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Economic and Social Policies in Post-Mubarak Egypt

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1. The social and economic landscape in Egypt, two years after the uprisings

Cairo, 25 June 2013 - Egyptian drivers push their cars as they wait in long queues at a gasoline station.
Photo: AP Photo/Amr Nabil

Starting in January 2011, the economic and social situation in Egypt has gradually deteriorated. All economic activities, particularly the tourism sector which is one of the main sources of income and employment in the country, as well as exports and foreign direct investments (FDI) have undergone a severe downturn[1] with dramatic implications for economic growth and foreign currency reserves. The growth of gross domestic product (GDP) has remained below 2% compared to 5.1% in 2009/2010, while foreign exchange reserves have collapsed, from $36 billion in 2011, before the uprisings, to $14.9 billion in 2013 (end June).[2] Because of the severe economic slowdown, Egypt's financial strains have worsened as witnessed by a widening budget deficit, and an increasing internal and

1 FDIs for example reached a total of $1 billion in 2011 and 2012 - compared to a peak of $13.2 billion in 2007/2008 - then starting to increase again in 2013, albeit very slowly, and then again to experienced a plunge after the deposition of president Mohamed Morsi (see "One More Blow?" in *Al-Ahram Weekly*, 3 September 2013, htto://weekly.ahram.org.eg/News/3960/18/One-more-blow-.aspx). Exports have suffered particularly by the drop in natural gas sales to Jordan and Israel following several acts of sabotage to the Arab Gas Pipeline and, beginning in April 2012, by the total stop of supplies to Israel ordered by the government of Hesham Qandil.

2 US Energy Information Administration (EIA), *Egypt Overview*, updated 31 July 2013, http://www.eia.gov/countries/cab.cfm?fips=EG; Laura Raus and John Pastrikos, "The Impact of Gulf Aid on Egypt's Economy", in Egypt Oil and Gas, No. 82 (October 2013), p. 14-15, http://www.egyptoil-gas.com/read_article_issues.php?AID=686.

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external debt.[3] The post-Mubarak governments have temporarily managed to put off bankruptcy only by virtue of the colossal assistance provided by the Gulf countries.[4]

The social issues that sparked the January 2011 protests have worsened and the demands for social justice that gushed from those massive demonstrations have remained utterly unattended.[5] The population's purchasing power has continued to erode in the face of rapidly increasing inflation, particularly of food products, while the unemployment rate, according the official figures, has gone up by 4 percentage points, from 9% in 2010 to 13% in 2012.[6]

The socio-economic landscape thus described has been aggravated by a severe energy crisis. The country's ability to generate electricity and provide fuel for the population has been seriously compromised, resulting in repeated blackouts, long lines at the filling stations and growing malcontent barely a few weeks after the uprisings. Although the output of oil and gas does not seem to have particularly suffered from the political instability,[7] Egypt is no longer in a position to satisfy the country's growing need for energy.

The political uncertainty that accompanied the post-revolt phase, combined with a persistent state of insecurity and instability, has been a severe hindrance to the Egyptian economic recovery. But mostly, the responses put together by the governments in charge in the months following the protests have not been adequate in dealing with the country's economic and social problems. All the successive governments have rehashed the same failed economic recipes of the preceding regime and have lacked a long term, consistent vision. All the transitional authorities - whether that of the Supreme Council of the Armed Forces (SCAF) or the government of Hesham Qandil under the overseeing of the Muslim Brotherhood, or the present government of Hazem al-Beblawi - have hesitated to break with the old

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3 The state budget deficit reached a high mark of 14,1% of GNP in 2012/2013 compared to 9.8% in 2010/2011. The current government has declared it intends to bring it down to 9%. See Doaa Farid, "Government unveils new stimulus plan" in *Daily News Egypt*, 31 August 2013, http://www.dailynewsegypt.com/2013/08/31/government-unveils-new-stimulus-plan. The total public debt has reached 90% of GNP in 2012/2013 comapred to 77% in 2010/2011 while the foreign debt was 16% of GNP in 2012/2013 compared to 14.8% in 2010/2011. See IMF, *Arab Countries in Transition: Economic Outlook and Key Challenges*, Staff Report prepared for the Deauville Partnership Ministerial Meeting, Washington, 10 October 2013, http://www.imf.org/external/np/pp/eng/2013/101013.pdf.

