</li> <li>9. Building Human Resources</li> <li>10. Social Protection and Labour</li> <li>11. Environmental Policies and Regulations</li> </ol>
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**Figure 1****BOX 2: CPIA-D- CRITERIA**

<p><b>D. Governance Rating: Public Sector Management and Institutions</b></p> <ol style="list-style-type: none"> <li>1. Property Rights and Rule-based Governance</li> <li>2. Quality of Budgetary and Financial Management</li> <li>3. Efficiency of Revenue Mobilization</li> <li>4. Quality of Public Administration</li> <li>5. Transparency, Accountability, and Corruption in the Public Sector</li> </ol>
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**Figure 2**

As previously mentioned, the World Bank had identified two major criteria to describe a country as a low income country under stress, LICUS, the poverty issue and country performance on the CPIA. In the following two parts, the author is going to apply these two criteria on Egypt.

**Poverty in Egypt**

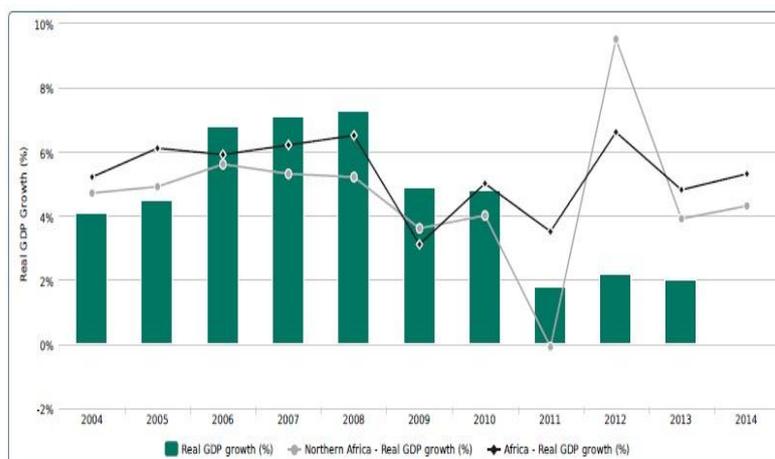
Some acrimonious Egyptian poverty is most frequently mentioned among the causes of the Egyptian revolution. On the eve of the Revolution about 20% of the Egyptian population lived on less than \$2 a day compared with 36.3% in China, 42.9% in South Africa.<sup>12</sup> Later, it reached to about 40% of Egyptians live below \$2 a day income poverty line.<sup>13</sup> After toppling Hosni Mubarak in February 2011, Egyptians celebrated the election of Muslim Brotherhood candidate Mohammed Morsi on 24 June 2012, as the country's first democratically elected president.<sup>14</sup> The poor in Egypt hoped that the new political dynamic could create economic opportunities for young people who are desperate for change. However,

<sup>12</sup>Korotayev, Andrey V., Zinkina, Julia V (2011), Egyptian Revolution: A Demographic Structural Analysis, the Russian Foundation for Basic Research, p 151.

<sup>13</sup>Ibid, p 147.

<sup>14</sup> African Economic Outlook 2013, p2.

the revolution has also brought new challenges. Economic growth, which was recovering after the global financial crisis of 2008, fell from 5.1% during fiscal year 2009/10 to 1.8 % in the fiscal year ending June 2011.<sup>15</sup> Although the Real GDP growth rate accelerated slightly in 2011/12 to 2.2%, as against 1.8% in the previous fiscal year, it has not returned to the pre-revolution rate of over 5.1% in fiscal year 2009/10; economic growth is expected to remain depressed, at about 2% as of June 2013.<sup>16</sup>



Source: African Economic Outlook 2013

Figure 3

The unrest has also hit tourism and foreign direct investment, two key sources of foreign reserves. Continued political instability has undermined inflows from tourism and foreign direct investment (FDI). The central bank is running out of foreign currency to maintain the exchange rate of the Egyptian pound.

The population of Egypt was estimated to be 83 million with a gross national income of US\$ 2,440 per capita in 2010; around 40% of Egyptians were estimated to be poor according to the latest estimates, about 19.6 % were estimated to live in absolute poverty and 21 % were near poor.<sup>17</sup>

A small drop in incomes or increase in prices would make many of them fall back into poverty. However, after a period of improvement in the first years of the previous decade, poverty has worsened again as a result of the soaring food prices and other factors: extreme income poverty in rural Egypt rose from 6.6 % to 9.1 % and beneficiaries of subsidized food ration cards increased from 45 million to 63 million during the food price crisis of 2008.<sup>18</sup>

Moreover, Egypt is a country which suffers from high levels of inequality and where the poorest 40 per cent of the population control a mere 22.3 per cent of the country's income.

In Egypt, poverty is mostly a rural phenomenon. The main change in poverty distribution in recent years has been a worsening concentration of poverty in rural areas. While the total number of poor decreased in urban areas, it increased by about 2.3 million in rural areas and, although extreme poverty doubled between 2000 and 2005 in urban areas, the problem remains mainly rural where more than 78 per cent of the poor and 80 per cent of the extreme poor are found.<sup>19</sup>

<sup>15</sup> Ibid, p2.

