

# Egypt's next government faces major economic challenges

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**The coming government will face a complicated economic situation that can not be solved without political vision.**

Two and half years after the energy of Egypt's revolution, economic challenges have only grown bigger. The economy has paid a heavy price for the political instability and mismanagement of different governments who have been in power since then.

Since 2011, unemployment has increased, as has poverty. The budget deficit has widened, a liquidity shortage of foreign currencies appeared, the Egyptian pound officially lost around 22 per cent of its value, inflation has risen and social discontent has grown, with increased levels of labour action.

In addition, chronic gasoline shortages and electricity cuts which hastened Morsi's ouster, causing significant discontent leading up to a weekend of mass protests, need to be addressed.

There is also the major issue of eroding net international reserves. The overall drop in foreign reserves did not begin under Morsi's government; reserves started falling immediately after the 2011 revolution, when they stood at \$36 billion, but the decline has been sharp over the last year, apart from a rise this May and June to \$16 billion on the back of foreign aid from Qatar, Libya and Turkey.

Solutions do not seem to be easy as the issues offered for one problem can simply intensify another.

Many economists believe the key to ease the economical distress is the upcoming political transition.

"The first and most critical step to arrest the deteriorating economic situation in Egypt is in the hands of politicians," says Ahmed Galal, managing director of the Economic Research Forum.

Galal believes that the priority remains to restore the security of individuals and property, as well as to put forward a clear and broadly supported political transition road map.

Security and political stability are seen as the main factors to encourage the return of both investment and tourists.

The significant decrease in revenues from tourism and Foreign Direct Investment (FDI) is the main reason for the foreign currency shortage and the devaluation of the pound. The latter has helped push inflation up, as Egypt is a net food importer.

The weakness of the Egyptian currency has also created pressures on the budget as the government import bill for subsidised oil products and food swelled.

Samir Radwan, the first post-revolution finance minister, presents a prescription for the short and

medium term.

“The new government should put a short term plan that equals in duration the transitional period to be,” says Radwan. “The first thing that should and can be done very urgently, is to allocate money to the basic needs of the population: fuel, gas and bread,” he added.

The former minister also advises the government to find out the reasons behind the closure of 4,500 factories, according to figures announced by the Egyptian Federation of Industries, and to see how the factories can be helped to reopen.

Radwan also calls for a social contract between the government, businessmen and workers. “The idea is to respond to at least part of the demands of the workers in exchange for stopping protesting during the transitional period. A minimum wage is a must,” Radwan stresses, adding that if the businessmen will not listen to workers they will face the same fate as the Muslim Brotherhood.

Seeking foreign aid, especially from the Gulf countries, and restoring FDI and tourism appear as well on Radwan’s short term list.

For the medium term, Radwan believes the government should fix a growth target over five years along with a plan to reduce unemployment.

The national unemployment rate rose to 12.7 percent in 2012, from 9 percent in 2010. Urban consumer inflation edged up to 8.2 percent in the year to May. The budget deficit reached 11.7 percent in the fiscal year 2012/2013.

**Marwa Hussein**, Thursday 4 Jul 2013

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