4 Under the presidency of Mohamed Morsi, Egypt received $5 billion only from Qatar. After his deposition, Saudi Arabia, Kuwait, and the Emirates have pledged to allocate a total of $12 billion in the form of loans, grants and fuel. In the post-Morsi period, Egypt's relations with Qatar, which had supported the administration of the former president, have deteriorated. Though in the summer Qatar kept its commitments to supply natural gas, Egypt has been forced to return $2 billion that Qatar had deposited with the Egyptian Central Bank.

5 For a broader analysis of the impact of the social and economic policies of the post-uprising period on the population's purchasing power and on the labour market see Maria Cristina Paciello, "Delivering the Revolution? Post-uprising Socio-economics in Tunisia and Egypt" in *The International Spectator,* Vol. 49, No. 4 (December 2013), forthcoming.

6 Central Agency for Public Mobilization & Statistics (CAPMAS), *The quarterly labor force, employment and unemployment in Egypt*, http://capmas.gov.eg/pages_ar.aspx?pageid=1504.

7 See EIA, *Egypt Overview*, cit.; "Oil shipments through Suez Canal at four-year high in 2012", in *Egypt Independent*, 1 January 2013, http://www.egyptindependent.com/news/oil-shipments-through-suez-canal-four-year-high-2012.

power system and have continued to manage the decision processes in the most obscure ways and without any dialogue with the country's social forces, thus most likely preventing a radical rethinking of the country's development strategies.[8]

2. Social and economic policies

The tax system and state subsidies

The strong continuity between the regime of Hosni Mubarak and the figures who have led the country after his deposition clearly shows up in the field of fiscal policy and state subsidies. The post-Mubarak governments have lacked the will to seriously reform the tax system so as to redistribute the wealth in a more equitable manner and in order to contain the budget deficit. For example, the proposal to tax real-estate properties and stock market transactions, a proposal that was already included in the first finance law (2011/2012) after the uprisings, has been shelved time and again by the governments in charge. The Egyptian fiscal system continues to be heavily biased toward regressive taxes such as sales duties, which then president Mohamed Morsi and the government of Hesham Qandil, under pressure from the International Monetary Fund (IMF), even tried to increase, though without success.[9]

Concerning state subsidies, the transitional authorities have also preferred to leave the entire edifice virtually untouched to avoid further aggravating a widespread social unrest. While the subsidies are a heavy drain on the state coffers and though people who don't need them are also among the beneficiaries, the outlays, particularly the food subsidies, help sustain the purchasing power of a large swath of the population. Despite constant pressures by the IMF on the successive governments in charge, to drastically cut subsidies in exchange for a $4.8 billion loan, in the last two and a half years the total expenses for social distributions have continued to increase.[10] Regarding food subsidies the Morsi administration

8 For example, the three transitional governments - named by the SCAF and that came to power after 2011 - were composed of former ministers and officials tied to Mubarak. For an analysis of the role of the military in the Egyptian economy, see Shana Marshall and Joshua Stacher, "Egypt's Generals and Transnational Capital", in *Middle East Report*, No. 262 (Spring 2012), p. 12-18, http://www.merip.org/mer/mer262/egypts-generals-transnational-capital; furthermore the success of the Muslim Brotherhood party, Freedom and Justice, at the parliamentary elections (November 2011 and January 2012) and the election of Mohamed Morsi as president of Egypt (June 2012) have not been a complete break with the past. The first government formed by Hesham Qandil under the supervision of the Muslim Brotherhood in August 2012 kept several ministers from the preceding government and gave several economics related posts to important officials of the Mubarak regime. For an in-depth analysis of the political economy in the post-Mubarak era, see Maria Cristina Paciello, "Delivering the Revolution?...", cit. and Daniela Pioppi, "Playing with Fire. The Muslim Brotherhood and the Egyptian Leviathan", in *The International Spectator*, Vol. 49, No. 4 (December 2013), forthcoming.