<sup>16</sup> Ibid, p3.

<sup>17</sup> IFAD Enabling Poor rural People to Overcome Poverty, Arab Republic of Egypt: Country Strategic Opportunities Program, August 2012, p5.

<sup>18</sup> Ibid., p5.

<sup>19</sup> UNDP Egypt Human Development Report 2010, p 269.

**Table 1: Poverty Ranking for Egypt Governorates According to Different Sources**

Governorate	WB 2007	EHDR 2008	SFD	EHDR 2010
Alexandria	9	4	5	3
Assiut	22	21	26	12
Aswan	16	8	16	12
Beheira	15	11	19	15
BeniSuef	21	18	24	17
Cairo	3	5	4	13
Dakahlia	7	9	18	9
Damietta	2	3	7	4
Fayoum	11	22	25	22
Gharbia	5	7	13	6
Giza	12	15	10	8
Ismailia	6	6	8	5
Kafr El Sheik	13	16	12	16
Kalyoubia	10	10	11	11
Luxor	4	14	17	10
Menia	19	20	20	21
Menoufia	14	11	21	7
Port Said	8	1	2	1
Qena	18	17	22	18
Sharkiya	17	12	23	14
Suez	1	2	3	2
Sohag	20	19	27	18

The concentration of poverty in rural areas refers to different causes. The worsening of poverty rates between 2000 and 2005 was primarily due to a fall in consumption resulting from inflation. The depressed economic activity, coupled with weak consumer spending, has moderated inflation in fiscal year 2011/12. Headline inflation fell to 8.7 percent during 2011/12 compared to 11.1 percent in 2010/11; moreover, core inflation fell to 7.6 percent in 2011/12, compared to 8.7 percent during 2010/11. However, inflation is expected to rise again during the fiscal year 2012/13 owing to the rebound in the international food and energy prices, in addition to the sluggish growth in the Eurozone.<sup>20</sup> It is worth mentioning that food and energy constitute, on average, 20 percent and 15 percent, respectively of total Egyptian import on average. The rebound in consumption and production disruptions increase the risk of supply bottlenecks that could further increase inflationary risks, given distortions in the distribution channels. Moreover, the risk of depreciation of the Egyptian pound could increase and enhance inflationary expectation.<sup>21</sup> Similar causes can be given for the worsening between 2008 and 2010. While inflation is one of the causes of the recent increase in poverty, other structural causes are directly related to the production conditions of rural people: the small size of farms owned by the majority of rural people is a main cause of poverty, those who have land [either owned or rented], farm it according to systems which do not maximize its potential. The low quality of much water and the fact that farmers actually use drainage, rather than irrigation water when they have no alternative, affects their yields and hence worsens their position in the market, as their produce are of lower quality.<sup>22</sup> The causes of poverty mentioned here are relevant to both men and women. Women have additional causes for poverty, including the following:

- The time they spend in home and child care as well as care for elderly or disabled people is time which is not available for earning an income;

<sup>20</sup>Egypt's Economic Profile and Statistics, (2012) The Egyptian Center for Economic Studies, p. 2.

<sup>21</sup>Ibid., p 2.

<sup>22</sup> IFAD, Ibid., p11-12.

- Their lower wage rates for casual work as well as reduced opportunities for work;
- In some parts of Upper Egypt, many women are restricted to the home and to home based activities and this worsens their likelihood of poverty, as they cannot take up opportunities outside their homes;
- The low income obtainable from the kind of handicrafts and other off-farm activities done by women;
- Prevailing gender norms that give preference to early marriage of girls and deprives them of education.<sup>23</sup>

Related to poverty, unemployment in Egypt represents an important indicator of the performance of the Egyptian economy, Egypt's GDP and hence the level of poverty. In the past 20 years Egyptian unemployment was fluctuating at a rather high level (8–12%). However, after the launch of economic reforms in the mid-2000s it started to decrease in a rather stable manner. Predictably, there was some increase (though not so pronounced as in most other countries) in unemployment level as a result of the global financial economic crisis, but in 2010 unemployment went down again, this is shown in the figure below. This increase in unemployment is one of the most significant issues in the short run because the increase in unemployment will result in to further reduction in production levels, and it will increase the burden on governments as they will increase government expenditure to pay more unemployment benefits, resulting in a drop in economic performance.<sup>24</sup> Egypt's unemployment rate in the last quarter of 2010 was 9.5 percent; it has risen to 11.9 percent in the first quarter under the impact of the political unrest.<sup>25</sup> The World Fact book estimated a 3.2% increase in the unemployment rate in Egypt to currently be at a level of 12.2% instead of 9% just a year ago; this shows the shocking effect that the Arab Spring has had on Egypt's unemployment rate.<sup>26</sup>



Source: World development indicator, 2011

Figure 4: Unemployment Rate and Employment to Population Ratio During 1999 to 2010

Since the wake of the revolution, the unemployment rate increased to 12.6 percent by the end of the third quarter of 2011/12 compared to 8.6 percent in the corresponding quarter of 2009/2010.<sup>27</sup>

To conclude on the issue of poverty, we can say that although the January revolution was thought by the poor in Egypt to be the rescue, they were highly disappointed and the Islamist regime let them down. Poverty remains high, with 25.2% of the population living on less than USD 1.5 per day in 2010/11. The illiteracy rate is high at 27%, and there are wide income disparities. The Egyptian statistical agency reported that unemployment was 12.5% in the third quarter of

<sup>23</sup> Ibid., pp 13-14.

