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## PROTESTS, A DESTABILIZING FACTOR OF ECONOMIC GROWTH IN ARAB REPUBLIC OF EGYPT

**Abstract:** With the start of the revolution of January 2011 until 2013, many indicators and economic research confirms the entry of the Egyptian economy to a stage of deterioration. With the military council headed by Marshal Tantawi taking over the country, the growth of the economy fell remarkably to less than 2%. Unemployment reached over 10%, and the fiscal deficit increased to 8.6% of GDP, which was accompanied by inflation of 11%. That one of the biggest economic mistakes committed by the government system is to keep the exchange rate of the pound fixed, which led to the depletion of about \$ 20 billion of cash reserves between December 2010 to May 2012, which has negatively affected the rating of Egyptian Institutions International Finance. After that, Egypt's economic situation during the rule of Mohammed Morsi and the Muslim Brotherhood, which can be described as lacking in experience in the management of the state. The political challenges and obstacles, as well as the absence of any economic plan, contributed to the increasing complexity of the economic situation of Egypt, Resulting in a rise in the unemployment rate to 12.5%. The Brotherhood's government failed to provide resources to cope with the crisis, relying only on the collection of aid and subsidies from some regimes in the Middle East, resulting in worsening conditions until the army intervened and President Mohamed Morsi was removed on 3 July 2013. With the arrival of interim President Adli Mansour to power in August 2013, we note that the Egyptian economy witnessed a slight improvement, which was reflected according to the published report that Egypt received about 12 billion dollars in foreign aid from Kuwait, Saudi Arabia and the United Arab Emirates, However, the economic growth rate remained below 2% as unemployment and inflation continued to spread.

**Keywords:** Egypt; economic situation; protests; government.

### 1. Preconditions for the onset of protests

Over the last 10–20 years, power has changed in dozens of totalitarian, authoritarian, and undemocratic countries. Everywhere “change” took place at least in the first stage “non-violently” in a peaceful way. The post-2010 Middle Eastern and Arab world has been showing tremendous interest. The Arab Spring started in Tunisia followed by Egypt, Algeria, Yemen, Bahrain, Libya and Jordan. Protests were in Mauritania, Saudi Arabia, Oman, Sudan, Syria, Iraq, Kuwait, Morocco and others.

Since the end of 2010, the countries in the Middle East and North Africa have undergone dynamic and dramatic processes with the main goal of political and social change<sup>1</sup>. These processes are a phenomenon that deserves to be analyzed and carefully studied.

The political-geographical scope of the Arab Spring is significant as the transformation in the countries with a revolutionary regime change in AR of Egypt and Tunisia and, on the other, in countries where official authority is willing to take evolutionary measures to democratize for example, in Morocco and Jordan<sup>2</sup>.

In our view, the beginning of the Arab Spring and the ongoing processes in North Africa and the Middle East is the overthrow of the dictatorial regime in Iraq in 2003<sup>3</sup>, or as Professor Al. Fol Everything

<sup>1</sup> Eryilmaz, N. Democratic Transitions in Comparative Perspective: Tunisia and Egypt in the Post-Arab Spring Process, Boston College, 2017, link: <http://hdl.handle.net/2345/bc-ir:107424>

<sup>2</sup> Perspectives, Political analysis commentary from the Middle East, #2 May 2011 Special Issue, link [https://ps.boell.org/sites/default/files/02\\_perspectives\\_me\\_2011\\_the\\_arab\\_world\\_in\\_revolt\\_1.pdf](https://ps.boell.org/sites/default/files/02_perspectives_me_2011_the_arab_world_in_revolt_1.pdf)

<sup>3</sup> Perspectives, Political analysis commentary from the Middle East, #2 May 2011 Special Issue, link [https://ps.boell.org/sites/default/files/02\\_perspectives\\_me\\_2011\\_the\\_arab\\_world\\_in\\_revolt\\_1.pdf](https://ps.boell.org/sites/default/files/02_perspectives_me_2011_the_arab_world_in_revolt_1.pdf)

starts from Mesopotamia, the cradle of human civilization. For centuries, the Middle East has not been the master of its own space, much less of it. The various attempts to break down the decadent model made before the Arab Spring did not lead to any success.

Today, the Middle East is itself a peripheral area of other areas of the world such as Europe and the United States American (USA), its interior space is dominated, shaped “from the outside”<sup>4</sup>.

Changing the Middle East and halting the decline is a long and long process that needs political, economic and social intervention. It is a prerequisite for the overall transformation and the dynamic political and economic development of this region.

The processes in North Africa and other Arab countries aim to end authoritarian and totalitarian regimes, dependency and economic backwardness, turning into respected partners in international politics.

Middle East, incl. and the Arab countries, because of the many problems and contradictions, are fragmented and torn apart. This is one of the reasons today for their citizens to demand political and economic change that guarantees free and democratic development. In our view, studying the issue of the realization of this change, it is necessary to examine and analyze the social philosophy, genesis, chronology and causes of the Arab Spring in different countries.