9 In December 2012, president Morsi announced an increase in indirect taxes on about fifty goods and services (from cigarettes to alcoholic beverages, up to and including fertilizers and pesticides) A few days later, however, he was compelled to repeal the increases under pressure from strong criticism within his own party. In March 2013, the government of Mr. Qandil proposed new increases, this time much more restrained, since they only concerned six goods, among which cigarettes, alcoholic beverages and cell phones. So fare, however, these increases have not yet been applied.

10 The overall expense in subsidies is said to have reached about $28.5 billion in 2012/2013 compared to $23 billion in 2011/2012. See "Egypt's 2012/2013 budget deficit reaches $35bn: initial figures", in *Ahram Online*, 14 September 2013, http://english.ahram.org.eg/News/81583.aspx.

has merely taken a series of measures to improve the quality of subsidized bread and to cut down the risk of bread shortages.[11] However in the absence of a clear plan to reform the system of food subsidies and because of a lack of foreign reserves, the former president was forced to put a stop to wheat imports and to drain the country's strategic reserve, thus putting the country's food security at risk.[12]

The authorities moved equally slowly in the area of state subsidies for energy products which are strongly regressive inasmuch as they benefit the rich (industry and tourist resorts). The Justice and Freedom Party, which had promised to get rid of energy subsidies as part of its campaign, was able to introduce a few changes under the Morsi administration. At the end of November 2012, a programme to curtail subsidies on high octane (95) petrol [gasoline] became operational, after being announced over and over again under the direction of the SCAF. A *smart card* scheme, developed under Mr. Qandil's government, would allow for the distribution of a small quota of subsidized petrol [gasoline] to drivers, while the remaining amount would have to be purchased at market prices. However the actual launch of the scheme continues to be put off.[13] Other steps such as the increase in gas and electricity rates (July 2012 and March 2013) and of the subsidized price of gas cylinders (April 2013) appear to have mostly harmed the neediest families.

Wage policy and labour market

In line with Mubarak's regime and in an attempt to shield the people's purchasing power, the transitional authorities made certain concessions to public employees, among which a 25% pay raise in the 2011/2012 budget and an increase of the minimum wage to 700 Egyptian pounds a month, which was approved in October 2011. As promised in the Muslim Brotherhood's election programme, Mr. Qandil's government had made a commitment to increase the minimum wage to 1,200 Egyptian pounds in the course of five years. Under the new government led by Hazem al-Beblawi, a new proposal has surfaced to set a minimum income (rather than wage) of 1,200 Egyptian pounds a month, starting in 2014.[14] Such steps, however, not only aggravated the budget deficit, but more importantly continue to be inadequate to improve the people's purchasing power as they leave out all the private sector employees as well as the public sector employees on short term contracts, in addition to being well below the expectations of independent trade unions.[15]

11 For a critical analysis of these figures, see the website *Morsi Meter*, http://morsimeter.com/en. At the end of 2012 Morsi had also announced the intention to gradually liberalize the price of flour for the bread bakeries, but it raised a wave of protests among them as well as criticism for the possible negative effects on the poorest section of the population.

12 Sarah McFarlane, "Egypt's wheat problem: how Morsi jeopardized the bread supply", in *Reuters*, 25 July 2013, http://www.reuters.com/article/2013/07/25/us-egypt-mistakes-wheat-idUSBRE96O07N20130725.

13 In October 2013, the minister of Finance Ahmed Galal announced that 5 million smart cards are being prepared, but he warned that the program, in its first phase, does not yet provide for the establishment of quotas, but will only serve to monitor the distribution of fuel. "Egypt to issue smart cards to fuel stations in subsidy cutting move", in *Reuters*, 3 October 2013, http://www.reuters.com/article/2013/10/03/us-egypt-subsidies-idUSBRE9920QL20131003.

