

## Chapter 86

# Political Stability, Austerity Measures, External Imbalance, and Debt Impact on the Egyptian Economy

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### ABSTRACT

*Economic difficulties manifested by the low GDP per capita, high unemployment, high rates of inflation, limited sources of foreign currency, mounting internal and external debts, and high subsidies have been facing Egypt for a long time. Despite the higher growth rates in Egypt in the first decade of the millennium, the persisting economic difficulties and political instability problems led to the 2011 uprising. Against expectations, the political instability, security issues, and unrest, which followed the uprising, and the world economic difficulties led to further deepening of the economic problems of Egypt due to the reduction in the limited sources of foreign currency and fragile economic structure. Egyptian dependence on income from remittances, the Suez Canal, and tourism as the main sources of foreign currency are inadequate. Egypt should diversify its economic activities by further engagements in the services sector, direct more effort to technological advances, and increase the added value to its products by empowering the large youth and educated population.*

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## INTRODUCTION

Restoring political stability and security after the uprising of January 2011 in Egypt, and the following few years of unrest, requires an inducing environment of sustainable economic growth, eliminating or substantially decreasing deficits eliminating or minimising debt and economic imbalances. It will also require continuing the efforts to empower the institutions and enforce law and order, curb corruption, improve transparency, and enforcing the constitution for democratic alternation in power among other measures to improve governance. Furthermore, substantial improvement in services and living conditions and quality of life that must be felt by every citizen in the country.

After 2011 uprising, the country was facing increasing economic recession in part due to political instability, as well as the continued unrest. These conditions and the security issues with militants operating in Saini, supported by international militant organisations, led to a substantial loss of revenue from tourism. The proceeds from the tourism industry, which was expected to grow from USD 12 billion in 2010 to USD 20 Billion, suddenly plunged after 2011 to a historic low level and tens of thousands of tourism workers lost their well-paid jobs, adding to the already high-unemployed workforce.

Because of the ailing political instability and security conditions at that period, Egypt experienced an immediate flight of foreign direct investment, closure of local businesses, transfer of local capital and businesses to other countries, and the reduction in revenues from export.

Also, the continued increase in the current population which is crossing the 100 million in December 2018, pressing needs for better services, and people particularly youth longing for a better quality of life, aggravates the economic conditions and increases the burdens of internal and external debts.

Furthermore, the significant impact of the world financial crises in 2008, and the substantial reduction in oil prices at the end of 2014 changed the world economic conditions and severely affected the region and Egypt conditions. These changes resulted in reduced foreign currency flow from two of the three main sources of foreign currency in Egypt; remittances, and proceeds from the Suez Canal.

The grave security conditions in close neighbouring countries with historical trading ties with Egypt continue to adversely affect the Egyptian economy and threaten its security after the illusive misnomer “Arab Spring” of 2011. Conflicts in Syria, Yemen, Libya and Iraq, which also engage other Arab countries mostly Saudi Arabia, United Arab Emirates and Qatar, have been adding to the impact on Egypt economy. In addition to trading, some of these countries are major markets for the Egyptian labour force. For example, 2.9 million Egyptians were working in Saudi Arabia alone in 2017. The Iraqi unsettled security issues since the intervention in 2003 also have its long-standing effects, as it was an excellent trading partner and large market for Egyptian labour force up to 2003. The Palestinian-Israelis conflict at the northeast borders, with its implications on security and economy, has been going on for decades, and its complicated impact on political and economic stability is not considered in this chapter.

The reliance of Egypt on limited sources of foreign currency from tourism, Suez Canal and remittances together with the political and security problems, coupled with the regional and international economic and security issues forced Egypt into increasing economic difficulties of increasing debts and internal and external imbalances. These internal, regional and international adverse impacts on Egypt economy led to additional burdens and imbalances in addition to the already high budget deficit and heavily burdened economy before 2011. The debt reached its highest value of approx. USD 93 billion in 2018 2<sup>nd</sup> quarter compared to USD 26 billion in 2001

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