In the first years after 2000, the political dynamics in Egypt increased. In 2004–2005, the protests intensified, with several opposition parties and movements (eg the Kyphaenia Movement, the Judge’s Club, the Al-Qaeda Party and the Muslim Brotherhood) demanding a political reform involving a constitutional amendment that allows for a real multi-party system and competition under the presidential elections, the end of the state of emergency, the abolition of legal restrictions on parties’ activities, civil society organizations and the media, and a free and fair election protest<sup>5</sup>.

In response to pressure, the regime was forced to make some concessions, such as the adoption of a series of constitutional amendments. Nonetheless, despite the constitutional changes that made it possible for the president to be directly elected by the people, the conditions for the candidates have been tight, which in practice allows the National Democratic Party (NDP) to decide who to run against its holder.

Moreover, party law still provided a realistic opportunity for anyone but the NDP to come to power. As a result, although the first presidential election with many candidates took place in September 2005, and nine candidates appeared against President Hosni Mubarak, as expected, he won the election with 87% of the votes. Similarly, the National Democratic Party won the parliamentary elections in 2005 and continued to run the country<sup>6</sup>.

Nonetheless, in the 2005 elections, Muslim Brotherhood (MB) candidates were allowed to conduct their campaign much more openly than in the past. Thus, although the ruling National Democratic Party (NPD) retained a two-thirds majority, the Muslim Brotherhood (BM) achieved a significant success with 88 candidates, more seats (20% of all) than any other opposition group.

In 2007, the regime introduced a number of amendments that further restricted political freedoms, such as the abolition of the role of judges as election observers, the giving of powers to the President to dissolve parliament without a referendum, a ban on openly religious parties, thus cutting off the attempts of the Muslim Brotherhood (MB) to form a political party and give President Hosni Mubarak the right to hand over civilian suspects in terrorism to the military tribunal.

Since 2007, these and other restrictions, along with the increased number of police arrests and arrests, have significantly reduced the involvement of opposition forces in political life. In the 2007 parliamentary elections, Shura (Consultative Council), the Muslim Brotherhood (MB) did not win any seats, whereas in the local elections in April 2008 they declared a boycott at the final minute of the elections after all her, and most of the candidates of the legal opposition parties were not allowed to register. Finally, the elections on 28 November 2010 as a legislative body were marked by unprecedented widespread violations, arrests of hundreds of Muslim Brotherhood (MB) activists before the vote and pressures on the media, which led to the inevitable victory of the NDP by a convincing majority. The Muslim Brothers (MB) did not win any place on the first runoff and, together with the new Wafd party, decided to boycott the runoff a week later<sup>7</sup>.

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<sup>4</sup> **Corm, G.** “The Middle East Disintegration 1956–2004”. Sofia, 2005, p. 19.

<sup>5</sup> **Cristina Maria, P, Egypt:** The Changes and Challenges of the Political Transition. Technical Report No. 4 of MEDPRO, May. 2011.

<sup>6</sup> **Cristina Maria, P., Egypt:** The Changes and Challenges of the Political Transition. Technical Report No. 4 of MEDPRO, May. 2011

<sup>7</sup> Egypt’s parliamentary election, Arab Bulletin, 30 November 2010, [www.carnegieedowment.org/arb](http://www.carnegieedowment.org/arb)

Due to various factors in Hosni Mubarak's rule, the opposition in AR of Egypt was weak. The regime applied various means of weakening the opposition: the refusal to legalize parties and organizations threatening the regime; election manipulation; co-opting of numerous non-governmental associations and trade unions<sup>8</sup>. Moreover, the long-standing State Emergency Act in force since 1981 served to ban strikes, to censor newspapers, and to curb all opposition actions in the name of national security. Legitimate secular parties were also weak because of their internal flaws: lack of democracy within parties, poor organizational capacity, lack of resources, and, most importantly, a limited number of constituencies. New movements like Kyphaia (Egyptian the move for change means a "Enough" translation), which appeared in the winter of 2004, initially proved to be more dynamic than the legal parties. But Kyphaia's movement failed to gain any concessions from the regime, and after 2006 their functions ceased. In addition to the harsher repression of the regime, the movement has failed to mobilize broad popular support. His support was limited to middle class students, intellectuals and professionals; lacking a clear long-term strategy, no clear democratic demands. After 2007, it was further weakened by internal bumps, which led to the resignation of its founder, George Ishak.

Another factor for the emergence of the Arab Spring in AP Egypt is the Muslim Brotherhood (MB) movement. The organization was founded in 1928 in Ismailia (Egypt) by the Islamic scholar and professor Hassan al-Banana (1906–1949), his brother and five of their friends. Originally, al-Banna and its followers were united by the desire to drive the British out of power in Egypt and to free their country from what they see as "corrupting" Western influence. The "Brothers" start as a social organization that preaches Islam and teaches illiterates. The basic belief of the group is that Islam is not just a religion, but a way of life. The Quran and the Sauna are the ideal way of life, social and political organization that God (Allah) has created for man. Islamic governments must be based on this system and eventually united in Khilafat. The goal of the Muslim Brotherhood, proclaimed by Hassan al-Banana, is to resume the obvious fate of Islam - an empire stretching from Spain to Indonesia. He preaches that Islam obliges one to fight for social justice, eradication of poverty and corruption, and political freedom, within the limits allowed by the laws of religion. Ever since its inception, the "Muslim Brotherhood" has formally denied the use of force and violence to achieve its goals.