14 The minimum income includes, in addition to the salary, other concessions granted to workers, including bonuses.

15 Teachers and doctors, for example, ask for a minimum salary of 3,000 Egyptian pounds. For the position of the independent unions on the minimum salary and the minimum income, see ELDC and EFITU, *Position of the Independent Trade Unions towards the International*

Furthermore, despite the fact that youth unemployment and economic insecurity were the main sources of the 2011 uprisings, all the post-Mubarak governments have continued to ignore the dysfunctions of the labour market. The budget laws of 2011/2012 and 2012/2013 approved under military government were limited to the same short-term actions already taken by the previous regime, such as the establishment of 450,000 new jobs in the public sector. The Morsi administration and the Qandil government have pointed to the free market as the answer to all the issues relating to jobs, and have blamed the failures of the Mubarak era to predatory practices and corruption, rather than to erroneous policies.[16] For this reason the Qandil government has tried to promote the expansion of free trade areas, to give new impulse to the sale of state property for industrial development projects and to the building of new infrastructures to be achieved by forms of public-private partnership.[17] The implementation of these initiatives has been slow, and what's more the Islamic Party's commitment to fight corruption has not translated into practical steps. On the contrary, in line with preceding governments, the opposite direction has been taken. As proof, witness the several attempts at reconciliation endorsed by the entourage of the Islamic Party with the corrupt entrepreneurs of the Mubarak regime.[18]

Energy policies

The post-Mubarak authorities have responded late to the country's increased energy needs without a clear long term plan, thus contributing to the aggravation of the economic and energy crisis. As already mentioned, in the first place there has been no proper reform of the state subsidies system, particularly in the energy sector, which would have ensured a more just distribution of public resources and allowed for a reduction in state expenditures, and as a result the easing of the budget deficit.

Furthermore, to satisfy the domestic energy demand, the transitional governments have attempted to follow two routes, both with dramatic implications for the country's economic and energy security. On one hand a part of the national oil and gas production that used to be sold on the international

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Monetary Fund loan, November 2012, http://www.ituc-csi.org/position-of-independent-trade?lang=en; Sara Aggour and Doaa Farid, "Minimum income deemed 'unjust'", in Daily News Egypt, 22 September 2013, http://www.dailynewsegypt.com/2013/09/22/minimum-income-deemed-unjust; Sara Aggour, "Amendments in Egypt's general budget", in *Daily News Egypt*, 1 October 2013, http://www.dailynewsegypt.com/2013/10/01/amendments-in-egypts-general-budget.

16 For the position of the Muslim Brothers on the economic policies during the Mubarak era, see "Morsi: Corruption Will Never Again Prevail in Egypt", in *Ikhwanweb*, 5 November 2012, http://www.ikhwanweb.com/article.php?id=30354; "FJP's 2011 Program: Security, Economy and Corruption as Urgent Issues", in *Ikhwanweb*, 4 December 2011, http://www.ikhwanweb.com/article.php?id=29295; For an analysis of the failure of the economic liberalization policies from the point of view of the impact on youth, see Maria Cristina Paciello, "Youth Exclusion in North African Countries: Continuity or Change?", in Maria Cristina Paciello (ed.), *Reversing the Vicious Circle in North Africa's Political Economy, Confronting Rural, Urban, and Youth-related Challenges*, Washington, GMF, May 2012, p. 23-37 (Mediterranean Paper Series), http://www.iai.it/pdf/mediterraneo/GMF-IAI/Mediterranean-paper_15.pdf.

17 Maria Cristina Paciello, "Delivering the Revolution?...", cit.

18 Noha Moustafa, "In reconciling with regime figures, officials opt for quick cash over formal trials", in *Egypt Independent*, 23 February 2013. http://www.egyptindependent.com/news/reconciling-regime-figures-officials-opt-quick-cash-over-formal-trials; "Egypt govt to facilitate return of 'fleeing businessmen'", in *Ahram Online*, 13 February 2013, http://english.ahram.org.eg/News/64694.aspx. "Egypt eyes $1bn 'reconciliation' deal with fugitive tycoon Salem", in *Ahram Online*, 9 May 2013. http://english.ahram.org.eg/News/71053.aspx.