<sup>24</sup> Doaa S. Abdou\*, Zeinab Zaazou (2013), The Egyptian Revolution and Post Socio-Economic Impact, *Topics in Middle Eastern and African Economies* Vol. 15, No. 1, May 2013, p102.

<sup>25</sup> Central Agency for Public Mobilization And Statistics (CAMPAS), 2011. Available at : <http://www.campas.gov.eg> Central Bank of Egypt. 2011. Annual report .Available at : [www.cbe.org.eg](http://www.cbe.org.eg).

<sup>26</sup> HAGEN, E. 2011. Egypt Not A Refugee Heaven. *Ahram Online*. Available from: <http://english.ahram.org.eg/News/14661>

<sup>27</sup> Ibid., Egypt's Economic Profile and Statistics, (2012) , The Egyptian Center for Economic Studies, p, 3.

2012, although several sources indicate that the unemployment rate may actually be above 18%. Over 3.3 million Egyptians are unemployed, while the unemployment rate for 20- to 24-year-olds is 46.4%.<sup>28</sup>

### **CPIA Dimensions**

The second benchmark through which Egypt is evaluated is the country policy and institutional assessment of the World Bank, previously mentioned CPIA. From the CPIA clusters, I selected some major criteria to be focused on. These are fiscal policy and debt policy, cluster (A) (Economic Management), policies and institutions for economic cooperation and regional integration & trade and financial sector, cluster (B) (Structural Policy), gender equality, cluster (C) and quality of budgetary and financial management or the monetary policy, cluster (D).

### **Fiscal Policy**

Following a drive for fiscal consolidation, stimulus and social packages caused the fiscal deficit to widen over the past two fiscal years. Budget deficit widened by 1.7 percentage points to 9.8% of GDP in 2010/11 as a result of a decline in revenues coupled with limited scope for mobilizing additional revenues compared with the increased total spending.<sup>29</sup> Total expenditure rose by 9.8% in 2010/11. In response to widespread demonstrations, the government added 1 million extra staff to the public workforce in 2011, which drove up the wage bill by 12.8%. Moreover, there was an increase of 19.6% in subsidies, grants and social benefits. The cost of debt servicing rose 17.6% as yields on domestic debt increased through the year.<sup>30</sup> With the high toll on economic growth and international trade, there was a 1.1% decrease in total revenues during 2010/11. A 12.7% increase in tax revenues could not compensate for a 25% fall in non-tax revenues. The higher tax revenues came from increased sales taxes, the elimination of some tax exemptions and new measures to improve tax collection. But a widening of the tax base by tackling the large informal sector and combatting tax evasion will be required to substantially raise tax revenues further. Because of some high-profile corruption cases, public protests led to a temporary freeze of the government's privatization program. Weakened growth in Europe, volatile commodity prices and the political events will delay an increase in tax revenue, resulting in a fiscal deficit of 7.9% of GDP for 2011/12. The deficit should improve to 7.3% for 2012/13 as economic activity slowly picks up. The old government's objective of fiscal consolidation by 2015/16 will remain dependent on economic activity and the future government's ability to reform subsidies.<sup>31</sup>

If this was the case in the fiscal year 2010/2011, the following fiscal year witnessed more deterioration. Budget Deficit reached 7.2% of GDP, during the period July- March 2011/12, compared to 6.9% of GDP for the period July-March 2010/11.<sup>32</sup> Egypt's fiscal deficit widened by 24% in 2011/12 to USD 27.5 billion (10.8% of GDP), from USD 22.6 billion (9.7% of GDP) a year earlier, as the government increased spending in response to the social and political demands of the revolutionary movement. While revenues increased by 14.5% to USD 50 billion in 2011/12, they were outstripped by year-on-year expenditures, which rose by 17.2% to USD 77.7 billion over the same period.<sup>33</sup>

### **Debt Policy**

Egypt's gross domestic public debt increased to 68% of GDP during 2010/11 compared with 63.8% the previous year, following a decision to finance the widening budget deficit by issuing treasury bills and bonds. The government plans longer term maturities of three, seven and ten years following the decrease of average maturity of outstanding bills and

<sup>28</sup> African Economic Outlook Report, Egypt 2013, p 1

<sup>29</sup> Ibid., Egypt's Economic Profile and Statistics, 2012, p3

<sup>30</sup> African Economic Outlook Report, Egypt 2012, p 2

<sup>31</sup> Ibid. p2.