Branches of the Brothers around the world are over 5,000 in different countries except in Egypt, Bahrain, Syria, Palestine, Jordan, Iraq, Iran, Kuwait, Yemen, Saudi Arabia, Oman, Algeria, Sudan, Somalia, Tunisia, Libya, and even in the United States, the United Kingdom and Russia. Regardless of the country in which the branch is located, a strict hierarchy is respected in terms of both governing and members. Each member must embody the purest moral values of faith – charity, compassion, fear of God (Allah), piety and justice.

Organization Muslim Brotherhood (MB), the only opposition force enjoying mass popular support, has failed to become a serious challenge for the regime and to exert pressure for real political change. It succeeded in attracting a large number of supporters, mainly because it took over the provision of social services, which the state had withdrawn in the mid – 1980s–1990s. Because of its huge public base, the Muslim Brotherhood (MB) managed to win an unprecedented number of seats in the 2005 elections. But after 2005, when the MB won a large number of seats in Parliament, the regime sought a way to eliminate them from the political scene through increased repression and correction of the constitution in 2007, as the MB was often subjected to harassment, arrest of leaders and confiscation of financial assets, especially in recent years, it maintained a moderate, cautious and non-confrontational approach to the regime, fearing that they could be completely removed from political life. Thus, while the movement remained the main opposition force in the country, it did not want to take clear action against the regime and to unite with other opposition forces, leaving the political initiative of the other opposition movements. In the light of these actions did not adhere to Mohammad al-Baradei's<sup>9</sup> call for a boycott of the parliamentary elections in 2010; did not strongly oppose the re-election of Hosni Mubarak in 2005 and the possible nomination of his son Gamal<sup>10</sup> in 2011; they lacked a clear political agenda, showing their inability or unwillingness to present a serious alternative to the regime. Finally, deep ideological differences between MB and many secular opposition groups prevented the emergence of a

<sup>8</sup> **Clement** (2009), Moore & Salloukh (2007), UNDP (2008), al-Din Arafat (2009), Beinun and el-Hamalawy.

<sup>9</sup> Mohammad El-Baradei is an Egyptian diplomat, general director of the International Atomic Energy Agency. Nobel Peace Prize Winner for 2005 He has been actively involved in the political life of AP Egypt. Founder of the Al-Dastour-Constitution Party after the protests in the country in 2011. The interim Egyptian Vice President in 2013.

<sup>10</sup> **Gamal Mubarak**, the youngest son of former Egyptian President Hosni Mubarak. It is believed that Mubarak has cooked his younger son Gamal as his successor to the presidency.

unified and organized political opposition to the regime. Opposition outside the strict constraints of political activity has shown greater dynamism. Since mid-2004, social protests and demonstrations, a reflection of growing grievances among the people, have become an integral part of Egyptian life. The country experienced an unprecedented wave of street protests, especially labor strikes, reflecting the ever-growing difficulties among large groups of the population of Egypt. In 2010, labor tensions continued, spreading particularly in the private sector whose companies were affected by the financial crisis. Unlike political parties and other organized opposition forces, workers' protests failed to attract an unprecedented number of people but did not lead to real political change. Unlike the protests in January-February 2011, these protests remained apolitical, which means that they are focused on socio-economic issues and not put political demands. Moreover, the protests did not coordinate their actions with the political ones organizations, instead, they were sporadic and completely disorganized. The main opposition parties and their movements, such as the Muslim Brotherhood (MB), have been separated from social protests and workers' protests in recent years, reflecting the interests of different voters, namely the upper middle class. Also, the Muslim Brotherhood (MB) suspected a rapprochement with the workers' movement because of its social composition and conservative view, it was hostile to class conflicts.

The Egyptian people follow the example of Tunisia with great intuition. Egypt's demonstrations are said to be in response to police violence, emergency laws, corruption, unemployment, especially among young people, low wages, rising food prices, lack of freedom of speech, etc. Their main purpose is political - the removal of Hosni Mubarak from power<sup>11</sup>.

Major demonstrations and riots began in January 2011, when a huge protest from the opposition and other groups in AP Egypt was organized through a social networking facebook group. The 2011 protests are called "unseen" in the history of the Arab Republic of Egypt and "the biggest manifestation of popular discontent in recent years". The government is blocking social networks, and then all Internet services across the country. Telecommunication services are also blocked. As of January 29, the formation of a new government, headed by General Ahmed Shafik, began. On February 11, 2011, Hosni Mubarak resigned and handed over to the military<sup>12</sup>.

The Arab Republic of Egypt is at the heart of the Arab Revolution, although it first explodes in Tunisia. Because of its strategic location, stable boundaries, huge population and ancient history, it is perceived by many as the main strength of the Arab world.

Many Egyptians create facebook pages asking for the 25th of January, the Egyptian National Police Day, to be the day of the revolution against torture, poverty, corruption and unemployment<sup>13</sup>. Among the main reasons for overthrowing the strong totalitarian regime are the good internet connections, the events in Tunisia, corruption and the severe social situation of the population.