market they diverted to the domestic market,[19] on the other hand they increased the imports of such resources.[20] In the first case the shortfall of the proceeds from the energy exports, made worse by the drop in foreign currency reserves, has severely challenged the ability of the state oil company, the Egyptian General Petroleum Corporation (EGPC) to pay the energy producers that operate in the country, such as BP, ENI, Edison, Dana Gas PJSC, and Apache.[21] Although the post-Mubarak governments have signed agreements with several large companies to restructure the debt, and under Mr. Qandil's government certain commitments have been made to increase exports of natural gas and its by-products, Egypt has a cumulative debt that is estimated at $6.2 billion.[22] According to recent declarations by the current Minister of Finance, the government intends to repay a part of its debt shortly (between 363 and 580 million dollars), but it is not clear how.[23]

In the second case, the increase in oil and natural gas imports, paid for at market prices and resold on the domestic market at subsidized prices, has further weighed on the country's foreign currency reserves and on the budget deficit, thus worsening the EGPC's financial situation. As a result the country is trapped is a dangerous vicious circle, struggling endlessly to import oil and gas with a sharply depreciated Egyptian currency that makes imports more expensive, in the midst of a the generally critical financial situation. Finally other short term steps, such as the early closure (at 10PM) of shops, enforced by Mr. Qandil's government in the Autumn of 2012, as a step to cut down on the use of electricity, only achieved the result of exasperating the population and aggravating its discontent.

Only the generous help in fuel offered by Saudi Arabia, the Emirates, Kuwait, and Qatar have until now allowed Egypt to weather a serious economic crisis. After Morsi was toppled, the critical point, that appeared inevitable with the first electricity blackouts last August, was narrowly skirted only thanks to the fuel and the assistance sent by the Emirates, Kuwait, and Saudi Arabia.[24]

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19 In May 2013, for example, Egypt announced a cutback in the exports of natural gas to prevent an energy crisis in the summer months. Julia Payne, "Egypt tackles fuel use, smugglers to stave off summer crisis", in *Reuters*, 28 May 2013, http://uk.reuters.com/article/2013/05/28/egypt-oil-idUKL5N0E92BP20130528.

20 In the Autumn of 2012, the Oil Minister Osama Kamal announced that in 2013 Egypt would start importing natural gas from Algeria to meet the domestic demand, and, shortly after, publicly declared that the country had become a net importer of natural gas. Egypt has already been a net oil importer since 2008.

21 On the basis of joint-venture agreements concluded during the Mubarak era, the international energy companies that produce oil and gas in Egypt distribute a quota to the EGPC, which in turn pays for the them in hard currency obtained by their export. By diverting a growing quota of production originally slated for export to the domestic market, Egypt has not been able to receive the foreign currency necessary to pay the oil companies and therefore has been running up a ever larger debt with them.

22 "Egypt's debts to foreign oil companies reach US$6.2 billion: minister", in *Egypt Independent*, 1 October 2013, http://www.egyptindependent.com/news/egypt-s-debts-foreign-oil-companies-reach-us62-billion-minister.

23 Patrick Werr, "Egypt hopes to tie oil payments to production increases - minister", in *Reuters*, 15 September 2103, http://www.reuters.com/article/2013/09/15/us-egypt-oil-idUSBRE98E0E020130915.

24 "Gift glut gives Egypt oil trade new headaches", *Ahram Online*, 1 November 2013, http://english.ahram.org.eg/News/85357.aspx. For example, in August 2013, after Morsi's deposition, Kuwait is reported to have sent Egypt 1.25 million barrels of oil and 20,000 tons of diesel fuel: "Kuwait sends 1.25 million barrels of oil to Egypt", in *Egypt Independent* 21 August 2013, http://www.egyptindependent.com/news/kuwait-sends-125-million-barrels-oil-egypt. In October, official sources close to the government declared that, thanks to help from the Gulf countries, Egypt has sufficient resources to meet domestic energy needs until the end of 2013. "Egypt faces no problem in petroleum products until end of 2013: Al-Ahram report" in *Ahram Online*, 20 October 2013, http://english.ahram.org.eg/News/84354.aspx.