<sup>32</sup> Sibry Tapsoba, (2012), Economic Quarterly Reviews Report, p 1

<sup>33</sup> African Economic Outlook Report, Egypt 2013, p 2

bonds from 1.7 years to 1.3 years. Of immediate concern however is the increasing yield on government debt due to the loss of investor confidence and the lack of competition in the banking market. Total domestic debt servicing increased from 5.4% of GDP for 2010 to 5.8% of GDP at the end of 2011.<sup>34</sup>

By end-June 2012 Egypt's gross domestic debt had risen to 80.3% of GDP (USD 205 billion), from 76.2% of GDP (USD 176 billion) a year earlier, as the government continued its policy of financing the widening budget deficit by issuing T-bills; the stock of T-bills and bonds reached USD 178.7 billion (87% of gross domestic debt) by end-June 2012, an increase of 18% year-on-year. Foreign debt levels remain manageable, however, at about USD 5.7 billion in both the 2010/11 and 2011/12 fiscal years. The ratios of debt service to exports and debt service to current receipts stood at 6.1% and 4.4% respectively at the end of June 2012, compared to 2005-12 historical averages of 6.6% and 5.5% respectively.<sup>35</sup>

### **Economic Cooperation, Regional Integration & Trade**

No doubt that a declining GDP affects negatively all economic aspects in Egypt. Another important aspect which is highly affected is the context of Egypt's external relationship with regional and global partners. This is high witnessed in in the Egyptian balance of payments. Large capital outflows following the January 2011 protests resulted in a balance-of-payment deficit of 4.1% of GDP for 2010/11 compared with a surplus of 1.5% of GDP for 2009/10. The financial account dropped from USD 8.36 billion in 2009/10 to a deficit of USD 4.79 billion in 2010/2011. A 30% increase in remittances from workers in neighboring countries, which also saw protests, kept the current account deficit at -1.2% of GDP compared with -2.0% in 2009/10.<sup>36</sup> Net international reserves declined to US\$26.6 billion by the end of 2010/11, down from US\$ 35.2 billion in 2009/10; this is primarily due to the sharp decline in the net FDI inflows, estimated at US\$ 2.2 billion in 2010/11, compared to US\$6.8 billion in the previous year. Also, the massive drop in tourism receipts deprived the economy from a major source of foreign reserves. Moreover, a wide trade deficit adds downward pressures on Egypt's foreign exchange reserve.<sup>37</sup>

In 2011/12, Egypt's trade deficit increased slightly, from USD 27.1 billion (11.8% of GDP) in 2010/11 to USD 31.7 billion (9.2% of GDP) in 2011/12, and is no longer offset by tourism and investment receipts, now in decline. Driven by the depreciation of the Egyptian pound and (despite incipient reforms) an inflexible subsidy system for fuel and food, the mounting import bill of USD 58.7 billion, up 8.5% from the previous year, continued to be the driving factor behind the deficit. Overall export growth was flat, as exports totaled USD 27 billion in both 2011 and 2012. Investment has suffered from heavy short-term and long-term capital outflows; net portfolio investment doubled its negative balance in 2011/12 to USD 5 billion.<sup>38</sup>

### **Financial Sector**

Conditions in the financial markets remained uncertain over 2009/2010 mainly because of weak investor confidence in the speed of recovery of economic activity, after the revolution. In this context, the Central Bank of Egypt's (CBE), monetary policy remained broadly accommodative. Stock market performance, which had worsened after the revolution, is yet to recover. Overall market capitalization on the Egyptian Exchange (EGX fell by 12% to EGP 362.5 bn

<sup>34</sup>African Economic Outlook Report, Egypt 2012, p 8

<sup>35</sup>African Economic Outlook Report, Egypt 2013, p 10

<sup>36</sup>African Economic Outlook Report, Egypt 2012, p 7

<sup>37</sup>Sibry Tapsoba, (2012), Economic Quarterly Reviews Report, p 5  
Ibid., Egypt's Economic Profile and Statistics, 2012, p3

<sup>38</sup>Ibid., African Economic Outlook Report, Egypt 2013, p 10

(23% of GDP), by end-March 2012, against EGP 410.1 bn (34% of GDP), at the end of June 2010).<sup>39</sup> The cause was the main benchmark EGX 30 index that sustained a downward performance by falling on average by 33% since January 2011 to close at 5,019 points by end March 2012.<sup>40</sup>

During 2009/10 the financial market conditions continued to be uncertain over the past year mainly because of political uncertainty, despite CBE's accommodative monetary policy stance.<sup>41</sup> Accommodative monetary policy has had some effect in getting the liquidity in banks into the real sector of the economy: credit to the private sector grew by about 7.3% between 2011 and 2012. However, deposits also rose by 6.4% to USD 172.7 billion. Insufficient access to finance was rated among the top obstacles to business growth by firms in the 2008 Enterprise Survey of Egypt.<sup>42</sup> The government has sought to increase financing for the private sector. In 2010, access to credit information was expanded with the addition of retailers to a private credit bureau database. At the time of writing, the deposit requirement for lending to small- and medium-sized enterprises (SMEs) was 0%. The central bank's training institute works with banks to build capacity for lending to small firms, and the Bedaya Center of the General Authority for Investment is working to develop SMEs in Egypt. Egypt's stock market is lively and active, but its capitalization is low compared to deposits in the banking system. Market capitalization was USD 71 billion before the revolution (end-June 2010) and had fallen by 4% to about USD 64.8 billion as of October 2012.<sup>43</sup> The latter figure corresponds to 33% of total deposits in the banking system, indicating the comparatively low importance of equity stocks. The banking sector is struggling with both fragmentation and a lack of competition between institutions. Efforts to privatize state-owned banks have stalled owing to the financial crisis and subsequently the revolution. As a result, sizeable amounts of money are tied up in inefficiently small institutions. To counteract further fragmentation of the banking sector, the CBE has capped the number of operating licenses for commercial banks. Thus, acquisition of an existing bank is the only way to enter the sector. At the same time, however, high yields and insufficient access to finance, especially for smaller firms, suggest that competition between banks for loan and investment opportunities is insufficient. Allowing small banks with new business models focusing on SMEs to enter the market without requiring a joint venture or purchase of an existing bank might address these shortcomings.<sup>44</sup>