Protests start with social demands that go into politics. In the beginning, the main engine is the unemployed educated youth. Legal and political issues have been raised. The main demands of the protesters are the resignation of the Hosni Mubarak regime, as well as freedom, justice, civilian government, and the right to vote in Egypt's resource management. The main factors of change are young people, liberals and left-wing forces in the country. Unfortunately, the youth, left and liberal forces are fragmented and fail to unite in a powerful coalition with a common platform. The Muslim Brotherhood (MB) does not take part in the first protests; there are no slogans such as "Islam is the solution" in the ranks of the manifestations. The main reasons for the protests and the sweep of the Arab Spring in AR of Egypt have a socio-economic character of a political nature.

Of course, the reactions of world leaders and the international community to the importance of the events in AR of Egypt were not delayed. On this basis, it is assumed that when we analyze the world's reactions, we think it is legitimate to ask such a question: what is the reaction of the various actors in international politics? We think the answer to this question is not a single answer. Each of the responses to multiple determinants in international diplomacy and politics. On the one hand, Western countries have supported peaceful protests, but also thus expressing concern about the stability of the country and the region. Countries

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<sup>11</sup> **Zayan J.** Egypt braces for nationwide protests, 25.01.2011, AFB.

<sup>12</sup> Naamatalla. Ahmed A: Egypt stocks Drop Most in six weeks on concern Tunisia Unrest May Spread, 16.01.2011. AFB.

<sup>13</sup> A look at how Egypt's uprising unfolded, Published February 11, 2011, Last Update November 17, 2014, <https://www.foxnews.com/world/a-look-at-how-egypts-uprising-unfolded>

such as Britain, France, Germany and others make statements calling for reforms and putting an end to violence. Many states in the region are concerned and supported by President Hosni Mubarak, Israel and Saudi Arabia, who said they resolutely condemned protests while Tunisia and Iran backed protests. The reactions of the international community from various governments and institutions that are concerned about the situation in AR of Egypt and the Middle East were different, namely: EU foreign policy chief Catherine Ashton expressed his opinion to the Egyptian authorities that the people have the right to protest and call: Governors in AR of Egypt to respect and protect the rights of citizens. “Russia’s position is based on unchanging principles of the world, Russian Foreign Minister Sergei Lavrov said. The events of the Arab Spring in the Middle East from the Kremlin point of view are a severe headache. “The United States is obliged to comply with international law,” Putin reminded the Americans. In an interview with the New York Times, he noted that Russia is thus “Protecting international law, which is the only instrument that prevents the world from sinking into chaos.” Brazil’s official authority calls<sup>14</sup> for “a political growth that appeals to citizens without interference and in line with current economic and social development.” German Foreign Minister Guido Westerwelle calls on the world community to show concern and support for protesters. Norwegian Foreign Minister Yunas Gare Stoire<sup>15</sup> urges the Egyptian authorities to refrain from violence and respect the fundamental political rights of citizens. He states: “Freedom of speech and the right to protest are fundamental human rights and the foundations of democracy. There are other opinions, for example, the member of the the Israeli labor kenneth Binyamin bin Eliezer supports Hosni Mubarak<sup>16</sup> and hopes the rebellions will calm down. UK Secretary of State William Haig calls on the authorities to tolerate, reduce the use of violence and analyze the causes of the riots. US Vice President John Biden said<sup>17</sup>, “We are calling on the government to act as it should – to try to hold talks and see which of the demands of the protests are justified and which – not,” refraining from calling Mubarak a dictator and urging him not to fall in his eyes. As a conclusion from the analysis of the above-mentioned opinions and events, we can see that there are different positions and understanding of the issue of the protests in AR of Egypt and contradictory views for and against President Hosni Mubarak.

## 2. The economic situation in the Arab Republic of Egypt 2011–2013

The losses of AR of Egypt from the upcoming protests at the end of 2010 at Tahrir Square in Cairo and other cities were significant. They have an impact on the economic growth of the country, which according to the most authoritative definition: “a country’s economic growth can be defined as a long-term increase in the supply capacity of increasingly diverse commodities of the population, this growing capacity being based on advanced technology and the institutional and ideological corrections it requires<sup>18</sup>.

In essence, the Arab Spring was a series of protests, riots and riots against the ruling government in AR of Egypt in early 2011. Their goals, relative success and implications are still being discussed in this country, among foreign observers and between world powers, benefit from the changing map of the Middle East. The Revolution in AR of Egypt in January 2011, which led to the resignation of President Hosni Mubarak, raised a number of questions about the country’s future economic development. Despite the steady growth of the country’s gross domestic product in recent years and the projections for nearly 6 percent growth in 2011 (5.4% according to the IMF), some of the structural problems of the Egyptian economy were not only solved but also deepened their negative impact in the past years. Unemployment in the country remains high, and even worse is the fact that 90% of the unemployed are under 30 years of age. Social inequality in the country, which was one of the main reasons for the country’s revolution, continued to increase. Over 40% of the Egyptian population has spent the last years of running Hosni Mubarak under \$ 2 a day. Despite the optimistic forecasts for the Egyptian economy’s development before the 2011 events, most households expected even further revenue shrinking, mainly driven by fast-rising food prices. Food costs account for 40% of the total cost of most Egyptian households. The country is ranked 96th (out of 179 countries) in the Economic Freedom Index and ranked 94th in the Business Opportunities Ranking (183

<sup>14</sup> Situation in Egypt, Tunisia and Yemen. Министерство на Външните Работи (Бразилия), 28.01.2011.

