

How to Stop Egypt's Steep Economic Fall

By [Mohsin Khan](#)

April 05, 2012

The  Moscow Times

Egyptians' political aspirations have dominated the country's public life since the fall of President Hosni Mubarak last year. Unfortunately, as those aspirations are addressed, the economy has entered a steep decline, jeopardizing one of the revolution's main goals, namely improvement in Egyptians' living standards and welfare.

In 2011, the situation worsened on virtually all fronts. Annual growth fell to about 0.5 percent, and inflation remained in double digits. The unemployment rate reached 12.4 percent in the fourth quarter. The current-account balance deteriorated rapidly, owing to the loss of more than \$4 billion in tourism revenues and a sharp fall in remittances by Egyptian workers abroad.

Today, Egypt not only remains vulnerable to unstable domestic politics. Owing to the depletion of its international reserves — at a rate of roughly \$2 billion a month since last October — the country now also faces the threat of a currency crisis.

In addition, the Egyptian military gave a \$1 billion loan to the government, and another \$1

billion was received through grants from Saudi Arabia and Qatar, bringing the loss of reserves since December 2010 closer to \$22 billion. The other source of international reserves, tourism, brought in only \$8 billion, down sharply from \$12 billion in 2010.

Egypt's economy is facing continued risks, owing to capital flight, rising inflation, unemployment and populist policies. Even with the availability of external finance — for example, loans from the International Monetary Fund, the World Bank and other international donors — Egyptian leaders must look for ways to engage the private sector in reviving the country's economy.

Unfortunately, the latest political incident involving the democracy-promoting activities of American nongovernmental organizations has cooled bilateral relations and threatens the \$1.3 billion in military assistance that Egypt receives annually from the United States. This may have an impact on other donors, as well as international financial institutions, particularly the IMF and the World Bank.

Egypt's transition from populist economic policies to anti-American populism exemplifies the impact that political uncertainty can have on economic developments. The upcoming presidential election in May and the formation of a democratically elected government, one hopes, will calm the political turmoil and lead to economic stabilization and revival. Otherwise, Egyptians' hard-won political gains may well be lost.

Mohsin Khan is senior fellow at the Peterson Institute for International Economics in Washington. © Project Syndicate

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:

<https://www.themoscowtimes.com/2012/04/05/how-to-stop-egypts-steep-economic-fall-a13852>