### **The External Sector**

Egypt's foreign reserves —the CBE's tool for supporting the domestic currency from depreciation dropped to US\$ 15.1 bn by the end of March 2012, the 15th consecutive monthly fall. Before the revolution, foreign reserves stood at US\$ 36 bn in December 2010. At the end of the October-December 2011/12 period, Egypt's deficit on current and capital (Capital & Financial) accounts stood at US\$ 5.6 bn, compared to US\$ 2.4 bn, at the end of the previous quarter. Underperformance of the Capital & Financial Account was the main driver for the deterioration of the balance of payments during the October-December 2011/12 period.<sup>45</sup> Egypt's balances on the current account, and the Capital & Financial accounts stood at a deficit of US\$ 3 bn and a surplus of US\$ 4.2 bn by end December 2012, compared to deficits of US\$ 4.1 bn and 2.4 bn, at end-December 2011.<sup>46</sup>

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<sup>39</sup>Ibid., Economic quarterly Reviews, 2013, p 7.

<sup>40</sup>Ibid., Economic quarterly Reviews, 2013, p 7.

<sup>41</sup>Ibid, African Economic Outlook Report, Egypt 2013, p 8

<sup>42</sup> Ibid, p 8

<sup>43</sup> Ibid, p 8

<sup>44</sup> Ibid, p 8

<sup>45</sup>Ibid., Economic quarterly Reviews, 2012, pp5-6.

<sup>46</sup>Ibid., Economic quarterly Reviews, 2013, p 7

## Gender Equality

In post-revolutionary Egypt, the economic and political empowerment of women is uncertain and their status may be deteriorating. Women's participation in the democratic process remains challenged by the emerging agenda of Islamist political forces. Recent political developments in the country demonstrate that it is difficult to guarantee the enforcement of measures to promote gender equity in the current climate. Interim governments after the revolution were criticized for not protecting women's rights, particularly concerning crimes against women that occurred during the protests at Tahrir Square. Sexual harassment is a major concern and, given Egypt's international commitments, a liability. The National Council for Women is addressing this issue, but it needs stronger political support. Women remain marginalized in economic activities. Data from Egypt's statistical agency show an unemployment rate of 24% among women during the third quarter of 2012, more than double that of men (9.1%). Although women make up 30% of the professional and technical workforce, only 9% of Egypt's administrators and managers were women in 2007.<sup>47</sup>

## The Monetary Policy

Since 2004, Egypt has pursued a managed float exchange rate regime that aims to hold the rate at EGP 6 to the US dollar. With the onset of the political crisis, this policy has been increasingly difficult to maintain in the face of a sharp drop in foreign earnings and capital inflows. As a result, in January 2013 the exchange rate fell to over EGP 6.5 to the dollar, and net international reserves (used by the CBE to support the exchange rate), dropped by end-January 2012 to USD 13.6 billion, from USD 26.6 billion in June 2011.<sup>48</sup> Current foreign reserves held by the CBE cover just about three months of imports, which the central bank considers to be a critical minimum. The CBE has said that the remaining reserves would be used only to finance external debt service, cover strategic imports and respond to emergencies. The central bank therefore introduced currency auctions and other foreign currency controls in December 2012. In order to inject more liquidity Support from the IMF is now needed urgently if Egypt is to avoid a disorderly domestic currency devaluation that would trigger higher food prices and further social unrest.<sup>49</sup>

From the above-mentioned information and statistics, it is clear that economic conditions in Egypt after the 25<sup>th</sup> January revolution are deteriorating to the extent that Egypt could be described as a poor performer or a low income country. Since the revolt, the Egyptian economy has degenerated to the point of crisis. The question everybody is asking now; how the economy situation is in Egypt? Is Egypt on the brink of bankruptcy or it awaits a bright future? Optimists go as far as to include Egypt in the second wave of emerging countries to achieve high growth rates repeating the Chinese or the Korean model.<sup>50</sup> Yet, numbers do not lie! Finance numbers given by the government last month draw a very dark picture of the economy. After real GDP rate reached 7% three years ago, it recorded 1.8% in 2011 and fell to 2.2% in the fiscal year ending June 2012. Egypt also lost its half hard currency reserve after it reached \$36bn in Dec 2010, it is now only \$16bn. Account balance recorded deficit of \$9.8bn, and it was a credit of \$3.4bn just before the revolution. Tourism sector a 9% of GDP recorded the worst number at -5.9 when compared to 2009/2010.<sup>51</sup> The already weak job market is worsening by low GDP rates due to the economic and political climate; the unemployment rate increased to 12.6 percent by the end of the third quarter of 2011/12 compared to 8.6 percent in the corresponding quarter of 2009/2010. Egypt's fiscal deficit widened by 24% in 2011/12 to USD 27.5 billion (10.8% of GDP), from USD 22.6 billion (9.7% of GDP) a year earlier. By end-June 2012 Egypt's gross domestic debt had risen to 80.3% of GDP (USD 205 billion), from 76.2% of GDP