<sup>15</sup> Dokument ariv, Pressemelding 28.01.2011.

<sup>16</sup> Ben Eliezer: All we can do is express support for Mubarak. The Jerusalem Post, 26.01.2011.

<sup>17</sup> The Christain Science Monitor, 27.01.2011.

<sup>18</sup> Simon Kuznets. Modern Economic Growth: Findings and Reflections. Prize Lecture to the memory of Alfred Nobel, December 11, 1971.

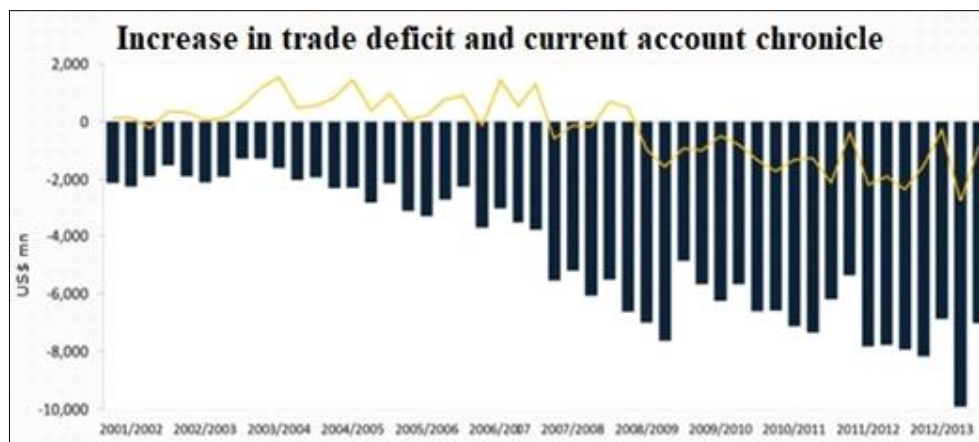
countries). In 2011, the entrepreneurial attitudes of the population remained at one of the lowest levels in the world – 0.13 out of 1,000 people of working age. Eighteen-day protests have prompted a contraction in foreign investment in the country of over \$ 1 billion<sup>19</sup>. Infrastructure and tourism have been damaged. Total losses from a revolution are estimated at nearly \$ 30 billion. In order to ensure further economic growth of AR of Egypt and accompanying economic changes with economic reforms, first of all, the start-up process needs to be simplified. In January 2011, the Hosni Mubarak regime was overthrown as a result of many thousands of protests in the country – the so- January Revolution. The authorities were dissolved. Temporary management was taken over by the Supreme Military Council. Parliamentary elections took place, on the basis of which 70% of the seats in the lower house were given to the Islamic party “Freedom and Justice”, a branch of the Muslim Brotherhood movement and the ultra-conservative Salaf Nur party. In June 2012, presidential elections were held, which were won by Mohammad Morsy, whose candidacy was raised by the Freedom and Justice party.

Six months later, through a national referendum, with a relatively low general turnout, the new Egyptian constitution was adopted, accompanied by massive bloody protests against the overture that the constitution gave to Islam and Islamic parties in the country’s rule. The result was dozens of casualties, counterprotections of the supporters of the president, protests by police and women, and calls for the removal of power and the realization of the goals of the revolution. Since the beginning of 2013, protests of a multifaceted nature have been taking place in different parts of the country. Mohammed Morsy had no plan for Egypt. The Muslim Brotherhood had only bare slogans. But unexpectedly they had to manage the economy, foreign policy and tourism. They made it extremely unprofessional, focusing solely on public morality. The Islamists had no plan, they had only moral constraints. Therefore, by infiltrating the authorities, they restricted freedom, especially for women. The political turmoil has led to deep polarization in society. It was necessary to have a “national dialogue” with representatives of all public structures and political parties, but the will for this was not demonstrated even after the EU and US calls for it. After a dangerous escalation of tensions in Cairo and other cities in the country, on July 1, the Egyptian armed forces issued a declaration stating that they had been given a 48-hour ultimatum to find a way out of the crisis, which ended at 5 pm on July 3. As an alternative to a refusal by the President, a “road map” and intervention by the army were presented. Shortly after the deadline, under the leadership of Defense Minister General Abdelfatah al-Siqi, Mohammad Morsy is detained and Egyptian armed forces announce a suspension of the current Constitution. Detention orders were issued to Prime Minister Hisham Kandil, members of the government and the leadership of the Muslim Brotherhood movement. The first step of the Roadmap The Armed Forces took place on July 4 – Adley Mansour, chairman of the Supreme Constitutional Court, was appointed temporary head of state. The Interim President issued his first decree to dissolve Parliament, represented only by the upper chamber – the Legislative Council of Shura. With the interim president’s decree on 9 July, Haeme El-Bibliawi was appointed Egyptian Prime Minister. The newly-formed interim Egyptian government took an oath on July 16, 2013. Following the inauguration ceremony of the new ministers, Bibliawi said that his cabinet had extremely complex tasks, one of which was to ensure internal security, national reconciliation, economic recovery, preparation of parliamentary and presidential elections. As a whole, the cabinet consists of technocrats and liberals, which, according to the prime minister, can better deal with the “road map” tasks. The prolonged economic crisis in Egypt, as a result of the protests, strikes and religious clashes that have taken place over the last two years, has led to a negative impact on key macroeconomic indicators and the efficiency of leading sectors in the Egyptian economy. Despite some positive signs of economic upheaval, the data as of the end of 2012 show that the trend towards a significant decline in economic activity is being maintained, exacerbating the problem of the impoverishment of a large part of the population. This calls for urgent and effective measures to be taken to improve the economy and hence the social situation of citizens. After the removal of Islamic President Mohammad Morse, the expectations for positive changes to the transitional cabinet are high. In this connection, he makes every effort to justify them and sometimes takes populist decisions and measures that are not always driven by economic expediency. This corresponds to frequent statements and promises cut out widely in the media about a policy of “social justice”. At the same time, the transitional cabinet uses each an opportunity to express their confidence in the skills and expertise of ministers and their teams, as well as the optimism of local business and the increasing support of the international community that will help overcome the severe economic crisis.

