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Egypt's economy:

Turning the corner, standing still or in retreat?

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Is Egypt's economy turning the corner? The latest comment by the International Monetary Fund (IMF) on the Egyptian economy was issued in January 2018. It stated that:

> "After more than a year since the launch of the economic reform program, GDP growth is strengthening and inflation is declining. The government trimmed the budget deficit, tourism revenues and remittances are increasing, and the country's foreign exchange reserves have been rebuilt. The floating of the pound and the initial steps to improve the business climate have helped boost growth."[1]

According to the IMF, Egypt's economy is moving in the right direction and if reforms are continued further improvements are likely. The problem is that this comment has been made many times before as Egypt has partially implemented and then abandoned programs recommended by the Fund.

The IMF also noted that even when the economy grew relatively fast, it did not create sufficient jobs because of a bias towards investment in capital equipment. The use of capital has been inefficient: investment was not efficiently allocated and so it did not improve productivity within all sectors of the economy. Nor did investment contribute to structural change through a reallocation towards more productive industries. The private sector in Egypt has been less dynamic than in comparative (developing) countries. Private sector investment has been low, while innovation and use of technology have been limited. The private sector investment to GDP ratio was 11.4 percent in the years 2000-2016, nearly seven percent lower than in other developing economies.

Egypt benefited from inflows of foreign direct investment equal to an annual average of 4.3 percent of its GDP in 2000–2010, considerably higher than elsewhere. However, this declined to an annual average of 2.3 percent in 2014–17. About 75 percent of these inflows were largely concentrated in real estate and extractive industries, which had only limited benefits for the economy as a whole.

New firms appear to be more dynamic and create more jobs, but they face constraints to expansion and remain small. Seventy percent of private non-agricultural employment is concentrated in micro, small and medium-sized enterprises. The sectors that have generated most jobs, such as retail trade, construction and transportation have mostly done so in the informal sector. In many cases, these jobs have been characterized by low quality and low productivity. Young people and women have been particularly affected by the lack of job opportunities. The youth unemployment rate is estimated at 31 percent.

Egypt has a chronic, large balance of payments problem. As a result, it has a constant need to borrow foreign capital. One of the reasons for this weakness is that only about five percent of Egyptian firms export abroad. Since 2000, the ratio of total exports of goods and services to GDP has averaged 15 percent, much lower than in many other developing economies. Egypt’s manufacturing exports are less sophisticated than those of comparative economies and they remain concentrated in a few products. Services exports are dominated by tourism which has been severely affected by political instability and terrorism in recent years.[2]

Between 2015 and 2016, the rate of unemployment declined marginally from 12.8 percent to 12.6 percent but the number of unemployed rose by 30,000 to 3.6 million because the labor force grew by 2.7 percent (271,000). The immediate outlook is not good. Output growth has decelerated in recent years causing the private sector to reduce employment.[3]

Inflation has decelerated, but in January 2018 food price inflation was measured at 26.3 percent at an annual rate. This has had serious effects on the welfare of the poor, for whom food constitutes a large share of consumption.[4]

These macro-economic improvements need to be put into context. Egypt faces huge demographic challenges that reflect its state of development and policy failures. It also faces another major problem that is aggravated by population growth: a growing shortage of water.

Egypt's most recent census was held in 2017. It revealed that there were 94.8 million Egyptians resident in the country, compared with 72.6 million in 2006 when the previous census was held. The total increase was over 22 million (almost 31 percent), equal to 2.56 percent a year. The total number of Egyptians living abroad was calculated at 9.47 million, of whom 2.9 million lived in Saudi Arabia, 1.2 million in Jordan and 1.2 million in Europe.[5]

In April 2017, the Central Agency for Public Mobilization and Statistics (CAPMAS) announced that there has been a small decline in the rate of population growth in 2015 to 2.4 percent compared with almost 2.6 percent in 2014. While this was the first demographic slowdown in a decade, CAPMAS admitted that population growth was the biggest challenge facing Egypt. This meant that the resident population increased by almost 2.3 million annually.[6]

In a speech made in 2017, President Sisi noted that the overpopulation crisis was one of the major challenges facing Egypt.[7] Ayman Zohry, an Egyptian expert in demography, has said that there were various factors behind the increase of population growth rate at the end of the Hosni Mubarak era and after the 2011 revolution. These included the decline in the quality of the health services, including reproductive health as well as the state's neglect of family planning, including the lack of training of physicians on these methods. He also said that "Uncontrolled birth was a means of expression against the Mubarak regime. The rise of the Muslim Brotherhood was also one of the reasons explaining the high rate of population growth in light of a reduced age of marriage… and other phenomena such as the prohibition of birth control methods."[8]

The UN has made forecasts for Egypt's population to the year 2100. The three ranges are based on different assumptions about fertility, with the medium range being the most likely. It suggests that the population will reach 150 million by 2050. The high range forecast for 2050 is 215 million (more than double the current level) and the low range forecast is 140 million. Even the low variant suggests that Egypt will face very serious demographic pressures in the future.