<sup>47</sup>Ibid, African Economic Outlook Report, Egypt 2013, p 14

<sup>48</sup>Ibid., Economic quarterly Reviews, 2013, p 7

<sup>49</sup>Ibid, African Economic Outlook Report, Egypt 2013, p 14

<sup>50</sup>Buhaisi, Mohamed (2012), Egypt's Economy; A year after the revolution, Economic Trends/Outlook in Egypt, p1.

<sup>51</sup>Ibid, p1.

(USD 176 billion) in 2011/12. Egypt's foreign reserves, the CBE's tool for supporting the domestic currency from depreciation, dropped to US\$ 15.1 bn by the end of March 2012, the 15th consecutive monthly fall. In January 2013 the exchange rate fell to over EGP 6.5 to the dollar, and net international reserves (used by the CBE to support the exchange rate), dropped by end-January 2012 to USD 13.6 billion, from USD 26.6 billion in June 2011.

What led to this economic deterioration? Politics or political instability stands as a triggering and aggravating factor. This is due to the following reasons:

First, political corruption: although economic and political conditions worsened after the 25<sup>th</sup> of January revolution, it is unfair to put all the burden on the post-revolution regimes whether under the rule of the military junta or under the rule of the Muslim Brothers' rule; however, personally speaking, I think that the Muslim Brothers are guilty of dragging Egypt not only to the deteriorating economic conditions and political instability but also blood shed due to their aggressive and violent nature.

The widely held view that the corruption of the Mubarak regime was debilitating Egypt's ability to compete internationally also reinforced the deep desire for a genuine system of democratic accountability.<sup>52</sup> Egyptian law already prohibited financial corruption of public officials, but Mubarak's presidential powers effectively insulated himself and others from the reach of Egypt's otherwise broad set of anti-corruption laws. Mubarak and his regime were seen as both corrupt as well as flaunting their immunity. To add insult to injury, Egypt remains a lower-middle income country with a per capita income of only \$6,200.<sup>53</sup> While the figure of \$70 billion in regards to Mubarak's family wealth that has been popularly referenced in the media is almost certainly an exaggeration, even a more modest sum of \$7 billion would amount to approximately 23% of Egypt's external indebtedness.<sup>54</sup> In short, there are compelling political, economic and rule-of-law reasons motivating post-Mubarak Egypt in its attempt to track down and recover the overseas assets held by Mubarak, his family, and their cronies. Indeed, the zeal by which the next Egyptian government pursues assets of the Mubarak family and their cronies could serve as a significant signal of whether changes made by the new government are genuine or are only cosmetic.<sup>55</sup>

Second, although the 25<sup>th</sup> of January revolution succeeded in overthrowing Mubarak's regime, but it had no leader who can gather the people around him to achieve the objective of the revolution. This in turn led to fragmentation of the political sphere and different fronts began to appear, for example, the Salvation Front, the Conscience Front and the People Current Front; moreover, the youth are convinced that all of these fronts don't represent them because they are adopting the old fashioned political tools or these fronts do not communicate well with the youth.

Third, searching for the absent leader, the extreme Islamists climbed over the revolution, captured the opportunity of the absence of the leader and told fallacies and lies that they were the representatives of the Egyptian people using religion and religious beliefs to rally support and deceive the illiterate.

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<sup>52</sup> ABU DHABI GALLUP CTR., EGYPT: THE ARITHMETIC OF REVOLUTION—AN EMPIRICAL ANALYSIS OF SOCIAL AND ECONOMIC CONDITIONS IN THE MONTHS BEFORE THE JANUARY 25 UPRISING 7 (2011), available at

<http://www.abudhabigallupcenter.com>.

<sup>53</sup> *Egypt*, CENTRAL INTELLIGENCE AGENCY, THE WORLD FACTBOOK (2011), <https://www.cia.gov/library/publications/the-world-factbook/geos/eg.html>

<sup>54</sup> *Ibid.*,

<sup>55</sup> Fadel, Mohammed (2011), Public Corruption and the Egyptian Revolution of January 25: Can Emerging International Anti-Corruption Norms Assist Egypt Recover Misappropriated Public Funds?, HARVARD INTERNATIONAL LAW JOURNAL Online, vol.52, pp 294-5.