<sup>19</sup> Arab Republic of Egypt. General Authority for Investment.

The country's economy failed to reach a 2.4% increase in GDP projected for fiscal 2011/2012, with a 2.0% increase (1.8% in the previous year). This is mainly due to reduced receipts from some major sources of income for the state budget. One of them is the Suez Canal – despite the flexible pricing policy, the global financial crisis has negatively affected its revenue, with a decline of 1.8% in 2012. Of the 5.2 billion dollars received during the period, around 10.0% remain for maintenance and management of the Suez Canal, and the rest are paid to the state budget<sup>20</sup>. Another major source of revenue for Egypt is natural gas exports, which in 2012 brought the country \$ 22 billion, which is 4% more than in 2011. The country exports liquefied gas mainly to Europe, the United States and South Korea. It also continues to supply some Arab countries through the Sinai Peninsula. Meanwhile, a fall of 0.85% in natural gas production to 45.8 million tonnes was reported in 2012. By contrast, domestic consumption grew by 5.8% to 39.2 million tonnes. Of these, 57.0% are used for electricity generation (56.0% for 2011)<sup>21</sup>. As a result of the constantly increasing domestic consumption and the obligations to export certain quantities of gas under the international agreements concluded, there is a shortage of electricity and a current regime. Because of this, Egypt is forced to compensate for the shortage by importing natural gas from Algeria and Kuwait. Negative influence is the continuing increase in the budget deficit, despite attempts to limit the budget deficit government expenditure. At the end of 2012, the budget deficit reached 91.5 billion euros. pounds (about 13.65 billion dollars), which is 24.0% more than last year. This is mainly due to the 38.3% increase in government subsidies, allowances and social benefits. At the same time, the government debt increased, which in the fiscal 2011/2012 reached 80.5% of GDP (76.6% in the previous year) and in 2012/2013 it increased by over 83.0%. At the same time, domestic debt grew to \$ 183.6 billion at the end of December, representing 70.0% of GDP. By comparison, for the same period in 2011 it was \$ 150.5 billion. Another factor that negatively impacts on the economic situation in Egypt is the trade balance, which remains negative (according to the World Bank, the trend has remained unchanged since 1979), with the trade deficit increasing by 31.8% compared to the previous year. This is mainly due to reduced exports of petroleum products, clothing, fertilizers and electric cables. In addition, as a result of rising prices for some commodities such as wheat, maize, wood and iron, imports increased by 14.0% to 36 billion euros. pounds. Also, the current account balance is negative for the sixth consecutive year.

**Chart 1.** Increase in trade deficit and current account chronicle



**Source:** Central Bank of Egypt

It is estimated that the main reasons for the outflow of capital from the country are related to the political turmoil in the past year as well as to the worsened security situation created by the stagnant protests and the increasing crime. This has forced the Central Bank of Egypt (CBE) to put in place leakage control mechanisms that include a limit for foreign transfers to citizens (up to \$ 100,000 a lump), a limitation on currency withdrawal by banks (\$ 10,000 for physical and \$ 50,000 for legal entities a day), organizing daily auctions by Central Bank of Egypt for selling limited amounts of currency to commercial banks, and more<sup>22</sup>.

