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Egypt's Recent Growth: **An 'Emerging Success Story'?**

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At the end of 2007, well before the onset of the global financial crisis, the IMF was lauding Egypt's upsurge in economic growth as "an emerging success story" (IMF 2007, p. 32) and was quick to attribute this success to economic reforms, started in 2004, which encouraged "the private sector to become the engine of job-creating growth".

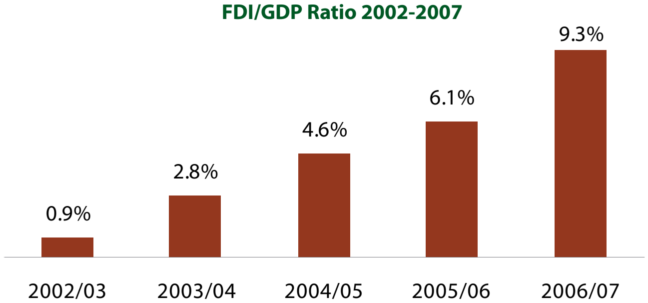
Egypt's performance did indeed look encouraging, with growth having risen steadily from 3.2 per cent in 2002/03 to 7.2 per cent in 2007/08. However, seven per cent had been set as a medium-term target in an IMF Stand-By Arrangement as far back as 1996. So, roughly a decade had elapsed before the target had been reached (see background paper, Achcar 2009).

Moreover, although the official unemployment rate had dropped to 9.1 per cent in 2006/07, it was as low as seven per cent in 1996, and had only peaked at 11 per cent in 2003/04. Also, about half of the 1.1 million new jobs created by accelerated growth during 2005-2007 were in 'self-employment', i.e., informal-sector underemployment.

What factors explain Egypt's growth acceleration? Tourism had picked up, mostly through an increased inflow of Europeans visitors. Remittances from Egyptian workers abroad increased 26 per cent between just 2005/6 and 2006/7. Having reached US$ 6.3 billion, they helped to boost the surplus on Egypt's current account up to US$ 5.3 billion.

Egypt's capital account was also enjoying a boom. Between 2005/06 and 2006/07, FDI inflows into Egypt leapt from US$ 6.1 billion to US$ 11.1 billion, or by 82 per cent. As a result, Egypt's FDI/GDP ratio shot up to 9.3 per cent in 2006/07 (see Figure). So, on the African continent, Egypt's inward FDI trailed only South Africa's.

FDI/GDP Ratio 2002-2007



Source: MOED 2007

Behind the 'Success Story'

Egypt's Ministry of Economic Development attributed the surge in FDI directly to the 2004 economic reforms, which promoted improvements, it claimed, in the 'investment climate', 'good governance practices', and 'stable and stimulating economic policies' (MOED 2007).

But what were the origins of the new FDI? And why did both FDI and remittances surge in 2006/07? Perhaps external 'supply-side' conditions explain more than improvements in 'demand-side' conditions in Egypt.

In fact, net FDI into Egypt originating in the Arab region soared from only US$ 0.5 billion in 2005/06 to US$ 3.3 billion in 2006/07, accounting for about 56 per cent of the total increase.

Why did such an upsurge happen all of a sudden, particularly when Egypt had been courting such investment for over a quarter of a century? An additional clue: 45 per cent of Egyptian remittances also came from Arab countries.

Regional Oil Revenues

Both FDI and remittances have undoubtedly resulted from the boom in revenues enjoyed by the richest Arab oil exporting countries, namely, those in the Gulf Cooperation Council (GCC). Their oil export revenues escalated from US$ 191.1 billion in 2004 to US$381.9 billion in 2007—by almost 100 per cent.

The GCC's accumulation of huge current-account surpluses translated into mammoth capital outflows. The bulk of such capital outflows have traditionally left the region, bound mostly for the USA. But during 2005/06 and 2006/07, due to the overflow of 'surplus income' generated by the sharp hike in oil prices, significant amounts were directed to the Arab region, and to Egypt in particular.

Much of the FDI was channelled into the usual mix of real estate, tourism facilities and the purchase of privatised companies. A significant proportion was also directed into the small Egyptian petroleum sector.

So, much of Egypt's IMF-scripted 'success story' can be attributed to the boom in the global oil market and the good fortunes of its neighbouring GCC countries. Unfortunately, Egypt will remain heavily reliant on such FDI, along with remittances and tourism receipts. Despite being an oil exporter, the country runs a persistent structural trade deficit, which rose by 30 per cent alone between 2005/06 and 2006/07.

Moreover, a major scourge of Egypt's economy has been continual capital flight, which rose in tandem with the FDI increase. This problem is linked, in general, to political and social instability. Close to 44 per cent of Egyptians continue to live on less than US$ 2 a day and inequality has been increasing. Egypt's pattern of growth has been narrowly based and inequitable.

Capital inflows and the rising cost of imports, such as food, have led in recent years to soaring inflation. In response, there has been the biggest wave of worker strikes since the 1950s, protesting rising food costs, low real wages and lay offs. These trends belie the IMF's rosy image of Egypt as an emerging economic 'success story', for its success has been superficial, and likely to be short-lived.

Referemces:

Achcar, Gilbert (2009). 'Stability and Instability in Egypt: A Closer Look at Recent Egyptian Growth'. In Instituto Español de Comercio Exterior (ICEX), Claves de la Economía Mundial, Madrid, Spain.

IMF (2007). Regional Economic Outlook: Middle East and Central Asia, Washington DC: IMF.

Ministry of Economic Development (MOED) (2007). Social and Economic Development: A Follow-Up Report for the Year 2006/2007, Cairo: MOED.