Fourth, the success of these Islamists headed by the Freedom and Justice Party (FJP), the political hand of the Muslim Brotherhood group (Gamete El Ekhwan Al Muslimon), to capture the authority allowed them to start the extreme rule in Egypt. Although the leaders of the FJP claimed that they won the majority of votes both in the dissolved parliament and presidential elections, these elections were surrounded by a lot of suspicions. With the start of the rule of the Muslim Brothers, these Muslim Brothers committed a lot of sins which not only left Egypt in dramatic economic conditions but a country under a severe political stress. These sins are stated as follows:

- The Muslim Brotherhood is a group oriented not a state oriented movement. The members of this movement, which was banned until the end of Mubarak rule as the 1971 Egyptian constitution banned the establishment of political parties based on religious background, are exclusively oriented towards the objectives of the Muslim Brotherhood as an international organization regardless of the national interest of Egypt as a home or a state. The main objective of this extreme group is to establish the Islamic emirate based in Egypt and controlled and directed by the Brotherhood's rules, objectives and goals.
- Oriented by their own objectives, the leaders of this outlawed group who are ruling Egypt now deviated from the slogans of revolution, Bread, Freedom and Social Justice, and neglected the revolutionists' demands. This deviation is indicated by grasping the constitution which was established and phrased by a group of people who were selectively chosen on the bases of their loyalty to the president and his extremist group, unilateral identification of rules and procedures concerning the rotation of authority, diminishing scope of general freedoms and coming parliamentary elections, for example, the elections law which was discussed and approved by the Shura Council (the Council of Consultation); this law rearranged the electoral districts in accordance to the desires of Muslim Brothers'.
- Splitting the Egyptian society into two camps, the Islamist camp and their supporters and these are called the fidels (believers) and the secularist or the liberals, the infidels (unbelievers).
- Continuous provoking and triggering of the sectarian strife between the Muslims and Christians is another indicator of an intended social splitting of the Egyptian society by the extreme Islamists. The extremists claimed that the Christians whom they call the enemy of Islam are trying to preclude the conversion of Egypt to an Islamic state and the application of the Islamic Sharia (jurisdiction) and they mislead the youth by the secular and liberal principles and use the youth to confront the Islamists.
- Supremacy and superiority of the Council of the Guidance of the Muslim Brotherhood Movement (Majles El Ershad) over the executive authority, represented by the president and his government, which are totally and exclusively subjugated to the Guidance and obey its orders without question.
- Ikhwanization of the state, the first step of the Ikhwanization process took place by electing a member of the Brotherhood to become the first president of Egypt who came from this outlawed movement. Although there were claims that the results of these presidential elections were fair, a lot of doubts surrounded them. Moreover, the president removed the government headed by prime minister kamal el Ganzouri and replaced him by Hisham Kandil, a pro and supporter of Muslim Brotherhood's ideology. Besides, the new prime minister selected 70% of his cabinet from the Muslim Brothers and other Islamist extremist groups, who, really, lack the executive and managerial efficiency to push Egypt forward towards development, to rally the latter's support, for example, the ministry of culture, ministry of information and the ministry of irrigation. In addition the assigning of the new governors was implemented in the same context.

- Threatening the national security: overloaded by the brotherhood's objectives, the current deviant administration threaten the national security. A lot of indicators support this statement, for example, removal of the minister of interior Ahmed Gamal Eldin, who was trying to enhance the national security and purify Egypt from the violent and bloody extremist Islamic group and replacing him by Mohammed Ibrahim whom the administration thought that he was apro-Muslim Brotherhood ideas and principles. Another indicator is the strive of the administration to weaken the frustrated police force through portraying the police force as the tool which supported the previous corrupt Mubarak regime. Weakening and frustrating the police force gave the chance to thugs to challenge laws and insecurity to prevail which in turn affects negatively the investment climates. Besides, what is happening in Sinai Peninsula from the spread of the terrorist groups to the assassinations of the armed forces and police force officers and soldiers and the threatening of the Egyptian national security as a whole.
- Mismanagement of the affairs of the state: related to the above mentioned base of selection, these ministers and governors who lack the required skills to move Egypt forwards did the reverse. The led Egypt to a lot of crises, for example, the minister of culture who started from the first hour of his appointment that he was going to purge the ministry from the opposition and those who don't approve the policies of the Brotherhood. As a result, protests carried out a sit-down in the ministry of culture and the minister of culture hadn't entered his office in the ministry till the writing of these lines. Moreover, the minister of information and the minister of investment adopted the same policies towards free T.V channels by blocking some of them, Faraeen and Dream. Besides, the minister of irrigation who isn't able the problem of the Ethiopian Dam, Nahda Dam, which threatened the internationally recognized right of Egypt in the Nile River water and its documented quota in the international documents.
- Harming the image of Egypt by portraying it as a state sponsoring terrorism and terrorist groups; these terrorist groups exploit every opportunity to declare their antagonist and violent desires to prevail horror and fright among the peaceful Egyptian citizens.
- Degrading and offending the judicial authority: this is documented by the unconstitutional deposition of the general prosecutor who is immune by the constitution against deposition. Moreover, the Constitutional Court was dissolved and the number of members of constitutional judges was reduced from 18 to 10 members by the new established constitution made by the Muslim Brothers and their supporter. Another indicator of degrading is the repeated seizure of the constitutional court.
- A weak and extemporary foreign policy: from the very beginning of their rule, the Egyptian Islamist administration led by President Mohammed Morsi, adopted a fragile and extemporary foreign policy which isolated Egypt from its Arab and African origin as well. Moreover, this administration starts resuming relations with Iran, which was a ridiculous movement as it is clear and sure that Iran is supporting the bloody Syrian regime which is killing its people with Iranian weapons and money. It is well known that the Syrians who face this bloody elimination are Sunnis and the Egyptian Islamist administration belongs to the Sunnis; therefore, it is a sort of a comic situation when this administration resumes the relations with the Iranians, the Shiites. The movement towards Iran put Egypt in an awkward situation in its Arabic context, for example, the United Arab Emirates which has three islands belonging to its territory are colonized by Iran. Moreover, the relation with Saudi Arabia witnessed a sort of tension due to pro-Iranian movement on behalf of the Egyptian Islamist administration. On the African level, Egypt's relation with its' African partners witnessed more deterioration. an Example of this is the way this administration deals with the problem with Ethiopia concerning the Nahda Dam when the Egyptian president declared in his speech that every declining drop of the Nile water will be replaced by a drop of blood