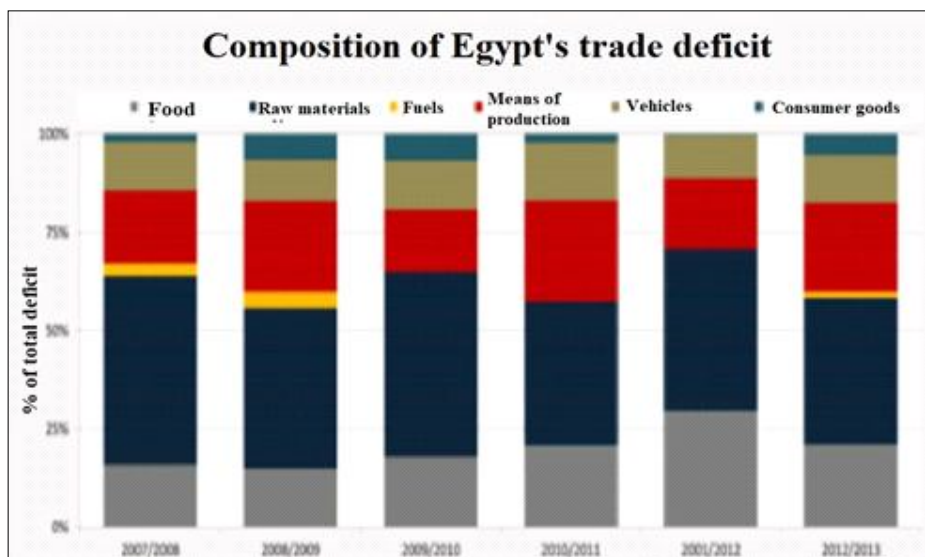
<sup>20</sup> **Arab Republic of Egypt.** Ministry of Finance. [www.mof.gov.eg](http://www.mof.gov.eg), [www.customs.gov.eg](http://www.customs.gov.eg)

<sup>21</sup> **Arab Republic of Egypt.** Ministry of Industry and Foreign Trade. [www.mfti.gov.eg](http://www.mfti.gov.eg)

<sup>22</sup> Harvest of Economy – 2017, 27 December 2017, State information service, <http://www.sis.gov.eg/Story/122980?lang=en-us>

The lack of convertible currency emerges as one of the future problems facing local businesses as companies will not have currency resources to pay for imports of raw materials for their production and end products from abroad. According to some analysts, the accounts of private companies and individuals have about 50 billion dollars, of which 18 billion are in banks outside the country. However, these funds are frozen due to the reluctance of their holders to risk investing, given the unstable situation. Such passive behavior of entrepreneurs further hamper and slow down the recovery process.

Chart 2. Composition of Egypt's Trade Deficit



Source: Central Bank of Egypt

As a result of the negative economic environment, the national currency depreciated. The value of the dollar traditionally attached to the Egyptian pound rose from 5.95. l. in January to 6.85 eq. l currently. The devaluation of the local currency has a negative effect on commodity prices, the increase of which has led to shrinking consumption and, hence, domestic production. Moreover, the lack of foreign exchange (mainly dollars and euros) in banks and currency exchange offices contributed to the development of the “black market”. Against this background, at the end of December 2012, urban inflation reached 7.2%, projected to be above 9.0% by the end of this year<sup>23</sup>. The movement in commodity prices and services used by the average Egyptian family is taken into account by the analysis of the change in the Full (Headline CPI). At the beginning of 2013, commodity prices increased significantly (eggs by 9.15%, rice by 5.77%, poultry meat by 6.12%, fresh vegetables by 4.91% and fresh fruit by 1.59%). Increases are also seen in flour, beans, pasta, sweets, and some services<sup>24</sup>. Meanwhile, due to a lack of available funds, the government is no longer able to maintain the mandatory six-month wheat reserve, which is of strategic importance for the country. According to experts, the negative trend will remain as in the next fiscal year, as Egypt remains one of the world's largest consumer of bakery products (an average of 70 kilograms of wheat per year in the world, while in Egypt 175 kg.). At the same time, unemployment in 2012, according to official data, exceeded 13.0% (according to unofficial data is about 20.0%), and between 35.0% and 40.0% of the working people have income below 2 dollars per day.

According to analyzes to address the problem, it is necessary to create 700,000 new jobs. The Transition Cabinet announced that there is already a concrete plan to open 15,000 jobs as a result of the large number of public procurement contracts to the private sector.

According to a survey of the Council of Ministers' Information and Decision Support Center, the income of 57.5% of the families is insufficient to cover their basic needs, with rural numbers exceeding 60.0%. According to 67.0% of Egyptians, the situation in terms of prices, production and investment in 2012 has deteriorated. Moreover, the country has begun to attract foreign investors again. In 2012, against a background of the FDI decline (by 8.0%), Egypt grew as FDI reached \$ 2.1 billion (375.5 million in 2011).

<sup>23</sup> Osman H. Egyptian Economy – Two Years After the Revolution. www.masrawy.com, 25.01.2013.

<sup>24</sup> Arab Republic of Egypt. Central Agency for Public Mobilization and Statistic.