Demographic trends dictate much of what happens in the labor market. In 2017, 3.5 million were unemployed according to official statistics, (12.2 percent). By 2022, another 3.5 million Egyptian are projected to join the labor market. This means that over the next four years, the economy will have to generate seven million new jobs, if unemployment is not to increase. In 2017, 25.3 million were employed and so the increase in employment needed is 28 percent.

Based on the relationship between the growth of employment and the growth of the economy in the past, if Egypt maintains its average annual growth rate of the last decade - of about 4.3 percent - it would fail to generate enough jobs to absorb new entrants. However, if GDP growth rate averaged 5–6 percent over the next five years, it would be possible to absorb new entrants and reduce unemployment by about 30 percent. Additional reforms designed to remove the obstacles to job creation, by removing the bias towards capital-intensive industries, would result in even better labor market results, notably an increase in labor force participation.

The working-age population has increased by almost 40 percent since 2000 and it now accounts for about 60 percent of the population. About 34 percent of Egypt's population is under the age of 15 and some 700,000 people will join the labor market every year in the foreseeable future, adding to those already seeking a job.[9]

Population growth and economic development in the countries of the Nile Basin, along with pollution and environmental degradation are reducing water availability. Egypt is therefore facing an annual water deficit of around seven billion cubic meters. The United Nations has warned that Egypt could run out of water by the year 2025.

Egypt receives less than 80mm of rainfall a year, and 94 percent of the country is desert. Uneven water distribution, misuse of water resources and inefficient irrigation techniques are some of the major factors that have affected water security. Egypt has only 20 cubic meters per person of internal renewable freshwater resources, and as a result it relies heavily on the Nile River for its main source of water.

The irrigation network is based largely on the Aswan High Dam, which regulates more than 18,000 miles of canals and sub-canals that feed water into the country's farmland most of which is adjacent to the river. This system is highly inefficient, and as much as 3 billion cubic meters of Nile water per year are lost through evaporation.

A further deterioration in the water supply would lead to a decline in arable land available for agriculture, and with agriculture being the biggest employer of youth in Egypt, water scarcity could lead to increased unemployment levels. The Nile is also being polluted by municipal and industrial waste, with many recorded incidents of leakage of wastewater, the dumping of dead animal carcasses, and the release of chemical and hazardous industrial waste into the river.

Water shortages and the limited supply of arable land mean that Egypt already relies heavily on food imports to feed its population. Egypt's agricultural sector currently uses 80 per cent of the nation's water supplies, yet domestic production levels are considerably short of demand. Half of the 18.8 million tons of grain that Egypt consumes annually is imported, making it the world's largest importer of grain. Egypt imports 60 per cent of its total food needs.[10] Between 2000 and 2010, wheat imports rose from 5.1 million tons to 10.6 million tons and in 2017, they reached 12 million.

Stabilizing the economy may be a prerequisite for development but, as has been demonstrated before, the failure to tackle underlying issues comes at great cost. These include the very problems that result in slow growth, unemployment, inflation, balance of payments deficits and large foreign debts.

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[7] Ibid.

[8] Ahmed Aleem, "Two is enough: A fix for Egypt's overpopulation," *al-Monitor: Egypt Pulse*, August 7, 2017.

[9] IMF, "Arab Republic of Egypt: Selected Issues," December 11, 2017, http://www.imf.org/en/Publications/CR/Issues/2018/01/22/Arab-Republic-of-Egypt-Selected-Issues-45569.

[10] Amir Dakkak, "Egypt's Water Crisis – Recipe for Disaster," *EcoMENA*, July 22, 2017, https://www.ecomena.org/egypt-water/ ; Jack Di Nunzio, "Conflict on the Nile: The future of transboundary water disputes over the world's longest river," *Future Directions International*, 25 November, 2013, http://www.futuredirections.org.au/publication/conflict-on-the-nile-the-future-of-transboundary-water-disputes-over-the-world-s-longest-river/