and that all options are available concerning this issue including the use of military force. These violent and aggressive statements reflect how violent and aggressive this administration is.

Due to the aforementioned facts, Egypt witnessed a lot of demonstrations, riots and strikes during the three years after the 25<sup>th</sup> January revolution. Statistics clarify that about demonstrations exceeding millions of protests reached about 24 demonstrations, 5821 strikes and 7709 protesting stances against the current Islamist administration during the year 2012. Besides the increasing tension which prevailed among about 80% of the Egyptian people due to the failing policies of the deviant administration resulted in the emergence of a very big protesting movement called “**REBEL**” which succeeded to collect about 22,136,465 signatures from the Egyptians who asked for the following demands:

- The resignation of the president with the Muslim Brotherhood membership.
- Handing over the authority to the president of the constitutional court for a temporary period till an early presidential election is held.
- Technocratic government.
- Real democratic transition in Egypt.

## CONCLUSIONS

From the above the above mentioned information, it is obvious now that Egypt is a country under stress or by a combination of the economic facts and statistics and the political facts we can say that Egypt is a potential low income country under stress. Deteriorating economic conditions and undemocratic atmosphere will inevitably lead to chaos and anarchy which will endanger the national security of Egypt.

Only 30% of Egyptians think the country is headed in the right direction, down from 53% last year and 65% in 2011, in the days after the revolution. Roughly three-in-four say the economy is in bad shape, and optimism about the country’s economic situation has declined sharply.<sup>56</sup> Only 23% describe the current economic situation in Egypt as good, while 76% say it is bad. Looking at this question over time, national economic ratings declined steeply from 2007 to 2010, and then rebounded somewhat in 2011 after the toppling of Mubarak.

However, views have turned more negative over the past two years and are now very similar to the 2010 low point. Optimism about the economy has decreased even more sharply. In last year’s poll, half of Egyptians thought the national economy would improve over the next 12 months. Now, just 29% are optimistic; roughly four-in-ten (42%) think things will get worse.<sup>57</sup> Only 30% of Egyptians say they are satisfied with the way things are going in their country, down from 53% last year and 65% in a spring 2011 poll conducted weeks after the ouster of

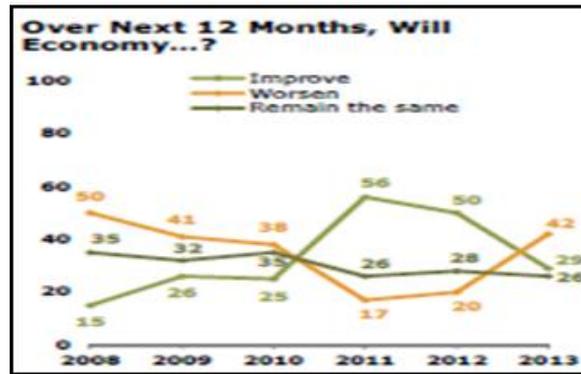
Mubarak. Today’s level of satisfaction is comparable to the level observed in spring 2010, roughly a year before the revolution. About four-in-ten Egyptians (39%) say that Egypt is better off now that Mubarak is not in power, 30% think the country is worse off and 26% volunteer that things are neither better nor worse.<sup>58</sup>

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<sup>56</sup>Kohut, Andrew (2013), Egyptians Increasingly Glum, Not Optimistic about Economy or Certain They Are Better Off Post-Mubarak, Pew Research Center, p7.

<sup>57</sup>Ibid, p8

<sup>58</sup>Ibid, p 9.



Source: PEW RESEARCH CENTER (2013)

Figure 5

Therefore, reasonable and balanced steps should be taken especially from the general leader of the armed forces. All parties concerned must consider that their home is facing a lot of dangers, internally and externally. Unity and dignity are highly required now. This is an honest appeal from an Egyptian citizen.

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