This is due to the assessment of international companies that consider the African continent as one of the markets with huge potential for development (FDI for African countries total reached 5.0% growth in 2012)<sup>25</sup>. It should be noted, however, that some oil companies (British and Russian) have withdrawn some of their investments and abandoned projects to develop new gas fields. Among the main reasons are delayed payments by the state for their output and worsened security environment. Also, tourism has grown in 2012 compared to the previous year, but can not yet reach the level of 2010. The efforts made by the government and tourist companies have led to an increase in tourism spending by 17.0% (about 11 million people) revenues totaled about \$ 10 billion (\$ 8.6 billion in 2011). It should be noted, however, that tourists return mainly to the resorts located on the Red Sea (Hurghada, Sharm el-Sheikh, Dahab, etc.), attracted by financially advantageous offers and the relative peace and security of these places. The precarious situation in South Egypt has led to a decline in the number of visitors to the tourist sites by about 85%. There is a similar situation in Cairo and Alexandria, where protests are held daily, which often grow into clashes with security authorities. Tourism is a major livelihood for many families in this area who are currently left without a source of income. In this regard, the present government is also extremely active in terms of restoring this sector of the Egyptian economy. Prime Minister Hazem El-Beblawi and Tourism Minister Hisham Zaazou held a series of meetings with colleagues from EU Member States, Russia and some countries in Asia to convince them that resorts in the provinces of South Sinai and the Red Sea are safe. They also demanded that these countries revoke the advice to their citizens to avoid traveling to Egypt. Currently, the country is in dire need of international funding, without which Central Bank of Egypt will hardly maintain adequate international liquidity. To this end, the country's government should make major fiscal and structural changes that are a condition for a 4.8 billion loan from the International Monetary Fund (IMF). It is essential for Egypt, as it is part of the international support amounting to 14.5 billion dollars. The agreed reforms are related to a number of unpopular measures that meet the sharp resistance of the public and delay the receipt of the necessary loan. But in support of the political changes, Saudi Arabia, Qatar and the UAE have announced that they will provide \$ 12bn of financial assistance to Egypt, which at this stage leads to the disappearance of the need for IMF funding. will participate in the projects announced by the Ministry of Investment, thus helping to restore the Egyptian. At present, no specific projects and their values have yet been announced, but it is clarified that they will be in addition to the already promised \$ 12 billion in aid. According to the Ministry of Finance, the funds provided for the last two months from these countries have helped to increase foreign exchange reserves to \$ 18 billion, which at the end of the fiscal 2012/2013 decreased to \$ 12 billion. As a result of the vague political environment and the social tensions that led to the worsened economic environment and delayed reforms, the international rating agency Moody's has periodically lowered Egypt's rating (up to the B3 assessment in early 2013). Although the negative trends covered almost all the macroeconomic indicators of the country, after taking over the management by the transitional government, there is some recovery and optimism among the economic subjects. This is due to the aggressive policy of stimulating the economy, through government procurement, mainly in the field of infrastructure. This creates jobs for local entrepreneurs and provides new jobs. For this purpose, the government has projected 22.3 billion euros. (about \$ 3 billion), with new public tenders being announced on a daily basis. Such a policy, however, poses a great risk due to the possibility of not achieving the necessary return to cover the costs borne by the state budget. It is very likely that Egypt does not spend its own resources, but benefits from the \$ 12 billion in financial aid from the Persian Gulf countries, which significantly reduces the risk. In addition, support for the Transitional Cabinet is demonstrated by many large-scale businessmen in the country who are hopeful for the future of Egypt after the overthrow of Islamic rule. Despite the significant drop in profits over the past year, many said they would reinvest their revenues into new production capacities instead of shrinking costs and cutting staff, opening up additional jobs. By this they seek to help the government in their efforts to create an impression among the international community that Egypt is recovering from the political turmoil and that the situation allows for foreign investment. This aggressive policy, albeit slowly, has started to produce initial positive results. Several major international companies, including Samsung and L'Oréal, have announced plans to open their plants in the country.

## Conclusion

In conclusion, the analysis of the main macroeconomic indicators shows that during the fiscal 2012/2013 the economy of AR of Egypt is experiencing serious difficulties and the negative trend in most sectors is preserved. Despite the improvement of some indicators compared to 2011/2012, the perception of population

<sup>25</sup> Arab Republic of Egypt. Central Agency for Public Mobilization and Statistic.

impoverishment and the worsening of the social situation of many citizens is in fact increasing. The transitional government, in turn, appreciated the priority importance of stabilizing the economy and improving the social environment, as well as the high expectations of the population for positive results in these guidelines. The aggressive policy of reviving the economy shows confidence in the ability to overcome a crisis and knowledge of the principles and mechanisms of action of the Egyptian economy. At this stage, thanks to the financial support of the Gulf countries and the representatives of the middle and middle sized businesses in the country, the government will avoid taking painful economic reforms to the detriment of the population. In this way, they are now preparing to win the support of the Egyptian people for the upcoming presidential and parliamentary elections. However, it can be expected that an exception will be made for the energy sector, where due to the high costs in the state budget, reforms are necessary, including a substantial reduction in subsidies. In the short term, it may be expected that some economic stabilization will be felt, the holding of elections will be the leading social policy. In the medium and long term, however, it should be borne in mind that it will take more effort and unpopular reforms for permanent exit from the deep economic crisis and achieve sustainable growth. Despite all the challenges the centrality of AR of Egypt takes the political and economic scene of the region, to provide the country the unique opportunity to become a natural leader on the way to further market liberalization and democratization of countries in the Middle East. The country has the resources to make a successful transition, and the Egyptian people have repeatedly shown their determination to follow the path they set after 25 January 2011.

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