In an attempt to meet a rising internal demand, the governments in charge have furthermore attempted to stimulate domestic production by attracting foreign capital. Perhaps so as not to discourage international investors, these same governments did not dare renegotiate the contracts that had been signed with the oil companies, though a few attempts by Mr. Qandil's government were made, and new licenses to foreign energy companies continued to be granted. Nonetheless there has been a certain slowing down in the amount of investments by multinational oil companies in the post-Mubarak period.[25]

Finally, in the field of alternative energy and in line with the previous regime, the post-Mubarak authorities have revived the idea of developing nuclear energy and coal to replace natural gas.[26] Mr. Qandil's government announced the intention of building four nuclear reactors by 2025. The plan to build the first one at El Dabaa, in the Matrouh Governorate, a plant that was wanted by the government of Kamal al Ganzuri and later supported by the Morsi administration, never took off on account of the protests by the inhabitants. The new Minister of Electricity and Energy appears however to want to speed up the project. At the end of October, the army took control of the areas of Matrouh that had been occupied by the people and that had been set aside for the building of the plant. The government has announced that an invitation to tender is imminent.[27]

Finally, the development of renewable energy (wind and solar) has experienced a slowdown after the uprisings, because of the dearth of investments and the political uncertainty that discouraged potential investors. At the end of 2012, in any case, the Supreme Council for Energy tabled a new law to boost investments in the green economy by providing tax incentives and by facilitating the allocation of state owned land to private companies that operate in the wind and solar energy sector. In the Autumn of 2012 a project to build an array of solar panels in the Western Sinai was announced. Last September, Mr. Beblawi's government required companies with high energy needs to meet 50% of their demand with solar and wind power.[28]

25 In 2012, for example, during the first round of awards for exploration licenses after the uprising, there were requests for only 11 of the 15 blocks that were auctioned. Another auction for the award of another 15 blocks was delayed until February 2013, for fear of a lack of interest on the part of foreign oil companies. The award of licenses to foreign multinationals appear to have undergone a recent surge in November 2013, with the signature of nine contracts for a total of 470 million dollars for the exploration of natural gas and oil in the Gulf of Suez, in the Sinai, and in the Western and Eastern deserts: "Briefs: New petroleum contracts", in *al-Ahram Weekly*, 6 November 2013, http://weekly.ahram.org.eg/News/4602/18/Briefs.aspx.

26 As far as coal is concerned, the idea of building coal powered electricity plants and to encourage private companies to import coal transpired under the government of Mr. Qandil. The current government has announced that it intends to follow the same course. "Interim authorities continue Morsi's energy policies, but claim credit", in *Middle East Monitor*, 30 September 2013, https://www.middleeastmonitor.com/news/africa/7600-interim-authorities-continue-morsis-energy-policies-but-claim-credit; "Egypt subsidy cuts will not mean higher fuel prices: Minister" in *Ahram Online*, 2 October 2013, http://english.ahram.org.eg/News/83028.aspx.

27 In September 2013 minister Ahmed Imam reiterated that the fulfillment of a nuclear program in in the country would have to be approved by Parliament after the next elections, but at the end of October the same minister declared that the government would not wait for the vote. "Tender process for Dabaa Project to begin in ten days: Minister of Electricity", in *Egypt Independent*, 23 October 2013, http://www.dailynewsegypt.com/2013/10/23/tender-process-for-dabaa-project-to-begin-in-ten-days-minister-of-electricity.

28 Salih Al-Manufi, "Government mandates high consumption factories to use renewable energy to meet half their needs", in *Daily News* Egypt, 24 September 2013, http://www.dailynewsegypt.com/2013/09/24/government-mandates-high-consumption-factories-to-use-renewable-energy-to-meet-half-their-needs.

About Insight Egypt

The series is part of a two-year research project on Egypt, started in 2013, which aims at monitoring the uncertain transition taking place in the North African country. Following closely the evolution of events, the series explores the transformations of the socio-economic and political-institutional, as well as energy policy and foreign policy of the country, including its relations with Italy and Europe

A specific attention is devoted to the actors of the transition: opposition movements, youth groups, the judiciary, the Supreme Council of the Armed Forces, the Muslim Brotherhood and other social actors such as trade unions and business associations.

Possible scenarios of the political, economic and social evolution in Egypt are also prepared and discussed.

The project will be realized by a multidisciplinary research team of the Istituto Affari Internazionali (IAI), which has developed over the years a solid experience on Egypt.

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